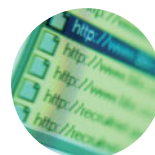




IT Solution Innovator
ANNUAL REPORT 2003

iSiD



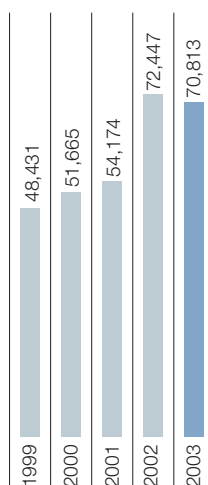
Consolidated Financial Highlights

INFORMATION SERVICES INTERNATIONAL-DENTSU, LTD. AND CONSOLIDATED SUBSIDIARIES
Years ended March 31, 2003 and 2002

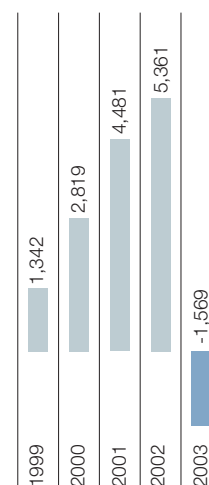
	Millions of yen (except per share amounts)		Thousands of U.S. dollars (except per share amounts)
	2003	2002	2003
For the year			
Net sales	¥70,813	¥72,447	\$590,108
Operating income (loss)	(1,569)	5,361	(13,075)
Net income (loss)	(2,058)	2,752	(17,150)
At end of year			
Total assets	50,848	56,087	423,733
Shareholders' equity	30,826	33,244	256,883
Per share data (Unit: Yen, U.S.dollars)			
Net income (loss)	(63.17)	83.72	(0.53)
Shareholders' equity	946.03	1,019.42	7.88

1. The U.S. dollar amounts in this Annual Report have been translated from Japanese yen, solely for the convenience of the reader, at the rate of ¥120 to \$1.
2. Net income (loss) per share and shareholders' equity per share are calculated in accordance with the new accounting standard for earnings per share, retroactively adjusted for share splits on November 20, 2002 to the beginning of the prior year.

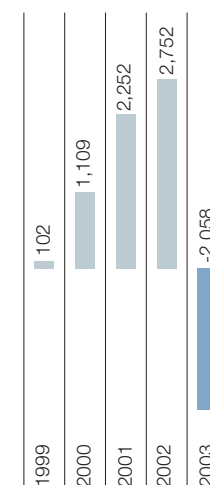
Net sales
(¥ million)



Operating income (loss)
(¥ million)

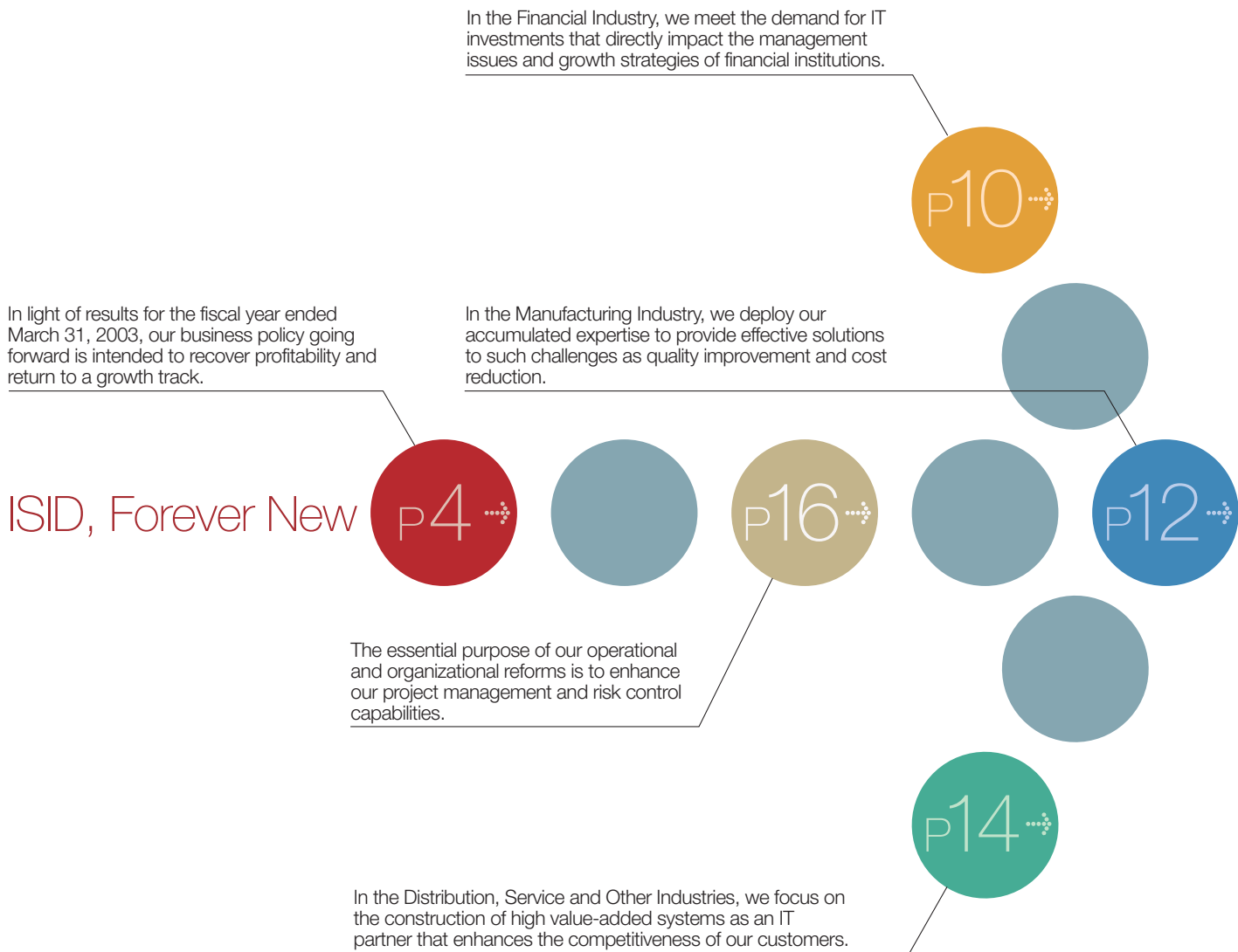


Net income (loss)
(¥ million)



Cautionary Remarks Regarding Forward-Looking Statements

This Annual Report includes forward-looking statements that represent ISID's assumptions and expectations in light of currently available information. These statements reflect industry trends, clients' situations and other factors, and involve risks and uncertainties which may cause actual performance results to differ from those discussed in the forward-looking statements in accordance with changes in the domestic and overseas business environment.



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Business Results for the Fiscal Year Ended March 31, 2003

IT investment in the industrial sector has again been constrained by the same tight controls in evidence during the previous year. As a result, the information service sector has faced extremely challenging business conditions. The ISID Group has also experienced these severe conditions and regretfully reports results that are substantially below those of the previous year. On a consolidated basis, net sales were ¥70,813 million, operating losses came to ¥1,569 million, and net losses were ¥2,058 million.

In the fiscal year ended March 31, 2003, virtually all markets in which the ISID Group participates experienced restraint on IT investments, which has severely exacerbated the climate for gaining orders in the wake of heavy pressure on prices and fierce competition. Financial institutions, in particular, curbed IT investments with an iron fist in the latter half of the year under review. As a result, many new development plans were frozen or postponed, deeply cutting into our sales performance. Heavy constraints on market prices also reduced profit margins. Several large-scale system development projects required the deployment of additional engineers to ensure quality and to speed up delivery. