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July 27, 2017

Consolidated Financial Results for the Second Quarter of Fiscal Year Ending December 31, 2017 (Japan GAAP)

Name of Listed Company: Information Services International-Dentsu, Ltd.
Listed Exchange: Tokyo
Code Number: 4812
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Date of scheduled filing of securities report: August 3, 2017
Date of scheduled payment of dividends: September 1, 2017
Quarterly earnings supplementary explanatory documents: Yes
Quarterly earnings presentation: Yes

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

1. Consolidated Business Performance for the Second Quarter of FY2017 (from January 1, 2017 to June 30, 2017)

(1) Consolidated Operating Results (Cumulative)

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

	Net sales		Operating profit (loss)		Ordinary profit (loss)		Profit* (loss)	
	(million yen)	(%)	(million yen)	(%)	(million yen)	(%)	(million yen)	(%)
Second Quarter of FY2017	40,525	2.4	3,133	(6.2)	3,210	(8.9)	2,801	10.8
Second Quarter of FY2016	39,578	—	3,341	—	3,524	—	2,527	—

*Profit attributable to parent company's shareholders.

Note: Comprehensive income: Second Quarter of FY2017: 2,763 million yen (up 41.6%); Second Quarter of FY2016: 1,951 million yen

	Earnings per share	Diluted earnings per share
	(yen)	(yen)
Second Quarter of FY2017	85.97	—
Second Quarter of FY2016	77.57	—

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

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	(million yen)	(million yen)	(%)
As of June 30, 2017	70,074	46,835	66.8
As of December 31, 2016	66,291	45,027	67.9

Ref: Total shareholders' equity: As of June 30, 2017: 46,811 million yen; As of December 31, 2016: 45,000 million yen

2. Dividends

Record date	Dividends per share				
	End of first quarter	End of second quarter	End of third quarter	Fiscal year-end	Full year
	(yen)	(yen)	(yen)	(yen)	(yen)
FY2016	-	21.00	-	29.00	50.00
FY2017	-	25.00			
FY2017 (Forecast)			-	25.00	50.00

Note: Revision to the dividend forecasts from the latest announcement: None

3. Consolidated Forecasts for FY2017 (from January 1, 2017 to December 31, 2017)

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

	Net sales		Operating profit		Ordinary profit		Profit*		EPS
	(million yen)	(%)	(million yen)	(%)	(million yen)	(%)	(million yen)	(%)	(yen)
Full year	84,000	5.3	6,700	3.3	6,737	0.5	4,549	(0.7)	139.63

*Profit attributable to parent company's shareholders.

Note: Revision to the consolidated forecasts from the latest announcement: None

4. Other Items

- (1) Changes in the scope of consolidation for significant subsidiaries during six months (Changes in specified subsidiaries resulting in change in the scope of consolidation): None
- (2) Application of special accounting practices in the preparation of the quarterly consolidated financial statements: None
- (3) Changes in accounting policies, changes in accounting estimates and restatements:
 - i. Changes in accounting policies in accordance with revision of accounting standards: None
 - ii. Changes in accounting policies other than 1) above: None
 - iii. Changes in accounting estimate: None
 - iv. Restatements: None

(4) Issued and outstanding common stock

i. Number of shares issued and outstanding at end of period, including treasury stock:	June 30, 2017:	32,591,240 shares	December 31, 2016:	32,591,240 shares
ii. Number of treasury stock at end of period:	June 30, 2017:	8,470 shares	December 31, 2016:	8,470 shares
iii. Average number of shares outstanding for each period (cumulative quarterly period):	Six months ended June 30, 2017:	32,582,770 shares	Six months ended June 30, 2016:	32,582,810 shares

This quarterly financial report is outside the scope of quarterly review procedures.

Explanation regarding the appropriate use of forecasts of business results

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.

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1. Qualitative Information on the Consolidated Financial Results for the Subject Period

(1) Explanation of Operating Results

(Millions of yen)

	Second quarter of FY2016 (cumulative)	Second quarter of FY2017 (cumulative)	YoY	
			Variance	% change
Net sales	39,578	40,525	947	2.4%
Operating profit	3,341	3,133	(208)	(6.2)%
Operating margin	8.4%	7.7%	(0.7) p	—
Ordinary profit	3,524	3,210	(314)	(8.9)%
Profit attributable to owners of parent	2,527	2,801	274	10.8%

In the second quarter of FY2017 (from January 1, 2017, to June 30, 2017), the Japanese economy continued to drift toward a gradual recovery despite uncertainty about the future due to the Bank of Japan's negative interest rate policy and overseas political and economic instabilities. Even in the information services industry, where there were signs of curtailed investment among some clients, the business environment remained generally favorable due to improved earnings at client companies.

