

October 31, 2014

Consolidated Financial Results for the Second Quarter of Fiscal Year Ending March 31, 2015 (JapanGAAP)

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Listed Exchange: Tokyo
Code Number: 4812
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Date of scheduled filing of securities report: November 7, 2014
Date of scheduled payment of dividends: December 5, 2014
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 FY2014 (from April 1, 2014 to September 30, 2014)

(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	%
Second Quarter of FY2014	35,823	2.1	872	(30.2)	981	(34.8)	534	(42.6)
Second Quarter of FY2013	35,087	3.6	1,249	(15.4)	1,505	(6.5)	931	(1.6)

(Note) Comprehensive income: Second Quarter of FY2014: 827 million yen; Second Quarter of FY2013: 7 million yen

	Net income (loss) per share	Net income per share after dilution
	Yen	Yen
Second Quarter of FY2014	16.41	-
Second Quarter of FY2013	28.59	-

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
As of September 30, 2014	60,228	39,292	65.2
As of March 31, 2014	58,877	38,864	66.0

(Reference) Total shareholders' equity: As of September 30, 2014: 39,271 million yen; As of March 31, 2014: 38,838 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
Fiscal year ended March 31, 2014	-	10.00	-	12.00	22.00
Fiscal year ending March 31, 2015	-	12.00			
Fiscal year ending March 31, 2015 (Forecast)			-	12.00	24.00

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

3. Consolidated Forecasts for FY2014 (from April 1, 2014 to March 31, 2015)

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
FY 2014	76,200	3.0	4,500	4.4	4,670	(2.0)	2,960	3.1	90.85

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

4. Other Items

- Changes in the scope of consolidation for significant subsidiaries during three 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: None
 - 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, 2014:	32,591,240 shares	March 31, 2014:	32,591,240 shares
2) Number of treasury stock at end of period:	September 30, 2014:	8,370 shares	March 31, 2014:	8,350 shares
3) Average number of shares outstanding for each period (cumulative quarterly period):	Six months ended September 30, 2014:	32,582,873 shares	Six months ended September 30, 2013:	32,583,079 shares

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.

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1. Qualitative Information on the Results for the Subject Period

(1) Qualitative Information on Consolidated Results

The Japanese economy in the second quarter cumulative period of FY 2014 (April 1, 2014 to September 30, 2014) continued on a moderate recovery trend on the effects of government-led economic policy, but signs of weakness appeared in certain areas, including prolongation of the rebound decline in demand following the surge preceding the consumption tax hike, and the risk of downturn in overseas economies. In the information services industry, IT investment showed signs of an upward trend centered on the expanding manufacturing industry, but the outlook is increasingly clouded as corporate earnings appear to be leveling off, with increasing wariness in business sentiment.

Amid such conditions, the ISID Group formulated “ISID Open Innovation 2016—Progress to the Future,” a new three-year medium-term management plan starting from the subject fiscal year, announced on May 12, 2014. The new plan continues the principle of “joint value creation,” aiming to help resolve the issues faced by customers and society by creating new value through collaboration with various partners. We will undertake activities in line with the three basic policies of “Pursue competitive advantages,” “Develop new business fields,” and “Enhance human resources,” in an effort to further differentiate our services, and expand our earnings.

Consolidated net sales for the subject second quarter cumulative period amounted to ¥35,823 million (up 2.1% from the same period of the previous fiscal year). Of the ISID Group’s three business segments, the Communications IT segment posted declines from the conclusion of large-scale projects in the previous fiscal year, but the Enterprise Solutions segment and the Financial Solutions segment recorded year-on-year increase in sales, resulting in an overall increase in revenue.

In terms of earnings, gross profit fell to ¥9,779 million (down 7.9% from the same period of the previous fiscal year), mainly because of a weakening in the gross profit ratio stemming from cost increases for software purchases due to the weaker yen, and higher development costs for in-house software. As a result, although selling, general and administrative (SG&A) expenses declined to ¥8,906 million (down 5.0%) on a decrease in depreciation cost and curbs on R&D expenditures, earnings declined in all categories. Operating income amounted to ¥872 million (down 30.2%), with ordinary income of ¥981 million (down 34.8%), and net income of ¥534 million (down 42.6%).

Compared to business plan targets (forecasts announced May 12, 2014), net sales were up 3.2% over plan on positive performance in the Enterprise Solutions and Financial Solutions segments. Earnings were also mainly in line with plan, as higher development costs for in-house software were absorbed by the revenue increase and curbs on SG&A expenses. Operating income was up 6.3% over plan, and ordinary income up 12.8%, while net income was down 1.1% from plan.

