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July 28, 2016

Consolidated Financial Results for the Second 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

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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 FY2016 (from January 1, 2016 to June 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	%
Second Quarter of FY2016	39,578	-	3,341	-	3,524	-	2,527	-
Second Quarter of FY2015	37,765	5.4	1,763	102.2	2,056	109.6	1,342	151.3

*Net income attributable to parent company's shareholders.

(Note) Comprehensive income: Second Quarter of FY2016: 1,951 million yen; Second Quarter of FY2015: 2,054 million yen

	Net income (loss) per share	Net income per share after dilution
	Yen	Yen
Second Quarter of FY2016	77.57	-
Second Quarter of FY2015	41.20	-

(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, as the period of the previous second quarter (from April 1, 2015 to September 30, 2015) which would be compared is different from the second quarter under review (January 1, 2016 to June 30, 2016).

Ref: The percentages below are percentage changes from the results of the same 6 months of the previous year (from January 1, 2015 to June 30, 2015).

Net sales		Operating income		Ordinary income		Net income *		Comprehensive income	
(million yen)	(%)	(million yen)	(%)	(million yen)	(%)	(million yen)	(%)	(million yen)	(%)
39,578	(1.5)	3,341	25.2	3,524	13.0	2,527	135.1	1,951	153.0

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
As of June 30, 2016	65,546	43,356	66.1
As of December 31, 2015	63,115	41,997	66.5

Ref: Total shareholders' equity: As of June 30, 2016: 43,334 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 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: 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:	June 30, 2016:	32,591,240 shares	December 31, 2015:	32,591,240 shares
2) Number of treasury stock at end of period:	June 30, 2016:	8,430 shares	December 31, 2015:	8,430 shares
3) Average number of shares outstanding for each period (cumulative quarterly period):	Six months ended June 30, 2016:	32,582,810 shares	Six months ended September 30, 2015:	32,582,810 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

During the first six months of FY2016 (January 1, 2016 to June 30, 2016), although the Japanese economy continued on a path of moderate recovery on the back of an improvement in employment and the income environment, corporate earnings and business sentiment were sluggish due to the impact on the export industry of the yen's appreciation, weak domestic consumption and other factors. In the information services industry, while corporate IT investment, centered on demand from the manufacturing and financial industries, was steady and did not experience any major changes, concerns over the impact on corporate earnings due to factors such as a slowdown in overseas economies, beginning with China, and the introduction of negative interest rates, led to an increasing sense of uncertainty over the future outlook.

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 first six months, consolidated net sales fell 1.5% year on year, to ¥39,578 million. Sales increased in the Business Solutions and Engineering Solutions segments, but declined in the Financial Solutions and Communications IT segments.

On the earnings front, gross profit expanded, centered on in-house software and custom system development, and expanded to 9.4% year on year to ¥13,026 million. This absorbed the impact of higher selling, general and administrative (SG&A) expenses due to an increase in personnel, and resulted in a 25.2% year-on-year increase in operating income, to ¥3,341 million, and in a 13.0% year-on-year increase in ordinary income, to ¥3,524 million. Also, profit attributable to owners of parent expanded 135.1%, to ¥2,527 million.

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 six months of the previous year (January 1, 2015 to June 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 six 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 by Business Segment

(Millions of yen)

Business segment	The same six months of the previous year (From January 1, 2015 to June 30, 2015)		Second quarter of FY2016 (From January 1, 2016 to June 30, 2016)		YoY	
	Net sales	Operating income	Net Sales	Operating income	Net Sales	Operating income
	% of sales		% of sales			
Financial Solutions	11,824	1,309	10,994	924	(830)	(385)
	29.4		27.8			
Business Solutions	7,560	(303)	8,035	861	475	1,164
	18.8		20.3			
Engineering Solutions	11,761	322	12,224	485	463	163
	29.3		30.9			
Communications IT	9,030	1,340	8,323	1,070	(707)	(270)
	22.5		21.0			
Total	40,176	2,668	39,578	3,341	(598)	673

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 first six months, although sales expanded at BANK·R, a next-generation financial solution, sales and profits declined due to a decrease in custom system development for megabanks.

Business Solutions

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

During the first six months, although there was a pullback owing to the completion of several large-scale projects, sales and profits increased because of expanded sales of in-house software, such as our STRAVIS consolidated accounting solution, our POSITIVE human resources management solution, and our third-party software in the accounting field, such as Oracle-EBS.