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.”

In the second quarter of the fiscal year under review, net sales were ¥40,525 million (up 2.4% YoY). Although the Financial Solutions segment sales decreased due to the backlash from the completion of large orders and other factors, expansion in other business segments contributed to increased sales.

In terms of profit, lower sales of highly profitable in-house software and third-party software caused the gross profit ratio to decline, while the promotion of research and development activities and the hiring of additional employees caused selling costs and general and administrative expenses to increase, resulting in operating profit of ¥3,133 million (down 6.2% YoY) and ordinary profit of ¥3,210 million (down 8.9% YoY), both of which declined compared to the previous fiscal year. At the same time, profit attributable to owners of parent was ¥2,801 million (up 10.8% YoY) due to extraordinary income from sales of property, plant and equipment and other factors.

Regarding the FY2017 full-year earnings forecast, net sales, operating profit and ordinary profit are all on track to achieve the established targets.

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

Net Sales and Operating Profit (Loss) by Business Segment

(Millions of yen)

Business segment	Second quarter of FY2016 (cumulative)		Second quarter of FY2017 (cumulative)		YoY	
	Net sales	Operating profit	Net Sales	Operating profit	Net Sales	Operating profit
		Operating margin		Operating margin		
Financial Solutions	10,994	924 8.4%	10,542	977 9.3%	(452)	53
Business Solutions	8,035	861 10.7%	8,960	399 4.5%	925	(462)
Engineering Solutions	12,224	485 4.0%	12,337	662 5.4%	113	177
Communications IT	8,323	1,070 12.9%	8,683	1,094 12.6%	360	24
Total	39,578	3,341 8.4%	40,525	3,133 7.7%	947	(208)

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 second quarter of FY2017, despite continued caution among financial institutions regarding all types of IT investment amid negative interest rate policies, the acquisition of regulatory compliance, risk management and other system development projects maintained custom system development sales at the same level as in the previous fiscal year. However, the conclusion of a large BANK・R next-generation financing solution project caused in-house software sales to decrease substantially, resulting in lower segment sales. At the same time, profit increased due to the improved profitability of custom system development.

Business Solutions

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

In the second quarter, in addition to expansion in custom system development mainly in the transport industry, sales of in-house software including consolidated accounting solution STRAVIS and human resources management solution POSITIVE, as well as SAP and other third-party software were solid, resulting in increased segment sales. At the same time, profit declined due to the impact of some low-profit projects in addition to higher expenses stemming from research and development costs and higher personnel expenses in line with the hiring of additional employees.

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 second quarter, sales of conceptual design solution iQUAVIS supporting the realization of model-based development (MBD) and 3D CAD NX were strong, resulting in increased segment sales. In terms of profit, in addition to the effect of higher sales, profit increased due to the improved profitability of third-party software and expense reductions.

Communications 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 second quarter, although business based on collaboration with the Dentsu Group declined mainly due to a peak in large projects, expansion centered on IT equipment sales to the Dentsu Group caused segment sales to increase. 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	Second quarter of FY2016 (cumulative)		Second quarter of FY2017 (cumulative)		YoY
	Net sales	% of sales	Net Sales	% of sales	
Consulting services	2,668	6.7%	2,814	7.0%	146
Custom system development	10,396	26.3%	10,974	27.1%	578
In-house software	7,437	18.8%	7,312	18.0%	(125)
Third-party software	12,436	31.4%	12,354	30.5%	(82)
Outsourcing, operation and maintenance services	3,793	9.6%	3,906	9.6%	113
IT equipment sales and others	2,845	7.2%	3,163	7.8%	318
Total	39,578	100.0%	40,525	100.0%	947

Status of Business Operations by Service Category

Consulting services

This service category is consulting for business operations and IT.

In the second quarter of FY2017, 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 second quarter, sales increased due to expanded sales mainly to 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 second quarter, although consolidated accounting solution STRAVIS, human resources management solution POSITIVE and conceptual design solution iQUAVIS performed favorably, sales declined due to the 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 second quarter, despite favorable performance in SAP and other mission critical system fields, as well as 3D CAD NX and other design development fields, sales declined slightly due to a decrease on system development projects using the Force.com cloud platform in business based on collaboration with the Dentsu Group.

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 second quarter, 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 second quarter, sales increased due to expanded sales to the Dentsu Group.