Net sales by business segment, and status of business operations, are as follows.

Net Sales by Business Segment

Business Segment	Second Quarter of FY2013 (From April 1, 2013 to September 30, 2013)		Second Quarter of FY2014 (From April 1, 2014 to September 30, 2014)		YoY %
	Amount (million yen)	Ratio %	Amount (million yen)	Ratio %	
Financial Solutions	10,557	30.1	10,738	30.0	101.7
Enterprise Solutions	15,327	43.7	16,830	47.0	109.8
Communications IT	9,203	26.2	8,254	23.0	89.7
Total	35,087	100.0	35,823	100.0	102.1

The composition of each segment is as follow.

Business Segment	Business Description
Financial Solutions	Provides a range of financial services solutions to the finance industry
Enterprise Solutions	Provides business solutions for corporate core system such as human resources, accounting and production management, as well as engineering solutions mainly for product development and manufacturing field in the manufacturing industry
Communications IT	Provides a range of corporate solutions in collaboration with the Dentsu Group

Operating Results by Business Segment

Financial Solutions

¥10,738 million (up 1.7% year on year)

Segment sales rose overall. This was due mainly to expansion of development projects for overseas branch systems and market-based systems for mega-banks, offsetting a rebound decline following the conclusion of large-scale projects in the previous fiscal year for both custom system development for internet-based financial institutions, and the LAMP backbone system solution for overseas branches of leasing companies.

Enterprise Solutions

¥16,830 million (up 9.8% year on year)

Segment sales rose overall. In engineering solution packages for the product development field, sales rose steadily for the iQUAVIS solution to support the innovative production method of model-based development (MBD), and consulting services for the manufacturing industry, as well as for third-party software, centered on the NX 3D CAD software.

In business solution packages for core systems and the business management field, sales expanded, centered on the POSITIVE human resources management solution, and large-scale projects for core system architecture services.

Communications IT

¥8,254 million (down 10.3% year on year)

Segment sales declined overall, as a large-scale project for Dentsu for core system architecture passed its peak in the previous fiscal year. Collaborative business with the Dentsu Group was down slightly overall on a decrease in add-on development for third-party software, but referrals rose steadily, centered on public organizations, with expanded sales for system development services utilizing the iPLAss marketing platform.

ISID Group net sales by service category, and status of business operations, are as follows.

Net Sales by Service Category

Service category	Second Quarter of FY2013 (From April 1, 2013 to September 30, 2013)		Second Quarter of FY2014 (From April 1, 2014 to September 30, 2014)		YoY %
	Amount (million yen)	Ratio %	Amount (million yen)	Ratio %	
Consulting services	1,297	3.7	1,633	4.6	125.9
Custom system development	12,083	34.4	10,669	29.8	88.3
In-house software	4,750	13.5	5,750	16.0	121.1
Third-party software	10,837	30.9	10,610	29.6	97.9
Outsourcing, operation and maintenance services	3,322	9.5	3,509	9.8	105.6
IT equipment sales and others	2,795	8.0	3,649	10.2	130.6
Total	35,087	100.0	35,823	100.0	102.1

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 information services utilizing data centers and other facilities, and 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.

Operating Results by Service Category

Consulting services

¥1,633 million (up 25.9% year on year)

Revenue increased overall, mainly on expansion of consulting services to the manufacturing industry for the innovative production method of model-based development (MBD).

Custom system development

¥10,669 million (down 11.7% year on year)

Despite the start of a large-scale core system development project in the Enterprise Solutions segment, sales in this category fell overall on the rebound decline following the conclusion of large-scale projects for Dentsu.

In-house software

¥5,750 million (up 21.1% year on year)

Revenue increased overall as a result of growth in product sales, including the POSITIVE human resources management solution, the iQUAVIS solution to support the innovative production method of model-based development (MBD), the BusinessSPECTRE SAP data-linked framework, and the iPLAss marketing platform.

Third-party software

¥10,610 million (down 2.1% year on year)

Despite a steady increase to the manufacturing industry for the design and development field centered on the NX 3D CAD software, sales declined overall on a fall in core system architecture services utilizing SAP ERP and other software.

Outsourcing, operation and maintenance services

¥3,509 million (up 5.6% year on year)

Revenue increased as a result of a steady rise in services to the Dentsu Group.

