



## Consolidated Financial Results for the Fiscal Year Ended March 31, 2013

14-May-2013

Company Name :	<b>NID Co., Ltd.</b>	Listing :	JASDAQ
Security Code :	2349	URL :	<a href="http://www.nid.co.jp/">http://www.nid.co.jp/</a>
Representative :	President	Kiyoshi Suzuki	
Contact :	Finance Manager	Kazuo Shimoyama	Telephone : 81-8-3-6221-6811

(All figures are rounded down to the nearest million yen)

### 1. Consolidated Financial Results for the Fiscal Year 2012 (From April 1, 2012 to March 31, 2013)

#### 1) Consolidated Operating Results

(% of change from previous year)

	Net Sales		Operating Income		Ordinary Income		Net Income	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
FY3/13	15,531	4.8	1,011	16.2	1,090	21.2	585	78.1
FY3/12	14,824	1.3	871	-6.8	899	-9.5	328	-26.5

Note: Comprehensive income: FY3/13 835million yen (157.4%) FY3/12 324million yen (-29.7%)

	Net income per share	Diluted net income per share	ROE	ROA	Operating Income Margin
	Yen	Yen	%	%	%
FY3/13	154.77	—	8.9	9.5	6.5
FY3/12	86.89	—	5.3	8.3	5.9

#### (2) Consolidated Financial Position

	Total Assets	Total Net Assets	Equity Ratio	Net Assets per Share
	Million yen	Million yen	%	Yen
FY3/13	11,741	6,929	59.0	1,830.58
FY3/12	11,108	6,264	56.4	1,654.81

Note : Equity FY3/13 6,929million yen FY3/12 6,264million yen

#### (3) Consolidated Cash Flows

	Cash Flows from operating activities	Cash Flows from investment activities	Cash Flows from financing activities	Cash and cash equivalents at end of year
	Million yen	Million yen	Million yen	Million yen
FY3/13	740	-685	-176	5,371
FY3/12	957	-148	-176	5,492

### 2. Dividend Information

Registry Date	Dividends Per Share					Total amount of cash dividends for the year	Dividends payout ratio (Consolidated)	Net Assets to Dividend Ratio (Consolidated)
	First quarter	Second quarter	Third quarter	Year End	Full Year			
	Yen	Yen	Yen	Yen	Yen	Million yen	%	%
FY3/12	—	—	—	45.00	45.00	170	51.8	2.8
FY3/13	—	—	—	45.00	45.00	170	29.1	2.6
FY3/14 (Forecasts)	—	—	—	45.00	45.00		23.7	

### 3. Consolidated Financial Forecasts for the Fiscal Year 2013(From April 1, 2013 to March 31, 2014)

(% of change from the same term of the previous year)

	Net Sales		Operating Income		Ordinary Income		Net Income		Net income per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
2Q FY3/13	7,720	4.2	480	47.7	495	45.4	300	187.8	79.25
Full Year	16,000	3.0	1,170	15.6	1,200	10.1	720	22.9	190.19

### 4.Others

(1) Changes in the scope of our consolidation, including changes in our subsidiaries : None

Consolidated subsidiaries : 0 added, 0 removed

(2) Changes in accounting methodology, procedures, and the way our figures are displayed in the creation of our Quarter consolidated financial statements.

- ① Changes arising from revisions in accounting standards : Yes
- ② Changes arising from other reasons : None
- ③ Changes in estimation related to financial statements : Yes
- ④ Re-statement of revisions : None

(3) Shares issued (Common stock)

Shares issued as of term end (including treasury stock)	FY3/13	4,369,830	FY3/12	4,369,830
Treasury stock as of term end	FY3/13	584,237	FY3/12	584,237
Average shares issued during term	FY3/13	3,785,593	FY3/12	3,785,593

\*Regarding the appropriate use of our earnings projections and other notes.

All projections provided in this document are based on the most accurate information available at the time of this writing. However our actual results may differ from our projections due to various unforeseen reasons.

## 1. Business Results

### (1) Performance Analy

Business results for the current term

Our economy in the current consolidated fiscal year showed more hope of economic recovery, given the steady recovery against a backdrop of the demand for restoration after the earthquake and tsunami, and the rise in stock prices and appreciation in the Yen after the change in administration. However, there still are uncertainties in the economy, given the impact of deceleration and such in economies abroad due to stagnating economic growth in emerging nations including China and impact of the outstanding European debts.

In our information services industry, given the popularity of cloud computing, smartphones, and tablets, we expect market growth in the associated areas. However, Japanese corporations still continue to experience depression in chiefly the manufacturing sector, and investments in IT by corporations are still tighten, and the business environment thus continues to be very difficult for corporations in our industry.

Against this backdrop, we continued to work on improving sales services to existing clients, and strengthened our sales platform by moving from “getting business” to “creating new business” and worked on acquisition of new businesses. In August, we moved our head offices and converged all business groups to our new location, for improved business efficiency and to share business resources.