(2) Explanation of Financial Position

i. Assets

At the end of the second quarter of FY2017, total assets amounted to ¥70,074 million, up ¥3,783 million from ¥66,291 million at the end of the previous fiscal year. Current assets increased ¥3,635 million, due mainly to an increase in advance payments-trade and deposit paid, while notes and accounts receivable-trade decreased. Non-current assets rose ¥148 million, because of a higher investment securities, while property, plant and equipment decreased.

ii. Liabilities

At the end of the second quarter, total liabilities amounted to ¥23,238 million, up ¥1,975 million from ¥21,263 million at the end of the previous fiscal year. Current liabilities increased ¥1,759 million, due mainly to an increase in advances received, while accrued consumption taxes decreased. Non-current liabilities rose ¥216 million due mainly to an increase in lease obligations and asset retirement obligations.

iii. Net assets

At the end of the second quarter, total net assets amounted to ¥46,835 million, up ¥1,808 million from ¥45,027 million at the end of the previous fiscal year, due mainly to an increase in retained earnings, while accumulated other comprehensive income fell.

(3) Explanation of Consolidated Financial Results Forecasts

The first half results of FY2017 was essentially in line with our plans. Accordingly, we maintain unchanged our forecasts for the full fiscal year, as announced on February 9, 2017.

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. 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 June 30, 2017
		Amount	Amount
(Assets)			
Current assets:			
Cash and deposits		3,316	3,176
Notes and accounts receivable-trade		16,154	15,352
Merchandise and finished goods		36	20
Work in process		1,119	1,330
Raw materials and supplies		29	22
Advance payments-trade		5,617	8,294
Deposit paid		27,218	28,843
Other		1,554	1,640
Total current assets		55,046	58,681
Non-current assets:			
Property, plant and equipment		3,469	2,557
Intangible assets		2,999	2,965
Investments and other assets:			
Investments and other assets		4,776	5,870
Allowance for doubtful accounts		(1)	(1)
Total investments and other assets		4,775	5,869
Total non-current assets		11,244	11,392
Total assets		66,291	70,074

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

Item	Period	As of December 31, 2016	As of June 30, 2017
		Amount	Amount
(Liabilities)			
Current liabilities:			
Notes and accounts payable—trade		5,467	5,672
Income taxes payable		965	997
Advances received		6,989	9,129
Provision for loss on order received		64	162
Provision for business structure improvement		25	—
Asset retirement obligations		—	2
Other		6,060	5,368
Total current liabilities		19,573	21,332
Non-current liabilities:			
Provision for directors' retirement benefits		1	—
Net defined benefit liability		8	8
Asset retirement obligations		840	883
Other		839	1,013
Total noncurrent liabilities		1,690	1,906
Total liabilities		21,263	23,238
(Net assets)			
Shareholders' equity:			
Capital stock		8,180	8,180
Capital surplus		15,285	15,285
Retained earnings		21,217	23,073
Treasury stock		(29)	(29)
Total shareholders' equity		44,655	46,511
Accumulated other comprehensive income:			
Valuation difference on available-for-sale securities		74	79
Foreign currency translation adjustments		270	220
Total accumulated other comprehensive income		344	300
Non-controlling interests		27	24
Total net assets		45,027	46,835
Total liabilities and net assets		66,291	70,074

(2) Consolidated Statements of Income and Consolidated Statements of Comprehensive Income

[Consolidated Statements of Income]

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

Item	Period	Second Quarter of FY2016 (From January 1, 2016 to June 30, 2016)	Second Quarter of FY2017 (From January 1, 2017 to June 30, 2017)
		Amount	Amount
Net sales		39,578	40,525
Cost of sales		26,551	27,513
Gross profit		13,026	13,011
Selling, general and administrative expenses		9,685	9,878
Operating profit		3,341	3,133
Non-operating income:			
Interest and dividend income		24	19
Share of profit of entities accounted for using equity method		—	0
Foreign exchange gains		50	—
Dividends income of insurance		44	42
Subsidy income		42	23
Miscellaneous income		44	21
Total non-operating income		206	106
Non-operating expenses:			
Interest expenses		10	8
Share of loss of entities accounted for using equity method		7	—
Foreign exchange losses		—	10
Loss on investments in partnership		—	8
Miscellaneous loss		6	1
Total non-operating expenses		23	28
Ordinary profit		3,524	3,210
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
Profit before income taxes		3,784	3,868
Income taxes-current		915	993
Income taxes-deferred		336	67
Total income taxes		1,252	1,061
Profit		2,532	2,807
Profit attributable to non-controlling interests		4	6
Profit attributable to owners of parent		2,527	2,801

[Consolidated Statements of Comprehensive Income]

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

Item	Period	Second Quarter of FY2016 (From January 1, 2016 to June 30, 2016)	Second Quarter of FY2017 (From January 1, 2017 to June 30, 2017)
		Amount	Amount
Profit		2,532	2,807
Other comprehensive income:			
Valuation difference on available-for-sale securities		(35)	4
Foreign currency translation adjustment		(545)	(49)
Total other comprehensive loss		(580)	(44)
Comprehensive income:		1,951	2,763
Comprehensive income attributable to owners of parent		1,946	2,756
Comprehensive income attributable to non-controlling interests		4	6

