

Our New Business Model Is A Convergence of Core and Value Add Businesses

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

◆Our Businesses

NID was established as an independent IT services provider in 1967, and provides data processing and systems development services. We were listed to JASDAQ on January 2003. Our wholly owned group companies include NID-IS, NID Tohoku, and NID-IE. NID-IS provides systems development and data processing services, and its clients include Chiba Bank Group, Tokyo Gas Group, and Canon Group. NID Tohoku provides only systems development services, and Tohoku Electric Power Group contributes to 80% of its sales. NID-IE provides staffing services, and main clients include Fukoku Mutual Life Insurance Group and National Federation of Workers and Consumers Insurance Cooperatives Group.

Four principal areas of our business are network solutions and data entry for IT services providers, Communication systems development and information systems development for systems development businesses, and in addition we have value add businesses.

Our network solutions business provides mainly operation and management services for the customers' computer centers, security services, and network implementation and installation support. Our users span a broad spectrum from airlines, life insurance providers, publishing houses, department stores, local and municipal government, to public television. Our data entry business provides primarily data entry services for financial services providers and local and municipal governments.

Our communication systems development business is focused on mobile and embedded technologies, and we provide embedded software development services to car electronics, mobile and home electronics entities. In car electronics, our expertise is information systems for car navigation and car audio, and for driver systems including safety controls. Users of this service are primarily Toyota Group and Panasonic Group, and our business with them continues to grow. In mobile, these users include Kyocera, Sharp, Panasonic Group, Sony Ericsson, DOCOMO, and KDDI, and the demand for applications in smartphones are increasing. In addition, our users in medical area have grown to three companies, and revenues too are rising.

Our information systems development business provides analysis, design, development, and maintenance services for information systems covering logistics and mutual aid, and for critical systems of financial services companies including life and non-life insurance providers.

◆Summary of financial results for the first half of the fiscal year ending March 2012

Given the effect of deceleration in the overseas economy and strong appreciation of the yen, our future is uncertain. We however will improve upon our onsite sales activities to our users, implement a transition from get-sales model to sales-generation model, and explore and implement value add businesses to expand our business portfolio in new directions.

Against this backdrop, the current term of NID Tohoku was significantly impacted by the 3.11 Earthquake. This resulted in postponements of power projects, and we were concerned for negative impacts on the Group as a whole.

However, growths in communication systems, NID-IS, and NID-IE covered the shortfalls at NID Tohoku, and our final sales and profit, and loss figures were at levels above the year prior for the same period. This is the result of our company's strong balanced management.

In FY2011, we posted a valuation loss of 190 million yen from a failed venture. Our businesses are on plan this year, and the consolidated figures for the term are sales 7,217 million yen (up 1.3% on same term of year prior), operating profit 368 million yen (up 1.3% on same term of year prior), ordinary profit 377 million yen (up 1.6% on same term of year prior), and net profit 218 million yen (up 136.7% on same term of year prior). Cash flow reached 5,200 million yen. Financially, there are no outstanding loans, and business management is currently sound.

Our performances by segment were as follows: Communication systems business, under which automobiles related and smartphone matters are housed, grew; NID-IS, under which systems development matters are housed, grew; and NID-IE, under which customer relationships were reinforced, marked profit in both revenue and sales. Information systems business and network solutions business posted a dip in orders from the public sector, and NID Tohoku posted a fall in both revenue and profit on the impact of 3.11. On the whole, three businesses posted a rise in both revenue and profit, and three posted a dip in both. This demonstrated our group's strength of balanced businesses management. Sales by client group also show that the total of the top 10 sales producing companies account for 60% of the whole. Thus, the sales distribution is very well balanced.

Furthermore, our consolidated term business plan has not changed since the beginning of our fiscal year, and the numbers still are revenue 14,700 million yen, operating profit 1,010 million yen, and current net profit 600 million yen. As our midterm 3-year plan, we expect operating profit margin of 7.1% in the term ending March 2013 and 7.9% in the term ending March 2014, and we believe that achieving the 8% mark is urgent. The obstacle is how we implement value add business.

◆Promotion of Value Add Business will be our focus in the 2nd Fiscal Half

In the second half of the current term, main topics are more orders, development of product related businesses, and quality control. Quality control in particular because each year defects in projects cost 40 to 50 million in losses. In this term, we wish to eliminate project defects through close monitoring of and discussions with low performance project managers.

Our Group's business strategy is to run the value add business around a balanced management of the four principal businesses. We are focused on this value add business.

Our value add businesses are the promotion of open innovation, alliance with our partners, applications development for iPhone and Android, and sales of *Nstylist*¹, which is our unique services platform product for Android. We invest 200 to 300 million yen each year into these areas, and we are expecting more profits in the current term.

At present, there are four projects ongoing. One is the development of a new service for Android handsets that use *Nstylist*, which is a joint project between our Communication systems business and company S. This service is

¹*Nstylist*: Installation of this platform on handsets with the Android OS, such as tablets and smartphones, will enable easy creation and provision of application services for corporate needs. Furthermore, a dedicated server (*Nstylist* server) and *Nstylist* mounted handset will link directly to manage information seamlessly and support the maintenance and operation of your overall system infrastructure.

subscribed by KDDI's JAL mile phone, home application for Tigers Keitai's and Giants Keitai, and home application for WOWOW's hit show *Railway Story*. Benefits of *Nstylist* are shortened development period, ease of creating screen composition, and developments can be done without taking upgrades to Android into consideration. *Nstylist* is difficult to sell as a standalone product. Therefore, we are considering new directions in our developments that use *Nstylist*.

Second is joint development between information systems development department and company G that uses a central systems development tool. Third is the sale of our multi accounting and ledgering system for land improvement, *Midori Net Kaikei*, which was jointly developed by NID-IS and National Federation of Land Improvement Associations. National Federation of Land Improvement Associations has 1,500 offices across Japan, and tens of units have already sold. Our target is 500 to 600 units. Fourth is participation in TERAS, which is a general incorporated association that was established with funding from Ministry of Economy, Trade and Industry and the private sector.

We believe that going forward the focuses of embedded software are on traceability technology and modeling, and we participate in TERAS to acquire new technologies. Alliance with ventures carries high risk, but we wish to work on this proactively.

In addition, we focus our efforts on the *Nstylist* business. *Nstylist* is a services platform that can be mounted with various information systems that use open platform. We plan to make *Nstylist* into our value add business, that is, the 5th principal business. *Nstylist* for Android is currently on the market. Our next step will be compatibility with other OS platforms, including iPhone and Windows phone.

◆10% profit margin through our new businesses

Moving forward, NID will work on improvements to the soundness of our finances, invest in new areas, and conduct businesses that would complement our Group. We plan to run a combination business of core and value add business. Implementation of this new business scheme will help NID to become an IT company with 10% profit margin. We wish to see this number soon. As the global economy grows uncertain, we need to run our businesses with an eye to the future.

(November 17, 2011, Tokyo)