

October 31, 2016

Consolidated Financial Results for the Third Quarter of Fiscal Year Ending December 31, 2016 (JapanGAAP)

Name of Listed Company: Information Services International-Dentsu, Ltd.
Listed Exchange: Tokyo
Code Number: 4812
URL: <http://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 scheduled filing of securities report: November 4, 2016
Date of scheduled payment of dividends: --
Quarterly earnings supplementary explanatory documents: Yes
Quarterly earnings presentation: No

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

1. Consolidated Business Performance for the Third Quarter of FY2016 (from January 1, 2016 to September 30, 2016)

(1) Consolidated Operating Results (Cumulative)

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

	Net sales		Operating income (loss)		Ordinary income (loss)		Net income (loss)*	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Third Quarter of FY2016	57,797	-	4,394	-	4,608	-	3,208	-
Third Quarter of FY2015	-	-	-	-	-	-	-	-

(Note) Comprehensive income: Third Quarter of FY2016: 2,577 million yen; Third Quarter of FY2015: - million yen

	Net income (loss) per share	Net income per share after dilution
	Yen	Yen
Third Quarter of FY2016	98.49	-
Third Quarter of FY2015	-	-

(Note) The Company has revised the business year-end from March 31 to December 31 from fiscal year 2015. Accordingly, year-on-year percentage changes for the first three quarters of the fiscal year ending December 31, 2016 and consolidated operating results (cumulative) for the first three quarters of the fiscal year ended December 31, 2015 are omitted, as the Company did not prepare consolidated financial statements for the first three quarters of the fiscal year ended December 31, 2015.

Ref: The percentages below are percentage changes from the results of the same 9 months of the previous year (from January 1, 2015 to September 30, 2015).

Net sales		Operating income		Ordinary income		Net income *		Comprehensive income	
(million yen)	(%)	(million yen)	(%)	(million yen)	(%)	(million yen)	(%)	(million yen)	(%)
57,797	(7.1)	4,394	(15.0)	4,608	(19.9)	3,208	13.2	2,577	(22.5)

*Net income attributable to parent company's shareholders.

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
As of September 30, 2016	63,303	43,298	68.4
As of December 31, 2015	63,115	41,997	66.5

Ref: Total shareholders' equity: As of September 30, 2016: 43,273 million yen; As of December 31, 2015: 41,974 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
FY2015	-	14.00	-	18.00	32.00
FY2016	-	21.00	-		
FY2016 (Forecast)				21.00	42.00

(Note) Revision to the dividend forecasts from the latest announcement: No

3. Consolidated Forecasts for FY2016 (from January 1, 2016 to December 31, 2016)

Percentages indicate year-on-year increase (decrease)

	Net sales		Operating income		Ordinary income		Net income *		EPS
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	yen
FY2016	82,013	-	5,700	-	5,873	-	3,871	-	118.82

(Note) Revision to the consolidated forecasts from the latest announcement: No

(Note) The Company has revised the business year-end from March 31 to December 31 from fiscal year 2015 which consolidated period has been nine months from April 1 to December 31, 2015. Accordingly, year-on-year percentage changes are omitted.

Ref: The percentages below are percentage changes from the results of the same 12 months of the previous year (from January 1, 2015 to December 31, 2015)..

	Net sales		Operating income		Ordinary income		Net income	
	(million yen)	(%)	(million yen)	(%)	(million yen)	(%)	(million yen)	(%)
FY 2016	82,013	0.9	5,700	3.1	5,873	(5.7)	3,871	(14.1)

4. Other Items

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

4. Issued and outstanding common stock

1) Number of shares issued and outstanding at end of period, including treasury stock:	September 30, 2016:	32,591,240 shares	December 31, 2015:	32,591,240 shares
2) Number of treasury stock at end of period:	September 30, 2016:	8,430 shares	December 31, 2015:	8,430 shares
3) Average number of shares outstanding for each period (cumulative quarterly period):	Nine months ended September 30, 2016:	32,582,810 shares	Nine months ended September 30, 2015:	- shares

The Company has revised the business year-end from March 31 to December 31 from fiscal year 2015. Accordingly, average number of shares outstanding for the first three quarters of the fiscal year ended December 31, 2015 is omitted, as the Company did not prepare consolidated financial statements for the first three quarters of the fiscal year ended December 31, 2015.

