Note: This English translation is solely for reference purposes and not a legally definitive translation of the original Japanese text.
In the event a difference arises regarding the meaning herein, the original Japanese version will prevail as the official authoritative version.

February 9, 2018

Consolidated Financial Results for the Fiscal Year Ended December 31, 2017

Name of listed company:	Information Services International-Dentsu, Ltd.
Listed exchange:	Tokyo
Code number:	4812
URL:	https://www.isid.co.jp/english/index.html
Representative:	Setsuo Kamai, President, CEO and COO
Contact for inquiries:	Jiro Sakai, General Manager, Accounting & Finance Department
	Tel: (03) 6713-6160

Date of the general meeting of the shareholders:	March 23, 2018
Date of scheduled payment of dividends:	March 26, 2018
Date of scheduled filing of securities report:	March 23, 2018
Supplementary explanatory documents:	Yes
Presentation:	Yes

(Amounts less than one million yen are rounded down.)

1. Consolidated Business Performance for the FY2017 (from January 1, 2017 to December 31, 2017)

(1) Consolidated Operating Results

(% of change from previous year)

	Net sales		Operating income (loss)		Ordinary income (loss)		Net income (loss)*	
	(million yen)	(%)	(million yen)	(%)	(million yen)	(%)	(million yen)	(%)
FY2017	83,423	4.6	5,489	(15.4)	5,642	(15.8)	4,438	(3.1)
FY2016	79,783	–	6,488	–	6,704	–	4,580	-

Note: Comprehensive income: FY2017: 4,542 million yen; FY2016: 4,307 million yen

	EPS	Diluted EPS	ROE	ROA	Ratio of operating income to net sales
	(yen)	(yen)	(%)	(%)	(%)
FY2017	136.24	–	9.6	8.2	6.6
FY2016	140.58	–	10.5	10.4	8.1

Reference: Equity in earnings of affiliated companies: FY2017: (0) million yen; FY2016: (2) million yen
* Net income attributable to owners of parent

Note: The Company has revised the business year-end from March 31 to December 31 from fiscal year 2015, which was the nine months from April 1 to December 31, 2015. Accordingly, year-on-year percentage changes for the fiscal year 2016 are omitted.

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio	Shareholders' equity per share
	(million yen)	(million yen)	(%)	(yen)
FY2017	72,003	47,800	66.3	1,466.16
FY2016	66,291	45,027	67.9	1,381.10

Reference: Total shareholders' equity: FY2017: 47,771 million yen; FY2016: 45,000 million yen

(3) Consolidated Cash Flows

	From operating activities	From investing activities	From financing activities	Cash and cash equivalents at end of period
	(million yen)	(million yen)	(million yen)	(million yen)
FY2017	4,265	(1,855)	(2,363)	30,353
FY2016	8,303	(34)	(1,991)	30,248

2. Dividends

	Dividends per share					Total dividends paid (Annual)	Payout ratio (Consolidated)	Dividend on equity ratio (Consolidated)
	First quarter	Second quarter	Third quarter	Fourth quarter	Total			
	(yen)	(yen)	(yen)	(yen)	(yen)	(million yen)	(%)	(%)
FY2016	–	21.00	–	29.00	50.00	1,629	35.6	3.7
FY2017	–	25.00	–	27.00	52.00	1,694	38.2	3.7
FY2018 (forecast)	–	28.00	–	28.00	56.00		38.0	

3. Consolidated Forecasts for FY2018 (from January 1, 2018 to December 31, 2018)

Percentages indicate year-on-year increase/(decrease)

	Net sales		Operating income (loss)		Ordinary income (loss)		Net income (loss) *		EPS
	(million yen)	(%)	(million yen)	(%)	(million yen)	(%)	(million yen)	(%)	(yen)
First half	41,941	3.5	3,211	2.5	3,243	1.0	2,224	(20.6)	68.28
Full year	88,000	5.5	7,000	27.5	7,034	24.7	4,807	8.3	147.56

4. Other Items

1. Changes in the scope of consolidation for significant subsidiaries (Changes in specified subsidiaries resulting in change in the scope of consolidation): None
2. Changes in accounting policies, changes in accounting estimates and restatements:
   1) Changes in accounting policies in accordance with revision of accounting standards: None
   2) Changes in accounting policies other than 1) above: None
   3) Changes in accounting estimate: None
   4) Restatements: None
3. Issued and outstanding common stock

1) Number of shares issued and outstanding at end of period, including treasury stock:	FY2017	32,591,240 shares	FY2016	32,591,240 shares
2) Number of treasury stock at end of period:	FY2017	8,470 shares	FY2016	8,470 shares
3) Average number of shares outstanding for each period:	FY2017	32,582,770 shares	FY2016	32,582,806 shares

(Reference) Summary of Non-consolidated Business Performance

(Amounts less than one million yen are rounded down.)