IT equipment sales and others

¥3,649 million (up 30.6% year on year)

Revenue rose in this service category, on growth in all business segments.

(2) Qualitative Information on Consolidated Results Forecasts

Revenue increased year on year for the subject second quarter cumulative period, with a decline in earnings. While sales exceeded forecasts, earnings were mostly in line with plan, as an increase in development costs for in-house software

was offset by higher revenue, and curbs to SG&A expenses. Accordingly, there is no change in our full-year forecasts from those announced on May 12, 2014.

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

Not applicable

3. Summary of Significant Events Affecting Assumption of the Company as a Going Concern

Not applicable

4. Consolidated Financial Statements

(1) Consolidated Balance Sheets

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

Item	Period	As of March 31, 2014	As of September 30, 2014
		Amount	Amount
(Assets)			
Current assets:			
Cash and deposits		3,476	3,585
Notes and accounts receivable—trade		20,338	16,644
Merchandise and finished goods		23	95
Work in process		541	1,189
Raw materials and supplies		20	27
Advance payments—trade		4,574	5,820
Deposit paid		9,528	12,523
Other		1,787	1,911
Allowance for doubtful accounts		(2)	—
Total current assets		40,287	41,798
Noncurrent assets:			
Property, plant and equipment		5,210	5,011
Intangible assets:			
Goodwill		38	25
Other		5,419	5,422
Total intangible assets		5,457	5,447
Investments and other assets:			
Investment and other assets		7,922	7,972
Allowance for doubtful accounts		(1)	(1)
Total investments and other assets		7,921	7,971
Total noncurrent assets		18,590	18,430
Total assets		58,877	60,228

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

Item	Period	As of March 31, 2014	As of September 30, 2014
		Amount	Amount
(Liabilities)			
Current liabilities:			
Notes and accounts payable—trade		5,766	5,453
Income taxes payable		1,197	470
Advances received		4,834	7,492
Provision for loss on order received		165	38
Other		5,423	5,288
Total current liabilities		17,387	18,743
Noncurrent liabilities:			
Provision for directors' retirement benefits		28	28
Asset retirement obligations		789	795
Other		1,807	1,368
Total noncurrent liabilities		2,625	2,193
Total liabilities		20,013	20,936
(Net assets)			
Shareholders' equity:			
Capital stock		8,180	8,180
Capital surplus		15,285	15,285
Retained earnings		14,419	14,563
Treasury stock		(28)	(28)
Total shareholders' equity		37,857	38,001
Accumulated other comprehensive income:			
Valuation difference on available-for-sale securities		721	748
Deferred gains or losses on hedges		22	85
Foreign currency translation adjustments		236	435
Total other comprehensive income		980	1,270
Minority interests		25	20
Total net assets		38,864	39,292
Total liabilities and net assets		58,877	60,228

(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 FY2013 (Six months ended September 30, 2013)	Second Quarter of FY2014 (Six months ended September 30, 2014)
		Amount	Amount
Net sales		35,087	35,823
Cost of sales		24,468	26,044
Gross profit		10,619	9,779
Selling, general and administrative expenses		9,370	8,906
Operating income		1,249	872
Non-operating income:			
Interest income		20	20
Dividends income		16	10
Equity in earnings of affiliates		89	27
Foreign exchange gains		96	—
Miscellaneous income		63	73
Total non-operating income		286	132
Non-operating expenses:			
Interest expenses		19	15
Foreign exchange losses		—	3
Miscellaneous loss		9	3
Total non-operating expenses		29	22
Ordinary income		1,505	981
Income before income taxes and minority interests		1,505	981
Income taxes—current		376	511
Income taxes—deferred		194	(68)
Total income taxes		571	443
Income before minority interests.		934	538
Minority interests in income		3	3
Net income		931	534

(Consolidated Statements of Comprehensive Income)

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

Item	Period	Second Quarter of FY2013 (Six months ended September 30, 2013)	Second Quarter of FY2014 (Six months ended September 30, 2014)
		Amount	Amount
Income before minority interests.		934	538
Other comprehensive income:			
Valuation difference on available-for-sale securities		(944)	27
Deferred gains or losses on hedges		(89)	63
Foreign currency translation adjustment		107	198
Total other comprehensive income		(927)	289
Comprehensive income		7	827
Comprehensive income attributable to:			
Comprehensive income attributable to owners of the parent		4	824
Comprehensive income attributable to minority interests		3	3