Furthermore, we continue to engage ourselves in value-add businesses in addition to the existing business areas, and our goal continues to be expansion into new business areas through new application of our technologies. As one of our central action plans, we focused our sales efforts on VALiBO<sup>(\*)</sup>(1), which is a smartphone application for Android, and Nstylist<sup>(\*)</sup>(2), which is a service platform, all of which we developed.

Our sales and profit outperformed the fiscal year of last year, by a good performance on orders at our communications systems business and information systems business and network solutions business groups.

As a result, performance for the current consolidated fiscal year were as follows: Sales posted at 15,531 million yen (up 4.8% on same period of previous year); Operating profits posted at 1,011 million yen (up 16.2% on same); Current profits posted at 1,090 million yen (up 21.2% on same). Furthermore, the expense of relocation and integration of the head offices was posted as special loss, and after more reduction in adjustments to corporate tax and such than for the same period of year prior during which a change in normal effective statutory tax rate had an impact, the net profit for the current term recorded 585 million Yen (up 78.1% on same period of previous year).

Note 1: Application for Android smartphones. This provides a new way to utilize the standby screen of smartphones, and when installed, the user can set up to six standby screens to the brand (company) selected by the user.

Note 2: The Nstylist Service Platform can be installed in Android OS terminals such as tablets and smartphones, allowing easy creation and provision of applications and services to meet corporate needs. Also the dedicated Nsylist server and terminals installing Nstylist are directly linked to deliver seamless information management and to comprehensively support maintenance and operation of the system infrastructure.

Business segment results were as follows:

#### **Communications systems business**

communications systems business saw an increase in confirmed orders relating to automotives and mobile equipment. Furthermore, improvements were made on profits on the same period of prior year, which was due to unprofitable projects, and these improvements were accomplished by reinforcement on project management. As a result, sales and operating profit posted 3,720 million (up 9.7% on prior same period) and 187 million yen (up 95.0% on same) respectively.

#### **Information systems business**

Information systems business saw an increase in confirmed orders in areas including life and non-life insurance, mutual assistance insurance, logistics, and manufacturing. As a result, sales and operating profit posted 3,405 million (up 14.1% on same) and 313 million yen (up 7.5% on same) respectively.

#### **Network solutions business**

Network solutions business saw stable growth in orders from our main clients in the transportation, life and non-life insurance, and a decline in orders from the government sector. As a result, sales and operating profit posted 4,576 million (up 5.4% on same) and 305 million yen (up 39.3% on same) respectively.

#### **NID-IS**

NID-IS business saw a rise in BPO (Business Process Outsourcing) orders from electric power industry, and decline in systems development orders. As a result, sales and operating profit posted 2,551 million (down 0.6% on same) and 177 million yen (up 6.3% on same) respectively.

#### **NID-IE**

NID-IE business saw a down in orders from the government sector. As a result, sales and operation profit posted

742 million (down 9.5 on same) and 63 million yen (down 24.5% on same) respectively.

### **NID Tohoku**

NID TOHOKU business saw struggled, continuing to suffer from a state of stagnancy, which is a result of impacts from the earthquake and tsunami. In addition, some unprofitable projects were occurred. As a result, sales and operating loss posted 534 million (down 25.7% on same) and operating loss 44 million yen (23million yen operating on same) respectively.

### **Forecast on Next Period**

We believe that the future of the Japanese economy will be affected by how we will recover against a backdrop of the strong Yen and high stock prices; and we believe that uncertainties in the business landscape will remain as a result of factors including concerns of deceleration in the global economy due to the European debt problem.

The business environment for our Group can expect growth in markets associated with smart devices and cloud; however, the projection is that the growth of markets on a whole will be limited and we believe that we continually will need to tread carefully.

Under this environment, our Group will focus on growing the number of confirmed orders by reinforcements to our sales structure to move forward a growth and improvements in our core businesses. In addition, we will also focus on value-add businesses, develop new businesses through alliance with other companies, and aggressively make investments for our future.

Based on these efforts, we expect the following consolidated financial results for the upcoming fiscal year: sales of 16,000million yen (up 3.0% on same period of previous year), 1,170 million yen in operating profit (up 15.6% on same), 1,200 million yen in ordinary profit (up 10.1% on same), and 720 million yen in net profit for the period (up 22.9% on same).

## **(2) Financial Conditions Analysis**

### **1. Assets, Liabilities, Net assets**

(Assets)

Current assets as at end of current consolidated fiscal year was 8,682 million yen, down 43 million yen on end of previous consolidated fiscal year. This was primarily due to reduction in work-in-process, increase in accounts receivable and notes receivable, and reduction in deposits and cash.

Non- current assets were 3,059 million yen, up 676 million yen on end of previous consolidated fiscal year. This was primarily due to increase in investment securities and increase in tangible fixed assets by our offices relocation. As a result, Total assets posted an increase of 632 million yen on prior consolidated fiscal year end and settled at 11,741 million yen.

(Liabilities)

Current liabilities as at end of current consolidated fiscal year was 2,159 million yen, down 67 million yen on end of previous consolidated fiscal year. This was primarily due to reduction in unpaid corporate tax.

Non- current liabilities posted an increase of 35 million yen on prior consolidated fiscal year end and settled at 2,651 million yen, due to factors including an increase of provision for retirement benefits. As a result, Total liabilities posted an decrease of 32 million yen on prior consolidated fiscal year end and settled at 4,811 million yen.