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 first six months, sales of consulting services to support the introduction of model-based development (MBD)* and our iQUAVIS conceptual design solution showed strong growth, primarily due to demand from the automotive industry. Also, sales and profits of consulting services for experiment and analysis operations also expanded, centered on demand from the automotive industry.

* 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 first six months, despite the expansion of collaborative business with the Dentsu Group, 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 six months of the previous year (From January 1, 2015 to June 30, 2015)		Second quarter of FY2016 (From January 1, 2016 to June 30, 2016)		YoY
	Net sales	% of sales	Net Sales	% of sales	
Consulting services	2,077	5.2	2,668	6.7	591
Custom system development	11,893	29.6	10,396	26.3	(1,497)
In-house software	6,677	16.6	7,437	18.8	760
Third-party software	12,369	30.8	12,436	31.4	67
Outsourcing, operation and maintenance services	3,843	9.6	3,793	9.6	(50)
IT equipment sales and others	3,314	8.2	2,845	7.2	(469)
Total	40,176	100.0	39,578	100.0	(598)

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.

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 in this service category increased due to demand for products such as the BANK-R next-generation financial solution, the iQUAVIS conceptual design solution, the STRAVIS consolidated accounting solution, the POSITIVE human resources management solution, and the iPLAss marketing platform.

Third-party software

Sales in this service category were flat year on year, as despite increased demand for Oracle-EBS and other products for the accounting field, sales for the Teamcenter product lifecycle management solution and other products 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 Dentsu Group and to the financial sector.

(2) Qualitative Information on Consolidated Results Forecasts

Although income in the first half exceeded our initial forecast, given the increasingly uncertain business outlook for the second half, we maintain our full-year forecast as 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 June 30, 2016
		Amount	Amount
(Assets)			
Current assets:			
Cash and deposits		3,430	3,220
Notes and accounts receivable—trade		16,202	14,898
Short Term Investment Securities		700	—
Merchandise and finished goods		71	23
Work in process		1,815	2,180
Raw materials and supplies		23	30
Advance payments—trade		4,716	6,901
Deposit paid		20,955	25,030
Other		2,266	1,992
Total current assets		50,181	54,276
Noncurrent assets:			
Property, plant and equipment		3,954	3,620
Intangible assets		3,655	3,124
Investments and other assets:			
Investments and other assets		5,325	4,525
Allowance for doubtful accounts		(1)	(1)
Total investments and other assets		5,324	4,524
Total noncurrent assets		12,934	11,269
Total assets		63,115	65,546

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

Item	Period	As of December 31, 2015	As of June 30, 2016
		Amount	Amount
(Liabilities)			
Current liabilities:			
Notes and accounts payable—trade		4,094	4,366
Income taxes payable		630	767
Advances received		6,738	8,696
Provision for loss on order received		989	879
Provision for business structure improvement		103	68
Asset retirement obligations		—	8
Other		6,636	5,673
Total current liabilities		19,192	20,461
Noncurrent liabilities:			
Provision for directors' retirement benefits		3	1
Provision for business structure improvement		18	—
Asset retirement obligations		818	816
Other		1,085	910
Total noncurrent liabilities		1,926	1,728
Total liabilities		21,118	22,190
(Net assets)			
Shareholders' equity:			
Capital stock		8,180	8,180
Capital surplus		15,285	15,285
Retained earnings		17,907	19,848
Treasury stock		(28)	(28)
Total shareholders' equity		41,345	43,286
Accumulated other comprehensive income:			
Valuation difference on available-for-sale securities		62	27
Foreign currency translation adjustments		566	20
Total accumulated other comprehensive income		628	47
Non-controlling interests		23	21
Total net assets		41,997	43,356
Total liabilities and net assets		63,115	65,546