Indication regarding the status of quarterly review procedures

These financial statements are not subject to quarterly review procedures under the Financial Instruments and Exchange Act. The review of these financial statements in accordance with the Financial Instruments and Exchange Act had not been completed at the time of disclosure.

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.

Index of the Attachment

1. Qualitative Information on the Results for the Subject Period

(1) Qualitative Information on Consolidated Results.....	2
(2) Qualitative Information on Consolidated Results Forecasts.....	5

2. Matters Regarding Summary Information (Other)

(1) Significant Changes in Subsidiaries during the Subject Period.....	5
(2) Application of Special Accounting Practices in the Preparation of the Consolidated Financial Statements.....	5
(3) Changes in Accounting Policies, Changes in Accounting Estimates, Restatements.....	5

3. Consolidated Financial Statements

(1) Consolidated Balance Sheets.....	6
(2) Consolidated Statements of Income and Consolidated Statements of Comprehensive Income (Consolidated Statements of Income).....	8
(Consolidated Statements of Comprehensive Income).....	9
(3) Notes regarding Assumption of a Going Concern.....	10
(4) Notes on Significant Changes in Shareholders' Equity.....	10
(5) Segment Information.....	10

4. Supplementary Information

Status of Production, Orders and Sales.....	11
---	----

1. Qualitative Information on the Results for the Subject Period

(1) Qualitative Information on Consolidated Results

In the third quarter cumulative period of FY 2016 (January 1, 2016 to September 30, 2016), from July the Japanese economy generally progressed in the same manner as during the first half of the year. The economy remained in a phase of modest recovery against a backdrop of improvements in the employment and income environment, but business sentiment remained cautious, affected by sluggish growth in personal consumption and the impact of yen appreciation on manufacturing exports. In the information services industry, the trend toward firm investment in IT as a strategic domain was largely unchanged. Nevertheless the business outlook remains opaque, due to concerns about the potential impact on corporate earnings of such factors as the growing overseas economic uncertainty and introduction of negative interest rates.

Amid such conditions, the ISID Group launched ISID Open Innovation 2018 “Joint Value Creation,” a medium-term management plan covering a three-year period starting from FY2016. In addition to initiatives aimed at further strengthening solutions at each of our four business segments, the plan focuses on three strategic domains: “global,” “IoT/big data,” and “2020 and beyond,” and targets greater diversification and expanded earnings.

During the nine months ended September 30, 2016, consolidated net sales fell 7.1% year on year, to ¥57,797 million. Sales increased in the Business Solutions segments, but declined in the Financial Solutions, Engineering Solutions and Communications IT segments.

On the earnings front, gross profit slipped 1.4% year on year, to ¥18,828 million, due to lower net sales, although the gross profit margin improved, centered on in-house software and customer system development. On the cost front, selling, general and administrative (SG&A) expenses rose in tandem with an increase in personnel. As a result, operating income decreased 15.0%, to ¥4,394 million, and ordinary income dropped 19.9%, to ¥4,608 million. Even so, profit attributable to owners of parent rose 13.2%, to ¥3,208 million, reflecting the absence of a business structure improvement expenses posted as an extraordinary loss in the same period of the previous year in relation to the cessation of data center service provision.

Performance is progressing broadly in accordance with the operating performance forecast announced on February 9, 2016.

Note: In the previous fiscal period (April 1, 2015–December 31, 2015), the Company changed its fiscal year-end from March 31 to December 31.

Accordingly, the analysis of business results shown here compares figures with the same nine months of the previous year (January 1, 2015 to September 30, 2015). We have also revised our reportable segments, dividing the Enterprise Solutions segment into the Business Solutions and Engineering Solutions segments. As a result, the Company has four reportable segments: Financial Solutions, Business Solutions, Engineering Solutions and Communications IT. Figures for the same nine months of the previous year have been retroactively adjusted to conform to the new categories.