(3) Notes regarding Assumption of a Going Concern

Not applicable

(4) Notes on Significant Changes in Shareholders' Equity

Not applicable

(5) Segment Information**I. Second Quarter of FY2013 (from April 1, 2013 to September 30, 2013)****1. Sales and Earnings (or Loss) by Reportable Segment**

(Millions of yen)

	Reportable Segment			
	Financial Solutions	Enterprise Solutions	Communications IT	Total
Net sales				
Sales to customers	10,557	15,327	9,203	35,087
Inter-segment sales and transfers	—	—	—	—
Total	10,557	15,327	9,203	35,087
Segment income (loss)	818	(962)	1,393	1,249

Note: Total values for segment earnings or loss (in parenthesis) matches that for the operating loss on the “Consolidated Statements of Income.”

II. Second Quarter of FY2014 (from April 1, 2014 to September 30, 2014)**1. Sales and Earnings (or Loss) by Reportable Segment**

(Millions of yen)

	Reportable Segment			
	Financial Solutions	Enterprise Solutions	Communications IT	Total
Net sales				
Sales to customers	10,738	16,830	8,254	35,823
Inter-segment sales and transfers	—	—	—	—
Total	10,738	16,830	8,254	35,823
Segment income (loss)	(6)	(165)	1,043	872

Note: Total values for segment earnings or loss (in parenthesis) matches that for the operating loss on the “Consolidated Statements of Income.”

5. Supplementary Information

Status of Production, Orders and Sales

Many of ISID's client companies that submit consolidated financial statements implement IT systems and begin running software either at the start of their fiscal year, or at the start of the third quarter. Consequently, completions of system development, and shipments/deliveries of software are concentrated in March, when many clients close their fiscal year, or in September, the end of the second quarter. As a result, the ISID Group's sales tend to be concentrated in March and September, and there is seasonal variation in the ISID Group's production, orders and sales.

(1) Production

The status of production through the subject second quarter cumulative period (April 1–September 30, 2014) by segment is as follows.

Segment	Production output (Millions of yen)	YoY (%)
Financial Solutions	8,534	100.0
Enterprise Solutions	5,539	125.1
Communications IT	3,696	70.6
Total	17,770	97.7

The status of production through the subject second quarter cumulative period (April 1–September 30, 2014) by business line is as follows.

Business line	Production output (Millions of yen)	YoY (%)
Custom system development	10,917	89.1
In-house software add-on development	3,438	140.7
Third-party software add-on development	3,414	97.7
Total	17,770	97.7

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

The status of orders through the subject second quarter cumulative period (April 1–September 30, 2014) by segment is as follows.

Segment	Orders received (Millions of yen)	YoY (%)	Order backlog (Millions of yen)	YoY (%)
Financial Solutions	8,399	94.0	3,158	77.6
Enterprise Solutions	7,662	163.0	3,878	197.5
Communications IT	4,406	76.0	1,995	75.9
Total	20,468	105.3	9,033	104.3

The status of orders through the subject second quarter cumulative period (April 1–September 30, 2014) by business line is as follows.

Business line	Orders received (Millions of yen)	YoY (%)	Order backlog (Millions of yen)	YoY (%)
Custom system development	12,469	97.4	5,131	89.7
In-house software add-on development	4,272	160.7	2,553	153.7
Third-party software add-on development	3,726	93.7	1,347	105.1
Total	20,468	105.3	9,033	104.3

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

The status of sales through the subject second quarter cumulative period (April 1–September 30, 2014) by segment is as follows.

Segment	Sales volume (Millions of yen)	YoY (%)
Financial Solutions	10,738	101.7
Enterprise Solutions	16,830	109.8
Communications IT	8,254	89.7
Total	35,823	102.1

The status of sales through the subject second quarter cumulative period (April 1–September 30, 2014) by business line is as follows.

Business line	Sales volume (Millions of yen)	YoY (%)
Consulting services	1,633	125.9
Custom system development	10,669	88.3
In-house software	5,750	121.1
Third-party software	10,610	97.9
Outsourcing, operation and maintenance services	3,509	105.6
IT equipment sales and others	3,649	130.6
Total	35,823	102.1

Notes:

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

Client	Second Quarter of FY2013 (From April 1, 2013 to September 30, 2013)		Second Quarter of FY2014 (From April 1, 2014 to September 30, 2014)	
	Amount (Millions of yen)	Proportion (%)	Amount (Millions of yen)	Proportion (%)
Dentsu, Inc.	7,625	21.7	5,778	16.1