1. Non-consolidated Business Performance for the FY2017 (from January 1, 2017 to December 31, 2017)

(1) Non-consolidated Operating Results

Percentages indicate year-on-year increase/(decrease)

	Net sales		Operating income (loss)		Ordinary income (loss)		Net income (loss)	
	(million yen)	(%)	(million yen)	(%)	(million yen)	(%)	(million yen)	(%)
FY2017	69,115	2.9	3,707	(18.7)	5,090	(11.0)	3,908	(14.8)
FY2016	67,198	–	4,562	–	5,717	–	4,587	–

	EPS	Diluted EPS
	(yen)	(yen)
FY2017	119.96	–
FY2016	140.79	–

Note: The Company has revised the business year-end from March 31 to December 31 from fiscal year 2015, which was the nine months from April 1 to December 31, 2015. Accordingly, year-on-year percentage changes for the fiscal year 2016 are omitted.

(2) Non-consolidated Financial Position

	Total assets	Net assets	Equity ratio	Shareholders' equity per share
	(million yen)	(million yen)	(%)	(yen)
FY2017	64,268	41,690	64.9	1,279.51
FY2016	60,950	39,518	64.8	1,212.87

Reference: Shareholders' equity: FY 2017: 41,690 million yen; FY 2016: 39,518 million yen

Notes: 1. Indication regarding the status of audit procedures
These financial statements are not subject to audit procedures under the Financial Instruments and Exchange Act. The audit of these financial statements in accordance with the Financial Instruments and Exchange Act had not been completed at the time of disclosure.

Notes: 2. The above forecast has been calculated based on the currently available information as of the disclosure date of this document. Actual performance may differ from the forecast in accordance with changes in the various business factors.

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I. Business Results

1. Analysis of Business Results

(1) Results for FY2017 (Ended December 31, 2017)

In the consolidated fiscal year under review (from January 1, 2017 to December 31, 2017), the Japanese economy continued its modest recovery, buoyed improvements in corporate earnings and the employment situation, as well as expanded exports, despite an overseas outlook made opaque by unstable political and economic conditions. The information services industry also benefited from a generally favorable business environment, amid growing demand for corporate investment in information technology.

To further differentiate itself and expand its operations under these conditions, the ISID Group is promoting ISID Open Innovation 2018 "Joint Value Creation," a medium-term management plan covering the three-year period from FY2016. The plan calls for the Company to enhance solutions in each of its four business segments and focus on strategic domains in three areas: "global," "IoT/big data" and "2020 and beyond."

Net sales in the consolidated fiscal year under review were ¥83,423 million (up 4.6% YoY), owing to favorable performance in the Engineering Solutions and Communication IT segments.

On the profit front, however, gross profit was ¥25,708 million (down 1.6% YoY), despite the increase in sales, affected by higher cost of sales stemming from unprofitable projects. Selling, general and administrative expenses also climbed 3.0% YoY, to ¥20,219 million, centering on research and development expenditures and human resource expenses, resulting in operating income of ¥5,489 million (down 15.4% YoY) and ordinary income of ¥5,642 million (down 15.8% YoY), both of which declined compared to the previous fiscal year. At the same time, net income attributable to owners of parent was ¥4,438 million (down 3.1% YoY), despite extraordinary income from the sale of noncurrent assets.

Net sales, operating income and status of business operations by business segment are as follows:

Net Sales and Operating Income (Loss) by Business Segment

(Millions of yen)

Business segment	FY2016 (from January 1, 2016 to December 31, 2016)		**FY2017 (from January 1, 2017 to December 31, 2017)**		YoY	
	Net sales	Operating income	Net Sales	Operating income	Net Sales	Operating income
Financial Solutions	22,037	2 110	21,413	1,821	(624)	(289)
% of sales	27.6 %		25.7 %			
Business Solutions	16,965	1,666	17,033	(169)	68	(1,835)
% of sales	21.3 %		20.4 %			
Engineering Solutions	23,872	692	25,530	1,359	1,658	667
% of sales	29.9 %		30.6 %			
Communication IT	16,908	2,018	19,445	2,477	2,537	459
% of sales	21.2 %		23.3 %			
Total	79,783	6,488	83,423	5,489	3,640	(999)

Status of Business Operations by Business Segment

Financial Solutions

The main business of this segment is providing IT solutions that support various operations at financial institutions.

In the consolidated fiscal year under review, such factors as the conclusion of large-scale projects involving the BANK･R next-generation financing solution caused sales of software products to decrease substantially, and projects to develop custom systems for megabanks declined, leading to lower segment sales. Profits also decreased in line with the decrease in sales.

Business Solutions

The main business of this segment is providing IT solutions for core systems and the business management field.