(Net assets)

Current total net assets as at end of current consolidated fiscal year was 6,929 million yen, up 665 million yen on end of previous consolidated fiscal year, due to factors including an increase of retained earnings. As a result, capital adequacy ratio decreased by 2.6% from 56.4% at end of prior consolidated fiscal year end to 59.0%.

### **2. Cash flows**

Cash and cash equivalents (hereafter referred to as "Cash") at the end of the consolidated fiscal year under review were 5,371 million yen, decreased by 121 million yen from the previous consolidated fiscal period.

We provide an explanation of the main changes in our consolidated cash flows below:

(Cash Flow from Operating Activities)

Net cash provided by operating activities was 740 million yen (compared with net cash provided of 957 million yen in the same period of the previous fiscal year).

This was primarily due to the fact that expenditure factors such as increase in trade receivables and payment of corporate tax and such exceeded the income factors such as depreciation cost and current net profit before adjustment for tax and such.

(Cash Flow from Investing Activities)

Net cash provided by investing activities was 685 million yen (compared with net cash used of 148million yen in the same period of the previous fiscal year).

This mostly concerns expenditures and such due to acquisition of investment securities and expenditures due to acquisition of tangible fixed assets as a result of our offices relocation.

(Cash Flow from Financing Activities)

Net cash used in financing activities was 176 million yen (compared with net cash used of 176 million yen in the same period of the previous fiscal year). The result is primarily due to cash dividends paid.

trends in indicators of cash flows for NID are as follows:

For the year ended March, 31	2010	2011	2012	2013
Equity ratio (%)	56.6	57.3	56.4	59.0
Equity ratio (market value basis) (%)	51.6	41.4	48.8	52.1
Cash flow/interest-bearing debt (years)	-	-	-	-
Interest coverage ratio (times)	361.8	444.2	550.9	470.8

Notes:

Equity ratio: Shareholders' equity/total assets

Equity ratio (market value basis): Market capitalization/total assets

Cash flow/interest bearing debt: Operating cash flow/interest-bearing debt

Interest coverage ratio: Operating cash flow/interest expenses

(Note 1) All numbers are calculated using consolidated financial data.

(Note 2) Market capitalization is calculated based on the number of stocks issued (excluding treasury stock).

(Note 3) Cash flow is based on the operating cash flow.

(Note 4) Interest-bearing debts include all the liabilities in the consolidated balance sheet on which interest is being paid.

**(3) Basis for payment of dividends**

We consider returning profit to shareholders to be one of our most important management objectives, and therefore our basic policy is to continue issuing stable dividends while reinforcing the foundation of our management, actively expanding business operations, increasing organizational and operational efficiency, and improving our financial stability. In issuing dividends, we take into consideration the financial performance in each period, future business expansions, dividend payout ratio, and other factors.

Based on this policy, we are planning to ask the General Shareholders Meeting to approve a plan to issue at the end of the current term a dividend of 45 yen per share (as in the previous term). We plan to issue an annual dividend of 45 yen for the next year as well.

We plan to allocate the internal reserve for the enhancement of our management foundation and the active expansion of business in the future.

**(4) Business Risks**

Below we note the important risk factors associated with our business that may be considerations when making an investment in Our Company. We also take aggressive steps to disclose information about our company which may not be considered as risk factors to our business but could influence any investment decision regarding our company by investors below. Moreover we make every effort to avoid these risks and to respond quickly to the occurrence of any of these risks. With regards to references about our outlook for the future made in this document, we have based this outlook on the best information available at the time of the release of this document (May 14, 2013).

1) Risk of Unprofitable Projects

Traditionally the NID Group forms project teams for each job ordered by our customers in our core business of system development. However, risks arising from underestimation of the difficulty of the project at the time of the formation of our project team, reductions in the value of the order, occurrence of unforeseen events or accidents during the course of the project, higher than expected costs, and other factors could force the profitability of projects below our targets. Furthermore we also run the risk of receiving complaints from our customers on projects which do not live up to their expectations. Therefore our Group has established a "project risk committee" and we conduct project audit activities as a monitoring system designed to help us avoid the occurrence of various risks. But despite our best efforts and in the event that unforeseen events were to happen, we cannot overlook the potential volatility in our Group earnings or our financial position.

2) Order Decline Resulting from External Factors

The bulk of our customers belong to the manufacturing, transportation, distribution, life and non-life insurance, and securities industries as well as the government and other public administrative offices. And because of the wide range of customers we serve, no single client accounts for more than 10% of our total orders. We therefore believe that risk of having an overly concentrated amount of orders in a few clients is very low. However weakening in order demand for system development arising from political and economic uncertainties, including fluctuations in the currency and natural disaster, could possibly negatively impact both Our Group's earnings and our financial position.