(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 FY2015 (From April 1, 2015 to September 30, 2015)	Second Quarter of FY2016 (From January 1, 2016 to June 30, 2016)
		Amount	Amount
Net sales		37,765	39,578
Cost of sales		26,614	26,551
Gross profit		11,151	13,026
Selling, general and administrative expenses		9,387	9,685
Operating income		1,763	3,341
Non-operating income:			
Interest income		29	20
Dividends income		11	4
Equity in earnings of affiliates		51	—
Foreign exchange gains		165	50
Dividends income of insurance		—	44
Reversal of provision for business structure improvement		6	25
Miscellaneous income		43	60
Total non-operating income		308	206
Non-operating expenses:			
Interest expenses		13	10
Equity in losses of affiliates		—	7
Miscellaneous loss		1	6
Total non-operating expenses		15	23
Ordinary income		2,056	3,524
Extraordinary income:			
Gain on sales of investment in subsidiaries and affiliates		—	259
Total extraordinary income		—	259
Income before income taxes		2,056	3,784
Income taxes—current		953	915
Income taxes—deferred		(244)	336
Total income taxes		709	1,252
Net income		1,347	2,532
Profit attributable to non-controlling interests		4	4
Profit attributable to owners of parent		1,342	2,527

(Consolidated Statements of Comprehensive Income)

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

<div> <div>Period</div> <div>Item</div> </div>	Second Quarter of FY2015 (From April 1, 2015 to September 30, 2015)	Second Quarter of FY2016 (From January 1, 2016 to June 30, 2016)
	Amount	Amount
Net income	1,347	2,532
Other comprehensive income (loss):		
Valuation difference on available-for-sale securities	868	(35)
Deferred gains or losses on hedges	(106)	—
Foreign currency translation adjustment	(55)	(545)
Total other comprehensive income (loss)	707	(580)
Comprehensive income:	2,054	1,951
Comprehensive income attributable to owners of parent	2,049	1,946
Comprehensive income attributable to non-controlling interests	4	4

(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

i. Second Quarter of FY2015 (from April 1, 2015 to September 30, 2015)

(Millions of yen)

	Business Segment				
	Financial Solutions	Business Solutions	Engineering Solutions	Communications IT	Total
Net sales					
Sales to customers	11,875	7,100	10,819	7,970	37,765
Inter-segment sales and transfers	—	—	—	—	—
Total	11,875	7,100	10,819	7,970	37,765
Segment income (loss)	1,231	(398)	(58)	988	1,763

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

ii. Second Quarter of FY2016 (from January 1, 2016 to June 30, 2016)

(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 income (loss)	924	861	485	1,070	3,341

Note: Total values for segment earnings matches that 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 June 30, 2015).

(1) Production

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

Business segment	Production output (Millions of yen)	YoY (%)
Financial Solutions	8,290	93.7
Business Solutions	4,672	102.3
Engineering Solutions	2,234	107.6
Communications IT	3,891	90.4
Total	19,088	96.4

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

Service category	Production output (Millions of yen)	YoY (%)
Custom system development	10,339	89.4
In-house software add-on development	4,319	107.3
Third-party software add-on development	4,429	105.6
Total	19,088	96.4

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, 2016 to June 30, 2016) by business segment is as follows:

Business segment	Orders received (Millions of yen)	YoY (%)	Order backlog (Millions of yen)	YoY (%)
Financial Solutions	9,275	105.2	3,560	106.7
Business Solutions	5,862	153.5	3,454	124.2
Engineering Solutions	2,154	100.3	584	72.2
Communications IT	4,819	88.6	2,159	67.8
Total	22,112	109.4	9,759	96.5

- ii. The status of orders through the second quarter cumulative period (from January 1, 2016 to June 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	13,344	108.4	6,153	111.0
In-house software add-on development	4,055	112.4	1,893	69.9
Third-party software add-on development	4,712	109.6	1,713	92.1
Total	22,112	109.4	9,759	96.5

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

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

Business segment	Sales volume (Millions of yen)	YoY (%)
Financial Solutions	10,994	93.0
Business Solutions	8,035	106.3
Engineering Solutions	12,224	103.9
Communications IT	8,323	92.2
Total	39,578	98.5

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

Service category	Sales volume (Millions of yen)	YoY (%)
Consulting services	2,668	128.5
Custom system development	10,396	87.4
In-house software	7,437	111.4
Third-party software	12,436	100.5
Outsourcing, operation and maintenance services	3,793	98.7
IT equipment sales and others	2,845	85.8
Total	39,578	98.5

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 six months of the previous year (From January 1, 2015 to June 30, 2015)		Second Quarter of FY2016 (From January 1, 2016 to June 30, 2016)	
	Amount (Millions of yen)	Proportion (%)	Amount (Millions of yen)	Proportion (%)
Dentsu, Inc.	6,052	15.1	5,369	13.6