In the consolidated fiscal year under review, segment sales were on a par with the previous fiscal year, due to solid sales of POSITIVE human resources management solutions and other in-house software. At the same time, unprofitability on some projects caused cost of sales to rise, and expenses grew due to enhanced R&D and an increase in personnel. Profits fell as a result.

Engineering Solutions

The main business of this segment is providing IT solutions for the product development and production fields in the manufacturing industry.

In the consolidated fiscal year under review, sales were strong for the iQUAVIS conceptual design solution, which supports the realization of model-based development (MBD), particularly to the automotive sector. Also, sales of the NX 3D CAD solution and other third-party software for design and development to the electrical equipment and precision instruments industries increased. As a result, segment sales expanded. Profits also rose, benefiting from higher sales and improved profitability.

Communication IT

The main business of this segment is providing IT solutions for core systems at the Dentsu Group, as well as in collaboration with the Dentsu Group.

In the consolidated fiscal year under review, business based on collaboration with the Dentsu Group was flat year on year, particularly in relation to the digital marketing domain. In addition, system architecture projects and sales of IT equipment for the Dentsu Group expanded, lifting sales significantly. Profits also increased in line with the increase in sales.

Net sales and status of business operations by service category are as follows:

Net Sales by Service Category

(Millions of yen)

Service category	FY2016 (from January 1, 2016 to December 31, 2016)		**FY2017 (from January 1, 2017 to December 31, 2017)**		YoY
	Net sales	% of sales	Net Sales	% of sales	
Consulting services	5,426	6.8 %	5,515	6.6 %	89
Custom system development	21,622	27.1 %	22,473	26.9 %	851
In-house software	14,796	18.5 %	14,752	17.7 %	(44)
Third-party software	23,850	29.9 %	25,077	30.1 %	1,227
Outsourcing, operation and maintenance services	8,015	10.1 %	8,587	10.3 %	572
IT equipment sales and others	6,071	7.6 %	7,017	8.4 %	946
Total	79,783	100.0 %	83,423	100.0 %	3,640

Status of Business Operations by Service Category

Consulting services

This service category is consulting for business operations and IT.

In the consolidated fiscal year under review, sales increased due to expansion of MBD introduction support and digital marketing field sales mainly to the automotive industry.

Custom system development

This service category is the building and maintenance of IT systems based on individual client specifications.

In the consolidated fiscal year under review, sales grew as the result of an increase in projects for the Dentsu Group and mainstay clients in the transportation industry.

In-house software

This service category is the sale of software developed internally, including add-on development, technical support and maintenance service.

In the consolidated fiscal year under review, although sales of the POSITIVE human resources solution and iQUAVIS conceptual design solution were robust, sales were flat year on year due to a backlash from the conclusion of a large BANK・R next-generation financing solution project.

Third-party software

This service category is the sale of software purchased from other companies, including add-on development, technical support and maintenance service.

In the consolidated fiscal year under review, sales to the electrical equipment and precision machinery industries increased in the 3D CAD NX and other design development fields. Category sales also benefited from higher sales to the service industry of SAP and other solutions for mission-critical operations.

Outsourcing, operation and maintenance services

This service category is the operation, maintenance, support for client IT systems, as well as business services on a contract basis.

In the consolidated fiscal year under review, sales increased due to expanded sales to the Dentsu Group.

IT equipment sales and others

This service category is the sales and maintenance of hardware, as well as databases, middleware and other types of software and services.

In the consolidated fiscal year under review, sales increased due to expanded sales to the Dentsu Group.

(2) Forecast for FY2018 (Ending December 31, 2018)

The ISID Group's forecasts for FY 2018 are as follows:

Earnings Forecast for FY 2018 (January 1, 2018 to December 31, 2018)

(Millions of yen)

	Consolidated	
	Amount	YoY (%)
Net sales	88,000	105.5
Operating income	7,000	127.5
Ordinary income	7,034	124.7
Net income attributable to owners of parent	4,807	108.3

Net sales take into account anticipated sales increases, centered on the Financial Solutions and Engineering Solutions segments. We expect higher net sales and an improved gross profit ratio to absorb expanded investments to reinforce human resource and solution capabilities. Accordingly, we forecast increases for operating income, ordinary income, and net income attributable to owners of parent.

Note: Forecast figures are projections based on information available at the time of release, and are not intended as a guarantee that the Company will achieve these targets. Actual results may differ significantly from the above forecasts as a result of changes in the business environment and other factors.

2. Analysis of Financial Position

Status of Assets, Liabilities and Net Assets

(1) Assets

At the end of the consolidated fiscal year under review, total assets amounted to ¥72,003 million, up ¥5,712 million from ¥66,291 million at the end of the previous fiscal year. Current assets increased ¥4,265 million, due mainly to an increase in notes and accounts receivable-trade, advance payments-trade, and work in process. Non-current assets rose ¥1,448 million, because of an increase in investment securities, while property, plant and equipment decreased.