### 3) Pricing Competition and Reductions in Prices

Intense competition in the Japanese information services industry continues as corporations postpone and restrain their IT related investments. Furthermore we note that hardware vendors are beginning to shift their emphasis towards software services and this in turn is raising the competitive forces within our industry. We note that orders for system development are being shifted to companies operating in overseas markets such as China which offer cheaper pricing, and a subsequent decline in prices resulting from intensified pricing competition. The NID Group seeks to insulate itself from this pricing competition by concentrating its efforts upon providing high quality services. However our earnings and financial position could be negatively impacted should demands for price reduction by our clients intensify.

### 4) Hiring and Training Highly Qualified Staff

The future growth of our Group is highly dependent upon our ability to secure highly qualified engineers and other staff, and hiring and training staff is a key management issue. Therefore the future growth and earnings potential of Our Group could be negatively impacted in the event that we cannot hire or train an adequate number of staff. At the same time hiring of highly qualified engineers and other staff could lead to large increases in our hiring and personnel costs. Furthermore the training programs for our existing staff could also contribute to higher costs. These costs could also impact our earnings and our financial position.

### 5) Risk of Credibility Loss Arising from Leakage of a Secret

Because we handle highly sensitive information of our clients in Our Group's various services, we place an extremely high priority upon the maintaining the confidentiality of this information. We have acquired ISO27001, an international standard on quality management systems the "privacy mark" certification and we have created various manuals and training programs for our staff to reinforce the importance of confidentiality in maintaining our credibility with clients. But in the event that a leak of client information was to occur, we may suffer the loss of trust of our clients, and our earnings and financial standing could be impacted.

### 6) Risks of technical innovation

In the information service industry to which the NID Group belongs, the technological environment could undergo disruptive change. The NID Group studies a multiplicity of technological trends in state-of-the-art, basic, and other technologies and engages in research and development, but in the event that it delays addressing faster-than-expected progress in innovative technologies, this could impact our earnings and financial standing.

### 7) Risks of intellectual property rights

With regard to intellectual property rights and other rights essential to the conduct of business by the NID Group, it is possible that the Group will not be granted licenses or authorization of other kinds by the owners of such rights, and in consequence will become unable provide specific technologies, products, or services. It is also possible that claims for damages will be made on the ground that business activities undertaken by the NID Group have infringed the intellectual property rights of other parties. In any such event, the NID Group's business results and financial standing could be impacted.

### 8) Risks of major disasters

NID Group develops structures for ensuring business continuity in conformity with government guidelines and implements disaster-prevention training. Nevertheless, in the event of the occurrence of a major disaster or of a serious outbreak of a contagious disease or else, the NID Group's business results and financial standing could be impacted.

### 9) Retirement Benefits Obligation

Our group companies' employee retirement benefits package expenses and obligations are calculated based on pre-conditions, which are set by actuarial calculations of factors including discount rate. In the event the actual result differs from the pre-conditions, or in the event the pre-conditions are changed, because the effect of them will be cumulative, and recognized in the future as a rule, these will generally have an effect on the debts recorded and expenses recognized in the future. Therefore, if the discount rate will decline in the future, the business performance and financial state of our group companies may be impacted.

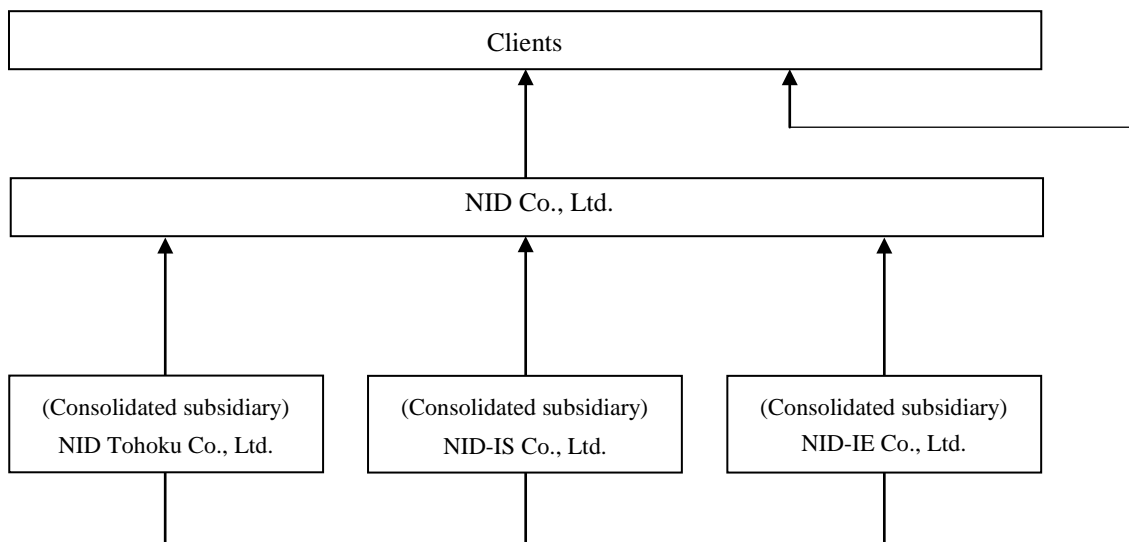
## 2. Corporate Structure

The NID Group (including the parent company and our consolidated subsidiaries) is comprised of the parent company, and our three consolidated subsidiaries, NID-IS Co., Ltd., NID-IE Co., Ltd., and NID Tohoku Co., Ltd. Our Group conducts primarily system development (development of software for communications systems and information systems), and information processing services (network solutions, data entry, and other services).

