

## **Strong Performance of Core Businesses Results in Increased Ordinary Income**

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

### **◆Impact of the Great East Japan Earthquake was not significant**

We would like to begin by reporting that all of our approximately 1,500 employees, including those of NID Tohoku Co., Ltd. (Sendai, Miyagi), were safe after the Great East Japan Earthquake. Although the impact on business for the fiscal year ended March 31, 2011, is minimal, an adverse effect on the operations of NID Tohoku will be inevitable after 2012, given that major customers in the power supply industry account for approximately 80% of its business. The plan for the current fiscal year already reflects this effect. Many of the customers are in manufacturing businesses, and we understand that they are somewhat affected to varying degrees. The information system businesses is expected to see an effect on some of the customers in the distribution and food industries. The network solution business is not likely to be affected significantly

The Company has three consolidated subsidiaries. First, NID-IS Co., Ltd. (Funabashi, Chiba) is in the business of system development and information processing services. Its customers consist largely of financial institutions and local governments. NID Tohoku Co., Ltd. (Sendai, Miyagi) provides system development services to customers primarily in the power supply industry. Finally, NID-IE Co., Ltd. provides staffing services, including transactions with financial institutions and its parent company.

### **◆The core businesses offset decrease in subsidiaries**

The results for the fiscal year ended March 31, 2011, include net sales of 14,638 million yen (99.4% of the previous year), ordinary income of 994 million yen (107.8% of the previous year), and net income of 447 million yen (83.1% of the previous year). Although net sales are on a par with the level of the previous year, ordinary income exceeded the previous year's results, with profit mostly matching the initial plan as a result. Net income decreased because of a loss on valuation of investment securities of 189 million yen.

The major changes in the amounts included a year-on-year decrease of 85 million yen in net sales, which had been caused by a decline of 390 million yen in net sales at NID-IS and other subsidiaries, offsetting an increase of 180 million yen in the information system business and 120 million yen in the network solution business. In particular, the loss on net sales of the data entry business had a significant impact.

The year-on-year increase of 72 million yen in ordinary income consisted of a year-on-year increase of 160 million yen from the communication system business and a decrease of 80 million yen from NID-IS and other subsidiaries.

The decrease in the non-current assets totaling 2,444 million yen (down 226 million yen year on year) indicated in the consolidated balance sheet is mostly a result of a loss on valuation of investment securities of 189 million yen.

Looking at cash flow, cash provided by operating activities was 761 million yen (683 million yen in the previous year), cash provided by investing activities was 204 million yen (compared with cash used in investing activities of 246 million yen in the previous year), and cash used in financing activities was 175 million yen (compared with 174 million in the previous year). The year-end balance of cash and cash equivalents increased slightly less than 800 million yen from the previous year, to 4,859 million yen (4,070 million yen in the previous year).

### **◆Business overview in each of the six segments**

The results of the year under review by segment indicate that the communication system business generated net sales of 2,938 million yen (down 93 million yen year on year) and operating income of 136 million yen (up 161 million yen year on year), the information system business generated net sales of 3,009 million yen (up 187 million

yen year on year) and operating income of 307 million yen (down 20 million yen year on year), and the network solution business generated net sales of 4,661 million yen (up 129 million yen year on year) and operating income of 264 million yen (up 12 million yen year on year). NID-IS achieved net sales of 2,172 million yen (down 202 million yen year on year) and operating income of 99 million yen (down 86 million yen year on year). NID Tohoku achieved net sales of 1,042 million yen (down 31 million yen) and operating income of 74 million yen (up 11 million yen year on year). NID-IE achieved net sales of 815 million yen (down 74 million yen year on year) in net sales and operating income of 47 million yen (down 21 million yen year on year).

The communication system business received higher orders for automobile-related services in the second half of the fiscal year, keeping net sales almost unchanged from the previous year. Profit grew substantially as a result of improved productivity and increased inquiries concerning Android. Although the information system business recorded an increase in orders from major customers in the life and nonlife insurance, mutual life insurance, distribution, and manufacturing sector, the profit was mostly at the level of that in the previous year. The network solution business maintained stable orders from major customers, and both net sales and income exceeded the figures in the previous year. For NID-IS, both net sales and income were below the levels of the previous year, given reduced orders related to data entry and system development. NID Tohoku kept net sales generally the same and increased income from the previous year thanks to stable orders from major customers in the power supply industry. NID-IE incurred a decline in both net sales and income as a result of reduced orders caused by lower demand for staffing.