(2) Liabilities

At the end of the consolidated fiscal year under review, total liabilities amounted to ¥24,203 million, up ¥2,940 million from ¥21,263 million at the end of the previous fiscal year. Non-current liabilities rose ¥562 million due mainly to an increase in lease obligations, as well as current liabilities increased ¥2,377 million, due mainly to an increase in advances received, notes and accounts payable-trade, provision for loss on order received, and income taxes payable.

(3) Net assets

At the end of the consolidated fiscal year under review, total net assets amounted to ¥47,800 million, up ¥2,772 million from ¥45,027 million at the end of the previous fiscal year, due mainly to an increase in retained earnings.

3. Basic Policy Regarding Earnings Distribution, and Dividends for FY2017 and FY2018

ISID regards returning profits to shareholders as one of its topmost management priorities. The Company's basic policy on dividends is to maintain an appropriate level of steady dividends while retaining sufficient internal reserves to ensure sustained growth. We also target a consolidated payout ratio of 35-40%.

To further enhance our shareholder returns, we expect to pay a year-end dividend of ¥27 per share, up ¥2 per share from our initial forecast of ¥25 per share. The full-year dividend, including the dividend of ¥25 per share paid at the end of the second quarter, is therefore expected to amount to ¥52 per share, up ¥2 from ¥50 per share in the previous fiscal year. The consolidated payout ratio is 38.2%.

In accordance with our basic policy, for the next fiscal year (ending December 31, 2018), we plan to raise the dividend by ¥4 per share from the current fiscal year. We forecast an annual dividend of ¥56 per share, comprising ¥28 at the end of the first half and ¥28 at year-end. The consolidated payout ratio is expected to be 38.0%.

II. Management Policies

1. Basic Policy on Company Management

ISID's corporate philosophy is to contribute to the growth of its client companies and the advancement of society, with integrity as its moral backbone, through the use of leading-edge information technology, working as a specialized group of innovative and creative professionals. To realize our vision of being an "IT Solution Innovator," we work to achieve long-term business development by continually responding appropriately to changes in the business environment, and earning the trust and satisfaction of customers.

2. Issues to Address, Management Strategies and Target Management Indices

The ISID Group recognizes three key management tasks that it must address. These are "Pursue competitive advantages," "Develop new business fields" and "Enhance human resources."

In the medium-term management plan the Group is currently promoting, these three actions constitute basic policies under the action slogans "Joint Value Creation" and "Open Innovation." This plan establishes as quantitative targets for the fiscal year ending December 31, 2018, consolidated net sales of ¥100.0 billion, consolidated operating income of ¥8.0 billion, an operating margin of 8.0% and return on equity (ROE) of 10.0% or higher.

During the fiscal year under review, the company posted record-high net sales of ¥83.4 billion, up 4.6% year on year, amid generally robust demand for corporate IT investment. In addition, we are investing in and forming business alliances with leading-edge venture companies in various IT categories slated for high levels of growth, such as cyber-security, IoT in agriculture, and self-driving and automated transport. In this way, we are working toward future business expansion.

Due to unprofitable projects, however, operating income declined 15.4% year on year, to ¥5.4 billion. Given this situation, in November 2017 we established the Committee for the Eradication of Unprofitable Projects, which reports directly to the president. This committee is working to bring to rapid conclusion unprofitable projects in which we are currently engaged and prevent such projects from occurring in the future by improving existing processes and taking the lead in considering additional measures.

Initiatives this fiscal year by segment and focus area are as follows.

<u>Financial Solutions</u>

This segment provides various IT solutions to support different types of operations at financial institutions. During the year under review, we focused on core systems for financial institutions' overseas branches, as well as on developing systems in response to regulatory changes. In the FinTech domain, we configured system development platform for retail financial institutions to accelerate the creation of new financial services. We also worked with numerous financial institutions and business partners to conduct trials aimed at increasing the application of blockchain technologies, biometric authentication technologies and artificial intelligence (AI).

<u>Business Solutions</u>

In the core systems and management administration area, the ISID Group offers comprehensive proposals in response to issues centered on proprietarily developed in-house software. During the year, we strengthened the talent management function of our POSITIVE human resources management solution. We also added our sales agencies up to 10 companies in an effort to enhance product and selling capabilities. Furthermore, to accelerate our business in this domain, we decided to establish the specialized new Human Capital Management (HCM) business department in January 2018. Furthermore, to bolster the competitiveness of in-house software in the management administration domain, we proactively pursued R&D of a next-generation IT platform that will become the foundation of core corporate systems.