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	The same nine months of the previous year (From January 1, 2015 to September 30, 2015)		Third quarter of FY2016 (From January 1, 2016 to September 30, 2016)		YoY	
	Net sales	Operating income	Net Sales	Operating income	Net Sales	Operating income
	% of sales		% of sales			
Financial Solutions	18,680	2,262	16,135	1,454	(2,545)	(808)
	30.0%		27.9%			
Business Solutions	11,456	(165)	12,269	1,226	813	1,391
	18.4%		21.2%			
Engineering Solutions	18,505	925	17,606	495	(899)	(430)
	29.7%		30.5%			
Communications IT	13,594	2,145	11,786	1,218	(1,808)	(927)
	21.9%		20.4%			
Total	62,237	5,168	57,797	4,394	(4,440)	(774)

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.

During the nine months under review, sales and income both decreased in this segment. Although sales increased for BANK・R, our next-generation financing solution, custom system development for mega-banks declined.

Business Solutions

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

During the nine months under review, the amount of custom system development project sales to major customers increased, and the provision of solutions that support accounting expanded, centering on the STRAVIS consolidated accounting solution, resulting in higher sales and income.

Engineering Solutions

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

During the nine months under review, both the provision of consulting services to support the introduction of MBD^{*1} and sales of the iQUAVIS conceptual design solution increased. In addition, our provision of consulting services targeting testing and analysis operations expanded, mainly to the automotive industry. However, the drop in sales of the NX 3D CAD solution and the Teamcenter product lifecycle management (PLM) solution led to decreases in both sales and income.

^{*} Model-based development (MBD): Avoiding production of actual first stage prototypes as far as possible, MBD is a top-down product development approach that utilizes statistical data from experiments and mathematical formulae describing physical phenomena to construct virtual “models” that can be used in product development. This design method, which is prompting a major revolution in manufacturing, is currently in use primarily in the automotive industry.

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.

During the nine months under review, business in collaboration with the Dentsu Group was on a par with the previous year's level, but sales and profits declined due to a pullback in demand owing to the completion of large-scale backbone system projects for the Dentsu Group.

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

Net Sales by Service Category

(Millions of yen)

Service category	The same nine months of the previous year (From January 1, 2015 to September 30, 2015)		Third quarter of FY2016 (From January 1, 2016 to September 30, 2016)		YoY
	Net sales	% of sales	Net Sales	% of sales	
Consulting services	3,751	6.0%	3,808	6.6%	57
Custom system development	18,067	29.0%	15,545	26.9%	(2,522)
In-house software	10,938	17.6%	10,867	18.8%	(71)
Third-party software	18,732	30.1%	17,848	30.9%	(884)
Outsourcing, operation and maintenance services	5,676	9.1%	5,591	9.7%	(85)
IT equipment sales and others	5,072	8.2%	4,136	7.1%	(936)
Total	62,237	100.0%	57,797	100.0%	(4,440)

Note: "Consulting services" is consulting for business operations and IT. "Custom system development" is the building and maintenance of IT systems based on individual client specifications. "In-house software" is the sale of software developed internally, including add-on development, technical support and maintenance service. "Third-party software" is the sale of software purchased from other companies, including add-on development, technical support and maintenance service. "Outsourcing, operation and maintenance services" is the operation, maintenance, support for client IT systems, as well as business services on a contract basis. "IT equipment sales and others" is the sales and maintenance of hardware, as well as databases, middleware and other types of software and services.

Status of Business Operations by Service Category

Consulting services

Sales in this service category increased because of increased demand for consulting services to support the introduction of MBD for the automotive industry, and for experiment and analysis operations.

Custom system development

Sales in this service category declined due to a pullback owing to the completion of large-scale projects for megabanks, and a decrease in projects for the Dentsu Group.

In-house software

Sales increased for BANK・R, our next-generation financial solution; the iQUAVIS conceptual design solution; and the STRAVIS consolidated accounting solution. However, sales declined for Stream-R, our Bank of Japan settlement liquidity management system, causing sales of these services to remain flat year on year.

Third-party software

Sales in this service category fell, as despite increased demand for Oracle-EBS, sales for NX 3D CAD software and the Teamcenter product lifecycle management (PLM) solution for design and development field shrank.

Outsourcing, operation and maintenance services

Sales in this product category were flat year on year, centered on the Dentsu Group.

IT equipment sales and others

Sales in this category decreased, primarily due to lower sales to the financial sector, the manufacturing industry and the Dentsu Group.