The details of our different businesses and business segments are provided below.

Business segments	Description of business	Principal companies
Communications Systems Business	<ul style="list-style-type: none"> <li>•Software development for communication systems</li> <li>•Product development</li> </ul>	NID Co., Ltd.
Information Systems Business	<ul style="list-style-type: none"> <li>•Software development for information systems</li> </ul>	NID Co., Ltd.
Network Solutions Business	<ul style="list-style-type: none"> <li>•Operation and management of network services and systems</li> </ul>	NID Co., Ltd.
NID-IS	<ul style="list-style-type: none"> <li>•Software development for communication systems</li> <li>•Product development</li> <li>•Software development for information systems</li> <li>•Operation and management of network services and systems</li> <li>•Data entry services</li> </ul>	NID-IS Co., Ltd.
NID-IE	<ul style="list-style-type: none"> <li>•Software development for communication systems</li> <li>•Software development for information systems</li> <li>•Operation and management of network services and systems</li> <li>•Others</li> </ul>	NID-IE Co., Ltd.
NID Tohoku	<ul style="list-style-type: none"> <li>•Software development for communication systems</li> <li>•Software development for information systems</li> </ul>	NID Tohoku Co., Ltd.

Our businesses structure is indicated below.



### **3. Management Policy**

#### **(1) Our Basic Management Policy**

We have functioned as a completely independent and comprehensive information services company since our founding. Furthermore we have provided our customers with a wide range of services ranging from system development and creation to management services which are designed to help raise the efficiency and productivity of our customers' operations. We also uphold the corporate philosophy outlined below and seek to expand our business operations while having this philosophy reflected in all of our corporate activities.

- Vision: "We strive to be the 'ideal partner' by satisfying customers with the value of our highly specialized services."
- Corporate Value: "We coined the term "human-ware" (human oriented services) to describe our goal of efficient use of human resources."  
"We maintain the goal of keeping the interests of our customers firmly in sight, and seeking to be a system provider that places the top priority on quality."

Our Group seeks to quickly respond to rapid changes in the economic environment and technological advances in the field of IT, using our high level of comprehensive skills to increase customer trust and improve the efficiency of our customer-related operations.

#### **(2) Our Management Targets**

We recognize that maintaining a higher return on equity (ROE), by achieving higher return on investment through the efficient use of shareholders' equity and producing a steady level of profits, is crucial to ensuring a stable earnings foundation capable of paying steady dividends. In keeping with this principle, we have established the following targets.

- ROE: Over 15%
- Ordinary income to net sales ratio: Over 10%

#### **(3) Medium- and Long-term Management Strategy**

We are a comprehensive information services provider that offers communication systems development, information systems development, network solutions, and data entry. In the future we will continue our efforts to find new areas of potential business growth, while aiming to strengthen and expand the revenue foundation based on management that achieves a balance between those four business areas and the four companies.

In addition, the Company plans to continue to promote cooperative businesses, which we have identified as our fifth business, as well as striving to promote product manufacturing and marketing activities.

Moreover with the arrival of the broadband and mobile communications era, we will promote a business expansion strategy that contributes to the realization of a ubiquitous information society and leverages our strengths as a specialist technology group, including our embedded and mobile technologies.

Our specific businesses are explained below.

##### **(Communications Systems Business)**

- We implement a business strategy designed to help realize a ubiquitous information society through the integration of information and communications technologies, including smartphones and tablets, intelligent home appliances, digital broadcasting, digital copiers, ITS, and medical equipment using network technologies, and mobile communications terminals.
- We will fortify our core embedded technology to help expand this business in the future.
- With the technologies that we learned and developed through the commissioning of projects to our outsourcing businesses as our foundation and backbone, we will develop products for systems and smartphone applications. In addition, through our proactive engagement in alliances with other companies on open innovation (discovery of revolutionary services and products by the convergence of our technologies and ideas with those of other companies), we will continue to build new businesses, including products and services with higher value-add's and more novelty.
- We are also planning to strengthen our value-added business by developing our own products, while cooperating with other companies on developing new products in the fields of platforms (system environments in which software run) and user-interface products.

##### **(Information Systems Business)**

- We provide integrated business solutions, ranging from upstream processes to software maintenance processes in the distribution and manufacturing industries as well as the governmental sector, with a main focus on finance such as life and non-life insurance.

##### **(Network Solutions Business)**

- The outsourcing services we provide, which employ our network solutions, security, and system management technologies, contribute to network safety and the stable operations of our customers systems. In this manner we



seek to take advantage of growth opportunities in the markets for our services.

(Data entry business)

- We will provide low cost, high quality services that meet customer needs, with sophisticated security and the latest entry systems, in a range of sectors such as non-life insurance, banking, education and government.