Engineering Solutions

We provide a variety of solutions to support the realization of digital enterprises in the manufacturing sector. During the year, we worked to expand sales of the iQUAVIS conceptual design solution, which is central to model-based development (MDB). As a result, we saw an increase in full-fledged adoption in the automotive sector. Adoption also increased in the electrical and precision equipment sectors, increasing the number of companies that have deployed this solution to more than 100. In new domains, such as smart factories and maintenance operations, we enhanced ties with partners in Japan and overseas and focused on providing new solutions.

Communication IT

We support advancements in the core systems of the Dentsu Group and work to expand our business through collaboration with the Dentsu Group. During the year, we provided support on the IT front for workplace environment reforms of Dentsu. In addition to reconfiguring various operational systems and putting IT equipment in place, we supported the deployment of robotic process automation (RPA), which is aims to improve productivity dramatically. Leveraging the expertise we gain through this project, we will make a full-fledged entry into the business of supporting RPA deployment. We have already received orders from large manufacturers in this area. In the area of business through collaboration with Dentsu, in collaboration with Dentsu Digital Inc. we established the Dentsu Digital Marketing Technology Center, with a dedicated staff of 200. This center reinforced our structure for providing services in the area of digital marketing.

Global Business

We support Japanese companies expanding overseas and to grow business targeting non-Japanese companies. During the year, we focused on the global development of proprietary products. As a result, we built up sales in Thailand and Indonesia of Lamp, a core backbone system solution for leasing companies developed by our subsidiary in Shanghai. In addition, we received numerous orders from Chinese financial institutions, including some major institutions, for the Chinese edition of BANK・R, our risk management solution.

IoT/Big Data

We are working to develop and provide services that make use of IoT, big data, AI, robotics and other leading-edge technologies. During the year, we collaborated with Predictronics Corp. of the United States, which possesses leading-edge technologies in the area of failure prediction, to strengthen our failure prediction systems, which predict to a high degree of accuracy the failure of products and production equipment. As a result, our number of installations has now expanded to more than 30 companies. We partnered with Sony Computer Science Laboratories, Inc., which has developed CALC, a large-scale data analysis system that uses AI technology, and Koozyt, Inc., to turn the system into a service. We began providing the service in the manufacturing and service sectors.

2020 & Beyond

In the aim of creating new business in 2020 and beyond, we are taking on the challenge of using leading-edge technologies for the development of regional revitalization and sports. During the year, we made progress in working with the town of Aya, Miyazaki Prefecture, running verification tests using blockchain technology to guarantee the quality of organic agricultural products. In addition, we worked on a system using AI for image analysis that counts the number of tuna under cultivation. We also developed "DigSports," a system that uses IT to automatically measure children's capacity for exercise.

Strategic M&A

We engage in M&A to create and strengthen businesses in strategic domains. During the year, we increased our investment in Predictronics Corp. of the United States, converting the company to an affiliate. During the year, we also invested in ZMP Inc., which is developing business in the area of self-driving, automatic transportation; vegetalia, inc., which is developing an agricultural IoT business; Blue Planet-works, Inc., which provides cyber-security solutions; and Caulis Inc., which provides a fraudulent access detection service for companies.

<u>Enhance Human Resources</u>

ISID is focusing on the recruiting and development of human resources who have a broad outlook and advanced specializations. We are also promoting diversity and workstyle reforms. During the year, we established the Workstyle Innovation Office as a specialized organization to further accelerate workstyle reforms throughout the Company. We also introduced a new system for re-employing employees who had left the Company to provide childcare or nursing care, and reviewed our stance on teleworking systems, expanding its application to all employees (effective from January 2018). Through such efforts, we worked to put in place systems to realized diverse working styles.

<u>Stronger Measures to Prevent Unprofitable Projects</u>

We have engaged in focused initiatives to create systems and processes for curtailing unprofitable projects. Unfortunately, however, we engaged in several unprofitable projects during the year. Given this situation, in November 2017 we established the Committee for the Eradication of Unprofitable Projects, which reports directly to the president. This committee is working to bring to rapid conclusion unprofitable projects in which we are currently engaged and prevent such projects from occurring in the future by improving existing processes and taking the lead in considering additional measures.

Moving toward the culmination of our three-year medium-term management plan in fiscal 2018, we will work to further accelerate growth to achieve our goals of net sales of ¥88.0 billion, up 5.5% year on year; and operating income of ¥7.0 billion, up 27.5%. Although we expect to fall below the net sales and operating income targets we set when formulating the medium-term management plan, we are making steady progress toward our target operating margin of 8.0%, an indicator of business efficiency, and we will work together as a group on these initiatives.

We expect society and companies to have ever greater expectations for IT as we work to realize “Society 5.0,” a future society that simultaneously achieves economic growth and resolves social problems. By moving forward on its medium-term management plan, the ISID Group will help to resolve issues faced by customers and society.