(2) Qualitative Information on Consolidated Results Forecasts

Operating performance during the nine months under review was generally in line with our forecasts. Accordingly, we maintain unchanged our full-year forecasts from the figures announced on February 9, 2016.

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. Matters Regarding Summary Information (Other)

(1) Significant Changes in Subsidiaries during the Subject Period

Not applicable

(2) Application of Special Accounting Practices in the Preparation of the Consolidated Financial Statements

Not applicable

(3) Changes in Accounting Policies, Changes in Accounting Estimates, Restatements

Changes in Accounting Policies

(Application of a Practical Solution on a change in depreciation method due to Tax Reform 2016)

In accordance with revisions to the Corporate Tax Act, the Company has applied the “Practical Solution on a change in depreciation method due to Tax Reform 2016” (ASBJ Practical Task Force (PITF) Solution No. 32, June 17, 2016) during the second quarter of the fiscal year under review, and has changed the method for the depreciation of facilities attached to buildings and structures, effective April 1, 2016, from the declining-balance method to the straight-line method.

This change will have a negligible impact on the Company’s earnings.

3. Consolidated Financial Statements

(1) Consolidated Balance Sheets

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

Item	Period	As of December 31, 2015	As of September 30, 2016
		Amount	Amount
(Assets)			
Current assets:			
Cash and deposits		3,430	2,911
Notes and accounts receivable-trade		16,202	12,825
Short Term Investment Securities		700	—
Merchandise and finished goods		71	91
Work in process		1,815	1,825
Raw materials and supplies		23	28
Advance payments-trade		4,716	6,229
Deposit paid		20,955	26,289
Other		2,266	2,088
Total current assets		50,181	52,288
Noncurrent assets:			
Property, plant and equipment		3,954	3,476
Intangible assets		3,655	2,997
Investments and other assets:			
Investments and other assets		5,325	4,541
Allowance for doubtful accounts		(1)	(1)
Total investments and other assets		5,324	4,540
Total noncurrent assets		12,934	11,014
Total assets		63,115	63,303

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

Item	Period	As of December 31, 2015	As of September 30, 2016
		Amount	Amount
(Liabilities)			
Current liabilities:			
Notes and accounts payable—trade		4,094	4,212
Income taxes payable		630	752
Advances received		6,738	7,237
Provision for loss on order received		989	25
Provision for business structure improvement		103	57
Asset retirement obligations		—	7
Other		6,636	6,059
Total current liabilities		19,192	18,353
Noncurrent liabilities:			
Provision for directors’ retirement benefits		3	1
Provision for business structure improvement		18	—
Asset retirement obligations		818	835
Other		1,085	814
Total noncurrent liabilities		1,926	1,651
Total liabilities		21,118	20,004
(Net assets)			
Shareholders’ equity:			
Capital stock		8,180	8,180
Capital surplus		15,285	15,285
Retained earnings		17,907	19,846
Treasury stock		(28)	(28)
Total shareholders’ equity		41,345	43,283
Accumulated other comprehensive income:			
Valuation difference on available-for-sale securities		62	39
Foreign currency translation adjustments		566	(49)
Total accumulated other comprehensive income		628	(9)
Non-controlling interests		23	24
Total net assets		41,997	43,298
Total liabilities and net assets		63,115	63,303

(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	Third Quarter of FY2016 (From January 1, 2016 to September 30, 2016)
		Amount
Net sales		57,797
Cost of sales		38,968
Gross profit		18,828
Selling, general and administrative expenses		14,434
Operating income		4,394
Non-operating income:		
Interest income		26
Dividends income		4
Foreign exchange gains		67
Dividends income of insurance		44
Reversal of provision for business structure improvement		26
Miscellaneous income		76
Total non-operating income		246
Non-operating expenses:		
Interest expenses		14
Equity in losses of affiliates		4
Miscellaneous loss		14
Total non-operating expenses		32
Ordinary income		4,608
Extraordinary income:		
Gain on sales of investment in subsidiaries and affiliates		259
Total extraordinary income		259
Income before income taxes		4,868
Income taxes-current		1,436
Income taxes-deferred		215
Total income taxes		1,651
Net income		3,216
Profit attributable to non-controlling interests		7
Profit attributable to owners of parent		3,208

(Consolidated Statements of Comprehensive Income)