#### **(4) Key Management Issues**

In the information service industry in which we are involved, customers have become extremely cost-conscious in terms of investing in information technology. As a result, the market environment will continue to be a difficult one. With competition between rivals in the industry heating up, and computer manufacturers entering this business realm as new competitors, we recognize the importance of differentiating our services from those of our competitors.

Advancements in IT come rapidly. The mobile devices market for smartphones and tablets are growing, the move to the revolutionizing cloud services is accelerating, and the move to a ubiquitous network is gaining more momentum. Therefore, we expect growth in these new markets, and for vendor companies that have advanced networking (telecommunication) technologies, we believe that we can potentially fill a range of demands in the market.

Against this backdrop, NID intends to leverage its strong market reputation as a company with sophisticated mobile and embedded technologies. Furthermore we will fortify our business structure to be able to provide higher levels of quality and productivity, credibility, and security to our customers in system construction. At the same time, we will optimize our management by increasing our operating efficiency in order to raise our profitability and become a company that offers greater added value.

##### **1) Quickly Responding to Market Demands by Fortifying Our Technological Capabilities**

In order to be able to respond to the swift changes and diversifying needs within the IT industry, we need to aggressively cultivate highly skilled engineers who are able to handle new information technologies. Consequently, we are seeking to expand our business by increasing our added value and competitive edge. In addition, by advancing the visualization of our technical prowess, we have begun to construct and utilize an engineer database.

##### **2) Strengthening Our Marketing Function**

Shifting to solution proposal-based marketing, we are proceeding to develop sales that integrate the sales and operational divisions and provide the company with accurate market needs based on information gathered in a timely manner, with the aim of achieving sales-driven orders.

##### **3) Projects on quality improvement**

All of our Group companies obtained ISO9001, which is an international standard on quality management systems, as part of our project on quality improvement and reinforced project management, and we are performing training for our staffs and improving and reinforcing the software development processes to be in line with progress in technology and established quality assurance systems. Specifically, we devised NID Quality Management System (NQS), and our goal from the management standpoint is to improve customer satisfaction through our providing them with value-add's, realize higher quality, and engage in the management of projects companywide.

##### **4) Reform of Personnel and Compensation Systems and Our Human Resource Development Strategy**

With our goal of becoming a Group employing a team of valuable individuals with high levels of technological expertise, we maintain a human resource strategy centered on a performance-based compensation system, as part of our effort to cultivate highly skilled engineers who can help us respond to the swift changes in information technologies.

##### **5) Projects on information security**

All Group companies have gained ISO27001, the standard for information security management, and Privacy mark, the standard for the protection of personal information. We will improve and maintain projects on information security as we recognize that this is a critical issue of management in order to perform our corporate social responsibility and improve customer services.

##### **6) Focusing on Environmental Preservation**

We introduced an environmental management system at our head office and obtained ISO14001, which is an international environmental management standard. We will continue our efforts to devise ways of contributing to the environment in our software design and development operations, such as reducing our environmental impact through initiatives such as the promotion of energy saving and resource saving, the reduction of waste, and green procurement.

##### **7) Creation of new services in response to evolutions in IT**

Smartphones, tablets, and cloud services are fast becoming commonplace, and the world of IT is changing rapidly. Topics for our Group going forward will be creation of unique solutions and products, such as services with high value-add and new methods of utilizing the more evolved IT's.

## 4. Consolidated Financial Statements

### (1) Consolidated Balance Sheets

(Thousand yen)

	FY3/12	FY3/13
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and deposits	5,553,362	5,433,380
Notes and accounts receivable–trade	2,286,093	2,437,497
Marketable securities	1,039	1,040
Work in process	272,815	233,669
Deferred tax assets	434,780	423,920
Others	178,000	152,895
<b>Total current assets</b>	<b>8,726,091</b>	<b>8,682,404</b>
<b>Non-current assets</b>		
<b>Property, plant and equipment</b>		
Buildings and structures	230,787	247,193
Accumulated depreciation	-166,847	-95,068
Buildings and structures – net	63,940	152,124
Vehicles	31,472	43,306
Accumulated depreciation	-22,541	-25,545
Vehicles – net	8,930	17,761
Tools, furniture and fixtures	150,700	196,848
Accumulated depreciation	-125,232	-95,425
Tools, furniture and fixtures – net	25,468	101,423
Land	136,767	136,767
Lease assets	26,763	26,659
Accumulated depreciation	-14,034	-19,062
Lease assets - net	12,728	7,597
<b>Total property, plant and equipment</b>	<b>247,836</b>	<b>415,674</b>
<b>Intangible assets</b>		
Software	214,467	168,967
Others	43,854	44,086
<b>Total intangible assets</b>	<b>258,322</b>	<b>213,054</b>
<b>Investments and other assets</b>		
Investment securities	423,538	1,301,520
Deferred tax assets	900,829	765,910
Guarantee deposits	476,747	257,783
Others	75,646	105,625
Allowance for doubtful accounts	-275	-275
<b>Total investments and other assets</b>	<b>1,876,487</b>	<b>2,430,565</b>
<b>Total non-current assets</b>	<b>2,382,647</b>	<b>3,059,294</b>
<b>Total assets</b>	<b>11,108,738</b>	<b>11,741,699</b>