III. Consolidated Financial Statement

1. Consolidated Balance Sheets

(Millions of yen; amounts less than one million yen are rounded down.)

Item / Period	As of December 31, 2016	As of December 31, 2017
	Amount	Amount
(Assets)		
Current assets:		
Cash and deposits	3,316	3,369
Notes and accounts receivable-trade	16,154	18,706
Lease investment assets	59	39
Merchandise and finished goods	36	107
Work in process	1,119	1,318
Raw materials and supplies	29	21
Deferred tax assets	787	914
Advance payments-trade	5,617	6,548
Deposit paid	27,218	27,276
Other	707	1,010
Allowance for doubtful accounts	–	(1)
Total current assets	55,046	59,311
Non-current assets:		
Property, plant and equipment:		
Buildings, net	798	608
Tools, furniture and fixtures, net	282	360
Land	1,346	524
Leased assets, net	1,041	1,622
Construction in progress	–	127
Total property, plant and equipment	3,469	3,243
Intangible assets:		
Software	2,824	2,627
Lease assets	141	189
Other	33	32
Total intangible assets	2,999	2,849
Investments and other assets:		
Investment securities	785	2,602
Deferred tax assets	294	183
Lease and guarantee deposits	3,505	3,623
Other	191	189
Allowance for doubtful accounts	(1)	(1)
Total investments and other assets:	4,775	6,598
Total non-current assets	11,244	12,692
Total assets	66,291	72,003

(Millions of yen; amounts less than one million yen are rounded down.)

Item / Period	As of December 31, 2016	As of December 31, 2017
	Amount	Amount
(Liabilities)		
Current liabilities:		
Notes and accounts payable—trade	5,467	6,086
Lease obligations	482	612
Accrued expenses	2,242	2,280
Income taxes payable	965	1,326
Advances received	6,989	7,790
Provision for loss on order received	64	622
Other	3,362	3,232
Total current liabilities	19,573	21,950
Non-current liabilities:		
Lease obligations	748	1,206
Provision for directors' retirement benefits	1	–
Net defined benefit liability	8	15
Asset retirement obligations	840	895
Other	91	135
Total non-current liabilities	1,690	2,252
Total liabilities	21,263	24,203
(Net assets)		
Shareholders' equity:		
Capital stock	8,180	8,180
Capital surplus	15,285	15,285
Retained earnings	21,217	23,897
Treasury stock	(29)	(29)
Total shareholders' equity	44,655	47,334
Accumulated other comprehensive income:		
Valuation difference on available-for-sale securities	74	96
Foreign currency translation adjustments	270	340
Total accumulated other comprehensive income	344	436
Non-controlling interests	27	28
Total net assets	45,027	47,800
Total liabilities and net assets	66,291	72,003

2. Consolidated Statements of Income and Comprehensive Income

[Consolidated Statements of Income]

(Millions of yen; amounts less than one million yen are rounded down.)

Item / Period	Fiscal year ended December 31, 2016 (From January 1, 2016 to December 31, 2016)	**Fiscal year ended December 31, 2017 (From January 1, 2017 to December 31, 2017)**
	Amount	Amount
Net sales	79,783	83,423
Cost of sales	53,656	57,714
Gross profit	26,127	25,708
Selling, general and administrative expenses	19,638	20,219
Operating income	6,488	5,489
Non-operating income:		
Interest and dividend income	39	37
Foreign exchange gains	55	–
Dividends income of insurance	45	42
Subsidy income	43	37
Gain on sales of investment securities	–	55
Miscellaneous income	85	86
Total non-operating income	269	258
Non-operating expenses:		
Interest expenses	17	16
Share of loss of entities accounted for using equity method	2	0
Foreign exchange losses	–	28
Loss on investments in partnership	11	21
Loss on retirement of non-current assets	14	4
Loss on valuation of investment securities	–	30
Miscellaneous loss	6	2
Total non-operating expenses	53	104
Ordinary income	6,704	5,642
Extraordinary income:		
Gain on sales of non-current assets	–	657
Gain on sales of shares of subsidiaries and associates	259	–
Total extraordinary income	259	657
Extraordinary losses:		
Impairment loss	–	33
Total extraordinary losses	–	33
Net income before income taxes	6,964	6,267
Income taxes-current	1,600	1,840
Income taxes-deferred	773	(23)
Total income taxes	2,373	1,817
Net income	4,590	4,450
Net income attributable to non-controlling interests	10	11
Net income attributable to owners of parent	4,580	4,438

[Consolidated Statements of Comprehensive Income]

(Millions of yen; amounts less than one million yen are rounded down.)

