

2349 **NID**

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Swift Transition to Smartphones Increases Application Orders

◆ **Company Overview**

NID was established in 1967 as an independent information services provider, and our businesses are systems development and information processing services. Currently, our group has 1,439 employees. And next year will mark our 10th year that we are traded on JASDAQ. NID Group is comprised of wholly owned subsidiaries NID-IS, NID TOHOKU, and NID-IE. Our systems development business covers communication systems development and information systems development, and information processing business covers network solutions and data entry. These four subareas are our core businesses, and value-add business is our fifth business.

Business environment of communication systems development is tough, even in the market. Our focus is on car electronics and medical businesses, in addition to mobile business of migration from feature phone to smartphone. Our information systems development is specialized on insurance, including life, non-life, and mutual life insurances, in addition to projects in logistics and local municipalities. Our network solutions business is transitioning from a model of traditional management by operators to projects model in which customers and platform SE's and operations SE's work together as one. Users/clients of this business span a very broad range from airline companies, life, non-life, and mutual life insurance companies, to printing and publishing house companies. Regarding our data entry business, this industry is waning, NID however has one of the largest data entry centers of Japan, and there are more than 100 key operators as a result of building a network with our clients and the operators perform data entry every day of all types of data.

◆ **Summary of financial results for the fiscal year March 2012**

Summary of financial results for the fiscal year March 2012 were 14,824 million Yen in sales (up 1.3% on previous period), 871 million Yen in operating profit (down 6.8% on same), 899 million Yen in ordinary profit (down 9.5% on same), and 328 million Yen in current period net profit (down 26.5% on same). Hence, revenues were up and profits were down.

Reasons for the increase in sales are an increase in sales in medical and automotive areas and mobile area of communication systems development, and brisk growth at NID-IS. Decline in profit is due to an impact of the 3.11 Earthquake in Northeastern Japan on NID TOHOKU, at which more than 80% of business matters are related to power supply industry. In addition, since our listing, we have pointed to our very small number of unprofitable matters (hereunder, bad matters), and in the current period there were six such bad matters, regrettably. Two-thirds of them are in communication, and they generated a loss of almost 100 million Yen. We believe that this result is due to inadequate vendor management of the matters and our proactive response in this tough business acquisition environment overreached. Decline in the current period net profit is due to a loss generation of almost 150 million

Yen from adjustments in corporate and other taxes by the tax cut, and an increase to cost of almost 50 million Yen for the headquarters building relocation, which is scheduled for this August.

Our balance sheet and cash flow remain fiscally sound. Balance on cash and cash equivalents is 5,492 million Yen (up 633 million Yen on previous period).

When we view by segment the results of each business of our company and subsidiaries, firstly, there was an increase in sales in automotive and medical areas and mobile related area at our communication systems business. On our mobile business, an early migration from feature phone to smartphones, iPhone in particular, allowed us to gain a new range of projects. But bad projects put our operating profit lower. On our information systems business, projects in particular for life and non-life insurance show stable growth. Decline in sales at our network solutions business is impacted chiefly by our loss on a local municipality project bid. At NID-IS, there is brisk growth in both development and data entry businesses, which put the final numbers higher than in the previous period. At NID TOHOKU, impact of the 3.11 Earthquake put both sales and operating profit lower. NID-IE whose business is mainly staffing fought and the results are very stable.

◆ Fiscal year march 2013 Targets

Fiscal year march 2013 period plans targets of 15,300 million Yen in sales (up 3.2% on current period), 1,050 million Yen in operating profit (up 20.5% on same), 1,030 million Yen in ordinary profit (up 14.5% on same), and 630 million Yen in current period net profit (up 91.5% on same). This plan was implemented in April.

Targets by segment are 3,500 million Yen in sales (up 108 million on previous period) and 200 million Yen in operating profit (up 103 million Yen on same) at our communication systems business, 3,250 million Yen in sales (up 265 million Yen on same) and 330 million Yen in operating profit (up 38 million Yen on same) at our information systems business, and 4,550 million Yen in sales (up 209 million Yen on same) and 230 million Yen in operating profit (up 10 million Yen on same) at our network solutions business. Targets of the three businesses of our Group are aggressive numbers. Our subsidiary NID TOHOKU is expected to remain impacted by the 3.11 Earthquake and we thus have planned conservatively.

We wish to achieve 16,500 million Yen in sales, 1,330 million Yen in operating profit, and 8.1% in operating margin by fiscal year march 2015, which is the end of our medium term three year plan.

◆ Critical Policy and Business Strategy

In the current period, removal of poor performance projects will be a critical policy. Quality Assurance Section will need to perform more stringent checks to improve quotation methods and project management methods further. Regarding our fifth business, we also will need to focus on running products related businesses as our value-add business. We also have plans to migrate and converge our four offices at a location by Harumi Bay of Tokyo.

On business strategy, we plan to build a platform for stable growth for our companies including our subsidiaries, primarily for a balanced management of the four areas. Furthermore, we are actively making investments to our value-add business, which we are promoting by the open innovation method. Open innovation is a method to create novel and revolutionary services through alliance with other companies, and there are well known precedents in Silicon Valley in which many new services were created through alliance between venture and major company.

Specifically, in the communication systems business, our goal is to localize Nstylist for smartphones and get VALiBO, which was developed by allying with Company S, to reach mainstream. We also will promote Decoca, a breakthrough service by which digital contents can be purchased with a *real card*. Because these are consumer

businesses, advertisements that are aimed at smartphone users will become critical. This will cost both time and money, but we wish to hedge our bets on this. At our information systems business, we are developing a basic system, in alliance with Company G, through tools. We already have two client matters relevant to this developing system, one in logistics and one municipality, and we will continually work to increase the number of projects. Our subsidiary NID-IS is at present promoting *Midori Net Kaikei* (accounting product) across Japan, a product that was developed jointly with *Zenkoku Tochi Kairyo Jigyo Dantai Rengo-Kai* (Japan Land Reform Businesses Federation). Furthermore, we are a participant in TERAS, which is a general incorporated association that is run with financial assistance from the Ministry of Economy, Trade and Industry. At present, seven private sector companies have capital investment in TERAS, and TERAS will grow into a large scale entity through information system and network, when embedded software products transform. We are at present developing software tools that will work with the post transformation. Our thinking is to foster the growth of both the core business and this value-add business, and develop them into bases of our future businesses.

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