(Thousand yen)

	FY3/12	FY3/13
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Accounts payable – trade	322,266	368,986
Accounts payable – other	348,718	378,499
Income taxes payable	259,391	183,833
Accrued consumption taxes	88,275	89,015
Deposits received	112,338	126,555
Provision for bonuses	894,031	867,411
Asset retirement obligations	59,407	-
Others	142,945	145,641
<b>Total current liabilities</b>	<b>2,227,375</b>	<b>2,159,944</b>
<b>Non-current liabilities</b>		
Provision for retirement benefits	2,104,396	2,146,391
Provision for directors' retirement benefits	402,300	409,050
Asset retirement obligations	22,243	36,213
Others	87,992	60,285
<b>Total non-current liabilities</b>	<b>2,616,932</b>	<b>2,651,939</b>
<b>Total liabilities</b>	<b>4,844,307</b>	<b>4,811,884</b>
<b>NET ASSETS</b>		
<b>Shareholders' equity</b>		
Capital stock	653,352	653,352
Capital surplus	488,675	488,675
Retained earnings	6,403,131	6,818,669
Treasury stock	-1,226,363	-1,226,363
<b>Total shareholders' equity</b>	<b>6,318,795</b>	<b>6,734,333</b>
<b>Valuation and translation adjustments</b>		
Valuation difference on available-for-sale securities	-54,364	195,481
Total valuation and translation adjustments	-54,364	195,481
<b>Total net assets</b>	<b>6,264,430</b>	<b>6,929,814</b>
<b>Total liabilities and net assets</b>	<b>11,108,738</b>	<b>11,741,699</b>

## (2) Consolidated Statements of Income

(Thousand yen)

	FY3/12	FY3/13
Net sales	14,824,055	15,531,922
Cost of sales	12,188,903	12,696,796
<b>Gross profit</b>	<b>2,635,151</b>	<b>2,835,125</b>
Selling, general and administrative expenses	1,764,019	1,823,296
<b>Operating income (loss)</b>	<b>871,132</b>	<b>1,011,829</b>
<b>Non-operating income</b>		
Interest income	166	108
Dividends income	7,127	19,425
Commission for insurance office work	5,216	5,011
Insurance income	2,495	32,530
Subsidy income	17,743	26,553
Others	2,350	4,101
<b>Total non-operating income</b>	<b>35,099</b>	<b>87,731</b>
<b>Non-operating expenses</b>		
Interest expenses	1,738	1,572
Loss on investment in partnership	1,064	-
Investment partnership management fee	3,880	3,769
Loss on investments in capital	-	3,416
Others	216	402
<b>Total non-operating expenses</b>	<b>6,899</b>	<b>9,160</b>
<b>Ordinary income (loss)</b>	<b>899,332</b>	<b>1,090,400</b>
<b>Extraordinary income</b>		
Gain on sales of noncurrent assets	101	-
<b>Total extraordinary income</b>	<b>101</b>	<b>-</b>
<b>Extraordinary loss</b>		
Loss on sales of non-current assets	28	229
Loss on retirement of non-current assets	6,865	36,663
Loss on disaster	270	-
Business structure improvement expenses	53,812	-
Provision of allowance for doubtful accounts	275	-
Head office transfer cost	-	75,183
Special retirement expenses	-	12,170
Others	2,441	6,079
<b>Total extraordinary loss</b>	<b>63,693</b>	<b>130,326</b>
<b>Income before income taxes and minority interests</b>	<b>835,741</b>	<b>960,073</b>
Income taxes – current	411,197	369,014
Income taxes – deferred	95,609	5,169
<b>Total income taxes</b>	<b>506,807</b>	<b>374,184</b>
<b>Income before minority interests</b>	<b>328,934</b>	<b>585,889</b>
<b>Net income(loss)</b>	<b>328,934</b>	<b>585,889</b>

(Thousand yen)

	FY3/12	FY3/13
Income before minority interests	328,934	585,889
Other comprehensive income		
Valuation difference on available-for-sale securities	-4,302	249,846
Total other comprehensive income	-4,302	249,846
Comprehensive income	324,631	835,735
Comprehensive income attributable to		
Comprehensive income attributable to owners of the parent	324,631	835,735

**(3) Consolidated Statements of Changes in Shareholders' Equity**

(Thousand yen)

	FY3/12	FY3/13
<b>Shareholders' equity</b>		
Capital stock		
Balance at the end of previous term	653,352	653,352
Changes during the term		
Total changes during the term	-	-
<b>Balance at the end of term</b>	<b>653,352</b>	<b>653,352</b>
Capital surplus		
Balance at the end of previous term	488,675	488,675
Changes during the term		
Total changes during the period	-	-
<b>Balance at the end of term</b>	<b>488,675</b>	<b>488,675</b>
Retained earnings		
Balance at the end of previous term	6,244,548	6,403,131
Changes during the term		
Cash dividends	-170,351	-170,351
Net income	328,934	585,889
<b>Total changes during the term</b>	<b>158,582</b>	<b>415,537</b>
<b>Balance at the end of term</b>	<b>6,403,131</b>	<b>6,818,669</b>
Treasury stock		
Balance at the end of previous term	-1,226,363	-1,226,363
Changes during the term		
Total changes during the term	-	-
<b>Balance at the end of term</b>	<b>-1,226,363</b>	<b>-1,226,363</b>
Total shareholders' equity		
Balance at the end of previous term	6,160,212	6,318,795
Changes during the term		
Cash dividends	-170,351	-170,351
Net income	328,934	585,889
<b>Total changes during the term</b>	<b>158,582</b>	<b>415,537</b>
<b>Balance at the end of term</b>	<b>6,318,795</b>	<b>6,734,333</b>