Item / Period	Fiscal year ended December 31, 2016 (From January 1, 2016 to December 31, 2016)	**Fiscal year ended December 31, 2017 (From January 1, 2017 to December 31, 2017)**
	Amount	Amount
Net income	4,590	4,450
Other comprehensive income:		
Valuation difference on available-for-sale securities	11	22
Foreign currency translation adjustment	(295)	69
Total other comprehensive loss	(283)	91
Comprehensive income:	4,307	4,542
Comprehensive income attributable to owners of parent	4,296	4,530
Comprehensive income attributable to non-controlling interests	10	11

3. Consolidated Statements of Changes in Net Assets

Year ended December 31, 2016 (from January 1, 2016 to December 31, 2016)

(Millions of yen; amounts less than one million yen are rounded down.)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at the beginning of period	8,180	15,285	17,907	(28)	41,345
Changes of items during the period					
Dividends from surplus			(1,270)		(1,270)
Net income attributable to owners of parent			4,580		4,580
Purchase of treasury stock				(0)	(0)
Net changes of items other than shareholders' equity					
Total changes of items during the period	–	–	3,309	(0)	3,309
Balance at the end of period	8,180	15,285	21,217	(29)	44,655

	Accumulated other comprehensive income			Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Total accumulated other comprehensive income		
Balance at the beginning of period	62	566	628	23	41,997
Changes of items during the period					
Dividends from surplus					(1,270)
Net income attributable to owners of parent					4,580
Purchase of treasury stock					(0)
Net changes of items other than shareholders' equity	11	(295)	(283)	4	(279)
Total changes of items during the period	11	(295)	(283)	4	3,030
Balance at the end of period	74	270	344	27	45,027

Year ended December 31, 2017 (from January 1, 2017 to December 31, 2017)

(Millions of yen; amounts less than one million yen are rounded down.)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at the beginning of period	8,180	15,285	21,217	(29)	44,655
Changes of items during the period					
Dividends from surplus			(1,759)		(1,759)
Net income attributable to owners of parent			4,438		4,438
Purchase of treasury stock					—
Net changes of items other than shareholders' equity					
Total changes of items during the period	–	–	2,679	—	2,679
Balance at the end of period	8,180	15,285	23,897	(29)	47,334

	Accumulated other comprehensive income			Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Total accumulated other comprehensive income		
Balance at the beginning of period	74	270	344	27	45,027
Changes of items during the period					
Dividends from surplus					(1,759)
Net income attributable to owners of parent					4,438
Purchase of treasury stock					—
Net changes of items other than shareholders' equity	22	69	91	1	93
Total changes of items during the period	22	69	91	1	2,772
Balance at the end of period	96	340	436	28	47,800

4. Consolidated Statements of Cash Flows

(Millions of yen; amounts less than one million yen are rounded down.)

Item / Period	Fiscal year ended December 31, 2016 (From January 1, 2016 to December 31, 2016)	**Fiscal year ended December 31, 2017 (From January 1, 2017 to December 31, 2017)**
	Amount	Amount
Cash flows from operating activities:		
Net income before income taxes	6,964	6,267
Depreciation	2,550	2,245
Impairment loss	–	33
Increase (decrease) in allowance for doubtful accounts	–	1
Increase (decrease) in provision for directors' retirement benefits	(2)	(1)
Increase (decrease) in defined benefit liability	8	5
Increase (decrease) in provision for loss on order received	(924)	557
Interest and dividends income	(39)	(37)
Interest expenses	17	16
Share of (profit) loss of entities accounted for using equity method	37	0
Loss (gain) on sales of non-current assets	–	(657)
Loss (gain) on sales of investment securities	–	(55)
Loss (gain) on valuation of investment securities	–	30
Loss (gain) on sales of shares of subsidiaries and associates	(259)	–
Decrease (increase) in notes and accounts receivable-trade	15	(2,524)
Decrease (increase) in inventories	710	(258)
Decrease (increase) in advance payments	(906)	(930)
Increase (decrease) in notes and accounts payable-trade	1,407	602
Increase (decrease) in accrued expenses	(788)	31
Increase (decrease) in advances received	292	788
Increase (decrease) in accrued consumption taxes	166	(149)
Other, net	312	4
Subtotal	9,564	5,970
Interest and dividends income received	41	37
Interest expenses paid	(17)	(16)
Income taxes paid	(1,284)	(1,724)
Net cash provided by (used in) operating activities	8,303	4,265

(Millions of yen; amounts less than one million yen are rounded down.)