#### ◆ **Planning increased net sales and income in the current fiscal year**

The financial forecasts for the fiscal year ending March 31, 2012, include net sales of 14,750 million yen (up 0.8% year on year), gross profit of 2,812 million yen (up 4.3% year on year), operating income of 1,010 million yen (up 8.0% year on year), ordinary income of 1,020 million yen (up 2.6% year on year), and net income of 600 million yen (up 34.0% year on year).

Looking at the financial plan for the fiscal year by segment, the communication system business plans net sales of 3,200 million yen (up 262 million yen year on year) and operating income of 190 million yen (up 54 million yen year on year). The information system business plans net sales of 3,100 million yen (up 91 million yen year on year) and operating income of 310 million yen (up 3 million yen year on year). The network solution business *plans* net sales of 4,700 million yen (up 39 million yen year on year) and operating income of 270 million yen (up 6 million yen year on year). NID-IS *plans* net sales of 2,300 million yen (up 128 million yen year on year) and operating income of 150 million yen (up 51 million yen year on year). NID Tohoku plans net sales of 650 million yen (down 392 million yen year on year) and operating income of 50 million yen (down 24 million yen year on year). Finally, NID-IE *plans* net sales of 800 million yen (down 15 million yen year on year) and operating income of 40 million yen (down 7 million yen year on year).

Priority measures include strategic sales activities such as a shift to solution-based sales and a shift from “activities to capture sales” to “activities to create sales.” We also seek to sustain sales to existing customers, to maintain the level of orders. As a product-related business, we plan expansion into a new operational area focusing on Nstylist and system development related to iPhone, iPad, and Android.

#### ◆ **Seeking stable growth through balanced management**

The three-year medium-term plan targets net sales of 16,500 million yen and operating income of 1,300 million yen as the financial results for the fiscal year ending March 31, 2014. Net sales will comprise 3,900 million yen from the communication system business, 3,300 million yen from the information system business, 4,900 million yen from the network solution business, 2,700 million yen from NID-IS, 850 million yen from NID Tohoku, and 850 million

yen from NID-IE.

As business strategies, the Group will aim to maintain balanced management with the six segments (three business of the Company and the three subsidiaries) as its core businesses. A breakdown of net sales by major business category for the fiscal year under review shows 24.3% for insurance (life, nonlife, and mutual insurance), 10.4% for transportation (by air), 5.5% for local governments, 12.5% for mobile devices, 4.9% for automobiles (ITS), and 6.6% for electric power. One of the Company's characteristics is that it does businesses with customers in the three areas of system development, network solution, and data entry.

In addition, the Company has entered into operating alliances with partners. It is also selling the NID platform Nstylist, undertaking application development for iPhone, iPad, Android, and other platforms, and reusing, manufacturing, and selling conventional products as investments in value added business. These initiatives have led to increased inquiries for products and services related to iPhone, iPad, and Android.

Nstylist permits the speedy creation of applications that meet every need as a service platform for Android. It can also build an environment that allows the collection and use of superior marketing data while minimizing the use of corporate resources. With the rapid growth in smartphone use, the Company presented a successful exhibition at the first Smartphone & Mobile Expo (Smartphone Japan) held at Tokyo Big Sight (May 11-13, 2011).

To summarize its business strategy, the Company intends to strengthen its financial position while balancing management of the six segments that constitute its conventional core businesses with the development of NID platforms and other value-added businesses. By keeping these segments in balance, we aim to facilitate stable growth.

Within the Company's business development, communication systems development is positioned as a growth area, information systems development as a stable area, and network solutions and data entry as basic areas. We will aim for balanced management of these core businesses to seek stable business growth, while aggressively creating value-added businesses to acquire new income sources.

The Company's vision is to become the best partner for customers, providing value through specialized business management. We aim to use our "passion for specialty" to pursue advanced expertise, our "passion for quality" to constantly improve our skills, and our "passion for the basics" to create a firm business foundation.

With respect to returns to shareholders, the Company plans to pay a dividend of 45 yen for the year under review and continue to pay stable dividends going forward. The management indicators to be targeted include a ratio of ordinary income to net sales of 10% and a return on equity of 15%.

## ◆Questions and Answers◆

### **What are the Company's thoughts about the impact of the Great East Japan Earthquake on future business?**

Some companies in the system development industry expect the earthquake to have an effect from the second half of the current fiscal year. Also, some customers may experience long-term repercussions. In this sense, we expect the effects to be clearer in the second half of the fiscal year. However, we serve a wide range of customers and believe that the effects on different corporate clients will offset one another. This should enable us to avoid a significant impact on our business, although the situation will no doubt be challenging.

(May 19, 2011, Tokyo)