

## Aiming to Develop Customer-Oriented Systems

URL <http://www.nid.co.jp/English/>

### ◆Business of NID

The NID Group comprises NID Co., Ltd. and its three affiliated companies (wholly owned subsidiaries). NID-IS Co., Ltd., an affiliate, operates system development and information processing services businesses, and its main users are mobile communications and financial-related companies. NID TOHOKU Co., Ltd. conducts the system development business only, and its main user is a power company group in the Tohoku region, accounting for nearly 90% of the affiliate's net sales. NID-IE Co., Ltd. provides temporary staff services, and its main users are mutual aid associations and life insurance companies.

The business of the Group encompasses a system development business (communications systems development and information systems development), an information processing services business (network solutions and data entry), and value-added business. The system development business accounts for 56.5% of net sales, while the information processing services business comprises 43.5%.

The communications systems development, which accounts for 31.9% of net sales, operates with a focus on mobile-related areas, including next-generation, high-performance terminals such as smart phones and the iPad, and the fourth-generation mobile phones that have yet to emerge, as well as fast-growing automotive areas. Information systems development, which accounts for 23.4% of net sales, operates with a narrower focus on life and non-life insurance companies, mutual aid associations, and local government offices. Based on the current operating results, the information systems development maintains the highest sales and profit growth in the Group.

In the information processing services business, network solutions account for 32.4% of net sales, while data entry comprises 11.1%.

### ◆Summary of financial results for the first half of the fiscal year ending March 2011

The Group recorded net sales of 7,127 million yen, operating income of 364 million yen, ordinary income of 371 million yen, and net income of 92 million yen on a consolidated basis. Although both net sales and ordinary income increased year on year, they were below our projected figures. The Group posted extraordinary losses of approximately 193 million yen, because a company in which the Group invested approximately 100 million yen as a value-added business filed for civil rehabilitation proceedings, and a loss of 93 million yen was posted attributable to a fall of more than 50% in the price of shares in financial institutions held by the Group. Both sales and profits increased in the information systems business, but they were offset by results at affiliated companies. Overall, however, sales and profits rose slightly from the same period in the previous year. Given that the IT sector as a whole faced difficult conditions, in contrast to other industries, we think that our financial results were solid, although still short of satisfactory.

Our balance sheet and cash flow were still firm. Although fixed assets in the balance sheet decreased approximately 178 million yen from the end of the previous fiscal year in relation to securities, this did not have an impact on the Group as a whole. The balance of cash and cash equivalents increased from the end of the previous fiscal year, to 4,693 million yen.

Looking at a business overview by segment, the three businesses of NID were generally steady, but sales declined

slightly year on year in our affiliated companies, based on the new segment classification.

In NID-IS, sales somewhat decreased in data entry, and the system development business struggled somewhat. NID TOHOKU had non-performing projects the first half, but sales to the Tohoku Electric Power Group were maintained at a level on a par with the previous fiscal year. Therefore, we believe that sales will recover in the full term. NID-IE, which provides temporary staff services, faced a somewhat difficult time. As a result, sales declined slightly year on year in the three affiliated companies, but they maintained their profits. In NID, the information systems business remained firm. In the communications systems business, sales declined considerably in the previous fiscal year, but have been recovering in the current fiscal year. We therefore aim to post year-on-year sales growth in the second half of the current fiscal year. We would say that the future of the NID Group depends on how strongly the communication systems business recovers.

#### ◆Full-year business plan for the fiscal year ending March 2011

With respect to the full-year plan, we have not changed our initial projection, which forecast net sales of 15,500 million yen, gross profit of 2,785 million yen, operating income of 1,030 million yen, and ordinary income of 1,050 million yen. Although we have set our forecast for net income at a slightly low level of 480 million yen, reflecting extraordinary losses in the first half, we expect that both net sales and ordinary income will be in line with plans. By segment, other than the information systems business, which is growing significantly, and NID-IE, which is relatively slow, we expect that operations in the segments will progress as usual.

#### ◆Focused initiatives in the second half of the fiscal year ending March 2011

At present, sales activities in the IT business are very challenging, as users are generally reducing their IT spending. The NID Group will shift its concept of sales and marketing from the traditional “sales activities to simply receive orders” to “sales activities to create orders”. “Sales activities to create orders” is a concept of expanding the customer base by strengthening sales activities through an alliance with business partners which we plan for value-added businesses, reusing new mobile communications products such as the iPhone, iPad, and Android as well as traditional products, and using these products as a tool in our sales activities. We are currently reviewing the “sales activities to create orders” in-house.

More specifically, these activities mean renewing the products that were created by NID Group on its own, such as MiEL, a software application for use with the Japanese government’s specified health guidance system, and the E-stas automated embedded software evaluation system. We can then aim to sell them to new kinds of users.

Particularly with respect to MiEL, although we used to target hospitals and health insurance societies related to hospitals, by using its mobile phone-based health guidance system, we believe that if we extend MiEL to a new customer base such as large general enterprises and insurance companies that have their own insurance association, we will also be able to conduct sales activities for a general IT business at the same time.

The NID Group does not have any large-scale non-performing projects, but problems sometimes arise with smaller projects. Although this may be an unavoidable part of the IT business, we want to minimize their occurrence. We believe that eradicating situations in which profit declines because of non-performing projects is a vital aspect of continuing to operate as a business.

#### ◆Business strategy of the NID Group

Two visions form the main elements of our business strategy. The first is balanced management, in which NID seeks to ensure that its four business areas complement each other effectively. In addition, with NID’s three affiliates performing well, the Group has been able to incorporate them in an effective balance. As a specific strategy, we will

concentrate our business on six areas, namely insurance (life and non-life insurance companies and mutual aid associations), transportation (air transportation), local governments, mobile communications, automobiles (ITS), and electric power, and focus on them as a key business. We will also expand the following three areas that we have positioned as value-added businesses: an alliance business with partners, the development of applications for smart phones such as iPhone, iPad, and Android, and the reuse, manufacture, and sales of our products.

In our second vision, we aspire to create NID's own platform, building on what we have experienced through our alliance business. Two trends underlie this thinking: convergence of mobile phones and PCs, which will drive the next generation of high-performance terminals, and the relationship between information terminals and servers produced by cloud computing. We aim to create middleware that will make it easy to develop applications that respond to these two trends.

As a first step, we are looking to develop middleware that will facilitate the development of applications when our platform is embedded in new terminals, including the high-performance models running Android. Although it has not yet been completed, we will exhibit a product that we have developed at the MCPC Mobile Solutions Fair 2010 to be held in November. If this middleware is refined to the point where it can be embedded in home information appliances and automobiles, users will be able to develop applications, irrespective of the difference in operating systems and equipment. With this as the final goal, we are making investments and continuing with development.

We aim to keep close track of the allocation of investments we make in the balanced management of our core business and in value-added business, bolster our financial strength, and achieve stable growth. We then seek to ensure that the Group is the best partner for its customers, taking advantage of its quality and technical capabilities and operating business with a strong customer orientation (with top priority given to customer convenience and satisfaction). Along with this commitment to customer service, we will seek to maintain competitive compensation for our employees and maximize dividends to our shareholders.

(November 16, 2010, Tokyo)