Item \ Period	Fiscal year ended December 31, 2016 (From January 1, 2016 to December 31, 2016)	**Fiscal year ended December 31, 2017 (From January 1, 2017 to December 31, 2017)**
	Amount	Amount
Cash flows from investing activities:		
Payments into time deposits	(285)	(279)
Proceeds from withdrawal of time deposits	292	285
Proceeds from redemption of securities	700	–
Purchase of property, plant and equipment	(160)	(753)
Proceeds from sales of property, plant and equipment	–	2,001
Purchases of intangible assets	(1,022)	(1,188)
Payments for asset retirement obligations	(7)	(15)
Purchases of investment securities	(419)	(1,741)
Proceeds from sales of investment securities	18	66
Purchase of shares of subsidiaries and associates	–	(110)
Proceeds from sales of shares of subsidiaries and associates	900	–
Payments for lease and guarantee deposits	(62)	(158)
Proceeds from collection of lease and guarantee deposits	15	41
Other, net	(2)	(3)
Net cash provided by (used in) investing activities	(34)	(1,855)
Cash flows from financing activities:		
Repayments of lease obligations	(715)	(593)
Cash dividends paid	(1,270)	(1,759)
Dividends paid to non-controlling interests	(6)	(10)
Purchase of treasury stock	(0)	–
Net cash provided by (used in) financing activities	(1,991)	(2,363)
Effect of exchange rate change on cash and cash equivalents	(258)	57
Net increase (decrease) in cash and cash equivalents	6,018	105
Cash and cash equivalents at the beginning of period	24,230	30,248
Cash and cash equivalents at the end of period	30,248	30,353

IV. Supplementary Information

Status of Production, Orders and Sales

1. Production

(1) The status of production through the fiscal year ended December 31, 2017 (from January 1, 2017 to December 31, 2017) by business segment is as follows:

(Millions of yen)

Business segment	Production output	YoY
Financial Solutions	16,127	94.2 %
Business Solutions	10,003	97.0 %
Engineering Solutions	5,467	123.0 %
Communication IT	7,880	112.8 %
Total	39,478	101.6 %

(2) The status of production through the fiscal year ended December 31, 2017 (from January 1, 2017 to December 31, 2017) by service category is as follows:

(Millions of yen)

Service category	Production output	YoY
Custom system development	22,529	104.9 %
In-house software add-on development	7,952	91.6 %
Third-party software add-on development	8,996	103.6 %
Total	39,478	101.6 %

Notes:
1. In-house software add-on development and third-party software add-on development includes technical support services.
2. Figures are calculated from sales prices.
3. Figures do not include consumption tax or other additions.

2. Orders

(1) The status of orders through the fiscal year ended December 31, 2017 (from January 1, 2017 to December 31, 2017) by business segment is as follows:

(Millions of yen)

Business segment	Orders received	YoY	Order backlog	YoY
Financial Solutions	16,721	94.4 %	3,569	106.7 %
Business Solutions	9,456	80.4 %	3,068	83.6 %
Engineering Solutions	5,828	132.6 %	1,091	167.8 %
Communication IT	7,849	112.1 %	922	82.4 %
Total	39,856	97.5 %	8,651	98.5 %

(2) The status of orders through the fiscal year ended December 31, 2017 (from January 1, 2017 to December 31, 2017) by service category is as follows:

(Millions of yen)

Service category	Orders received	YoY	Order backlog	YoY
Custom system development	21,921	95.3 %	4,023	87.9 %
In-house software add-on development	8,813	98.6 %	2,791	117.7 %
Third-party software add-on development	9,122	102.1 %	1,836	100.1 %
Total	39,856	97.5 %	8,651	98.5%

Notes:
1. In-house software add-on development and third-party software add-on development include technical support services.
2. Figures do not include consumption tax or other additions.

3. Sales

(1) The status of sales through the fiscal year ended December 31, 2017 (from January 1, 2017 to December 31, 2017) by business segment is as follows:

(Millions of yen)

Business segment	Sales volume	YoY
Financial Solutions	21,413	97.2 %
Business Solutions	17,033	100.4 %
Engineering Solutions	25,530	106.9 %
Communication IT	19,445	115.0 %
Total	83,423	104.6 %

(2) The status of sales through the fiscal year ended December 31, 2017 (from January 1, 2017 to December 31, 2017) by service category is as follows:

(Millions of yen)

Service category	Sales volume	YoY
Consulting services	5,515	101.6 %
Custom system development	22,473	103.9 %
In-house software	14,752	99.7 %
Third-party software	25,077	105.1 %
Outsourcing, operation and maintenance services	8,587	107.1 %
IT equipment sales and others	7,017	115.6 %
Total	83,423	104.6 %

Notes:

1. Figures do not include consumption tax or other additions.
2. Sales to major client and the proportion of total sales are as follows:

(Millions of yen)

Client	Fiscal year ended December 31, 2016 (From January 1, 2016 to December 31, 2016)		Fiscal year ended December 31, 2017 (From January 1, 2017 to December 31, 2017)	
	Amount	Proportion	Amount	Proportion
The Dentsu Group	13,322	16.7 %	15,892	19.0 %