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

Item	Period	Third Quarter of FY2016 (From January 1, 2016 to September 30, 2016)
		Amount
Net income		3,216
Other comprehensive loss:		
Valuation difference on available-for-sale securities		(22)
Foreign currency translation adjustment		(616)
Total other comprehensive loss		(638)
Comprehensive income:		2,577
Comprehensive income attributable to owners of the parent		2,570
Comprehensive income attributable to non-controlling interests		7

(3) Notes regarding Assumption of a Going Concern

Not applicable

(4) Notes on Significant Changes in Shareholders' Equity

Not applicable

(5) Segment Information

Sales and Earnings (or Loss) by Reportable Segment

The third quarter cumulative period (from January 1, 2016 to September 30, 2016)

(Millions of yen)

	Business Segment				
	Financial Solutions	Business Solutions	Engineering Solutions	Communications IT	Total
Net sales					
Sales to customers	16,135	12,269	17,606	11,786	57,797
Inter-segment sales and transfers	—	—	—	—	—
Total	16,135	12,269	17,606	11,786	57,797
Segment income (loss)	1,454	1,226	495	1,218	4,394

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

4. Supplementary Information

Status of Production, Orders and Sales

In the previous fiscal period (April 1, 2015–December 31, 2015), the Company changed its fiscal year-end from March 31 to December 31. Accordingly, the indicated year-on-year comparisons of business performance are with the corresponding period of the previous year (from January 1, 2015 to September 30, 2015).

(1) Production

- i. The status of production through the third quarter cumulative period (from January 1, 2016 to September 30, 2016) by business segment is as follows:

Business segment	Production output (Millions of yen)	YoY (%)
Financial Solutions	12,868	94.7
Business Solutions	7,394	112.5
Engineering Solutions	3,342	99.5
Communications IT	5,302	83.2
Total	28,908	96.7

- ii. The status of production through the third quarter cumulative period (from January 1, 2016 to September 30, 2016) by service category is as follows:

Service category	Production output (Millions of yen)	YoY (%)
Custom system development	15,871	91.2
In-house software add-on development	6,475	106.3
Third-party software add-on development	6,561	102.6
Total	28,908	96.7

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 third quarter cumulative period (from January 1, 2016 to September 30, 2016) by business segment is as follows:

Business segment	Orders received (Millions of yen)	YoY (%)	Order backlog (Millions of yen)	YoY (%)
Financial Solutions	13,417	101.5	3,691	141.3
Business Solutions	9,259	171.7	4,167	188.1
Engineering Solutions	3,236	102.1	702	181.9
Communications IT	5,757	90.6	1,660	93.5
Total	31,670	112.6	10,222	146.2

- ii. The status of orders through the third quarter cumulative period (from January 1, 2016 to September 30, 2016) by service category is as follows:

Service category	Orders received (Millions of yen)	YoY (%)	Order backlog (Millions of yen)	YoY (%)
Custom system development	17,998	107.3	5,656	148.0
In-house software add-on development	6,843	129.0	2,632	134.3
Third-party software add-on development	6,829	112.7	1,933	160.0
Total	31,670	112.6	10,222	146.2

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 third quarter cumulative period (from January 1, 2016 to September 30, 2016) by business segment is as follows:

Business segment	Sales volume (Millions of yen)	YoY (%)
Financial Solutions	16,135	86.4
Business Solutions	12,269	107.1
Engineering Solutions	17,606	95.1
Communications IT	11,786	86.7
Total	57,797	92.9

- ii. The status of sales through the third quarter cumulative period (from January 1, 2016 to September 30, 2016) by service category is as follows:

Service category	Sales volume (Millions of yen)	YoY (%)
Consulting services	3,808	101.5
Custom system development	15,545	86.0
In-house software	10,867	99.4
Third-party software	17,848	95.3
Outsourcing, operation and maintenance services	5,591	98.5
IT equipment sales and others	4,136	81.5
Total	57,797	92.9

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:

Client	The same nine months of the previous year (From January 1, 2015 to September 30, 2015)		Third Quarter of FY2016 (From January 1, 2016 to September 30, 2016)	
	Amount (Millions of yen)	Proportion (%)	Amount (Millions of yen)	Proportion (%)
Dentsu, Inc.	9,001	14.5	7,324	12.7