(Thousand yen)

	FY3/12	FY3/13
<b>Accumulated other comprehensive income</b>		
Valuation adjustment, other marketable securities		
Balance at the end of previous term	-50,062	-54,364
Changes during the term		
Net changes in items excluding shareholders' equity during the term	-4,302	249,846
<b>Total changes during the term</b>	-4,302	249,846
<b>Balance at the end of term</b>	-54,364	195,481
Total valuation and translation adjustments		
Balance at the end of previous term	-50,062	-54,364
Changes during the term		
Net changes in items excluding shareholders' equity during the term	-4,302	249,846
<b>Total changes during the term</b>	-4,302	249,846
<b>Balance at the end of term</b>	-54,364	195,481
Total net assets		
Balance at the end of previous term	6,110,150	6,264,430
Changes during the term		
Dividends from surplus	-170,351	-170,351
Net income	328,934	585,889
Net changes in items excluding shareholders' equity during the term	-4,302	249,846
<b>Total changes during the term</b>	154,280	665,384
<b>Balance at the end of term</b>	6,264,430	6,929,814

**(4) Consolidated Statements of Cash Flows**

(Thousand yen)

	FY3/12	FY3/13
<b>Net cash provided by (used in) operating activities</b>		
Income (loss) before income taxes and minority interests	835,741	960,073
Depreciation and amortization	186,780	176,483
Increase (decrease) in provision for retirement benefits	58,309	41,995
Increase (decrease) in provision for directors' retirement benefits	20,375	6,750
Increase (decrease) in allowance for doubtful accounts	275	-
Increase (decrease) in provision for bonuses	-6,124	-26,620
Interest and dividends income	-7,294	-19,533
Interest expenses	1,738	1,572
Loss (gain) on operation of investments in capital	-	3,416
Loss (gain) on valuation of investment securities	-	-
Loss (gain) on sales of property, plant and equipment	-73	229
Loss on retirement of property, plant and equipment	987	23,854
Loss on retirement of intangible assets	5,878	12,808
Loss (gain) on investment in partnership	2,928	2,796
Decrease (increase) in notes and accounts receivable -trade	132,993	-151,404
Decrease (increase) in inventories	-58,268	39,550
Decrease (increase) in other current assets	34,112	30,627
Decrease (increase) in other non-current assets	-356	661
Increase (decrease) in notes and accounts payable - Trade	-36,494	46,719
Increase (decrease) in accounts payable-other	30,807	7,738
Increase (decrease) in accrued consumption taxes	491	739
Increase (decrease) in other current liabilities	48,055	18,597
Others - net	23,097	-2,862
<b>Subtotal</b>	<b>1,273,961</b>	<b>1,174,193</b>
Interest and dividend income received	7,294	19,533
Interest expenses paid	-1,738	-1,572
Income taxes paid	-321,608	-452,106
<b>Net cash provided by (used in) operating activities</b>	<b>957,908</b>	<b>740,049</b>



(Thousand yen)

	FY3/12	FY3/13
<b>Net cash provided by (used in) investment activities</b>		
Payments into time deposits	-10,011	-5
Proceeds from withdrawal of time deposits	24,000	-
Purchase of investment securities	-12,668	-504,223
Proceeds from sales and redemption of investment securities	500	-
Payments for investments in capital	-	-30,000
Purchase of property, plant and equipment	-21,884	-237,742
Proceeds from sales of property, plant and equipment	115	563
Payments for asset retirement obligations	-	-53,325
Purchase of intangible assets	-131,832	-88,677
Proceeds from distribution of investment partnership	6,000	13,900
Payments for guarantee deposits	-1,385	-120,277
Proceeds from collection of guarantee deposits	2,512	339,241
Purchase of insurance funds	-4,214	-6,101
Other, net	640	1,613
<b>Net cash provided by (used in) investing activities</b>	<b>-148,229</b>	<b>-685,035</b>
<b>Net cash provided by (used in) financing activities</b>		
Increase in short-term loans payable	820,000	820,000
Decrease in short-term loans payable	-820,000	-820,000
Cash dividends paid	-170,201	-169,284
Other, net	-6,665	-6,882
<b>Net cash provided by (used in) financing activities</b>	<b>-176,866</b>	<b>-176,167</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>632,812</b>	<b>-121,153</b>
<b>Cash and cash equivalents at beginning of term</b>	<b>4,859,806</b>	<b>5,492,618</b>
<b>Cash and cash equivalents at end of term</b>	<b>5,492,618</b>	<b>5,371,465</b>