(3) Notes on Quarterly Consolidated Financial Statement

[Notes regarding Assumption of a Going Concern]

Not applicable

[Notes on Significant Changes in Shareholders' Equity]

Not applicable

[Application of Special Accounting Practices in the Preparation of the Consolidated Financial Statement]

Not applicable

[Changes in Accounting Policies]

Not applicable

[Changes in Accounting Estimates]

Not applicable

[Segment Information]

i. The second quarter cumulative period (from January 1, 2016 to June 30, 2016)

Sales and Profit (Loss) by Reportable Segment

(Millions of yen)

	Business Segment				
	Financial Solutions	Business Solutions	Engineering Solutions	Communications IT	Total
Net sales					
Sales to customers	10,994	8,035	12,224	8,323	39,578
Inter-segment sales and transfers	—	—	—	—	—
Total	10,994	8,035	12,224	8,323	39,578
Segment profit (loss)	924	861	485	1,070	3,341

Note: Total values for segment earnings match those for the operating profit on the “Consolidated Statements of Income.”

ii. The second quarter cumulative period (from January 1, 2017 to June 30, 2017)

Sales and Profit (Loss) by Reportable Segment

(Millions of yen)

	Business Segment				
	Financial Solutions	Business Solutions	Engineering Solutions	Communications IT	Total
Net sales					
Sales to customers	10,542	8,960	12,337	8,683	40,525
Inter-segment sales and transfers	—	—	—	—	—
Total	10,542	8,960	12,337	8,683	40,525
Segment profit (loss)	977	399	662	1,094	3,133

Note: Total values for segment earnings match those for the operating income on the “Consolidated Statements of Income.”

3. Supplementary Information

Status of Production, Orders and Sales

(1) Production

- i. The status of production through the second quarter cumulative period (from January 1, 2017 to June 30, 2017) by business segment is as follows:

(Millions of yen)

Business segment	Production output	YoY
Financial Solutions	7,620	91.9%
Business Solutions	5,222	111.8%
Engineering Solutions	2,552	114.2%
Communications IT	3,656	94.0%
Total	19,051	99.8%

- ii. The status of production through the second quarter cumulative period (from January 1, 2017 to June 30, 2017) by service category is as follows:

(Millions of yen)

Service category	Production output	YoY
Custom system development	10,680	103.3%
In-house software add-on development	3,891	90.1%
Third-party software add-on development	4,480	101.2%
Total	19,051	99.8%

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

- i. The status of orders through the second quarter cumulative period (from January 1, 2017 to June 30, 2017) by business segment is as follows:

(Millions of yen)

Business segment	Orders received	YoY	Order backlog	YoY
Financial Solutions	8,385	90.4%	3,658	102.8%
Business Solutions	4,477	76.4%	2,835	82.1%
Engineering Solutions	2,871	133.3%	1,028	176.0%
Communications IT	4,759	98.8%	2,198	101.8%
Total	20,493	92.7%	9,720	99.6%

- ii. The status of orders through the second quarter cumulative period (from January 1, 2017 to June 30, 2017) by service category is as follows:

(Millions of yen)

Service category	Orders received	YoY	Order backlog	YoY
Custom system development	11,840	88.7%	5,441	88.4%
In-house software add-on development	3,858	95.1%	2,231	117.9%
Third-party software add-on development	4,794	101.7%	2,047	119.5%
Total	20,493	92.7%	9,720	99.6%

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

- i. The status of sales through the second quarter cumulative period (from January 1, 2017 to June 30, 2017) by business segment is as follows:

(Millions of yen)

Business segment	Sales volume	YoY
Financial Solutions	10,542	95.9%
Business Solutions	8,960	111.5%
Engineering Solutions	12,337	100.9%
Communications IT	8,683	104.3%
Total	40,525	102.4%

- ii. The status of sales through the first quarter cumulative period (from January 1, 2017 to June 30, 2017) by service category is as follows:

(Millions of yen)

Service category	Sales volume	YoY
Consulting services	2,814	105.5%
Custom system development	10,974	105.6%
In-house software	7,312	98.3%
Third-party software	12,354	99.3%
Outsourcing, operation and maintenance services	3,906	103.0%
IT equipment sales and others	3,163	111.2%
Total	40,525	102.4%

Notes:

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

(Millions of yen)

Client	Second Quarter of FY2016 (From January 1, 2016 to June 30, 2016)		Second Quarter of FY2017 (From January 1, 2017 to June 30, 2017)	
	Amount	Proportion	Amount	Proportion
Dentsu, Inc.	5,369	13.6%	5,357	13.2%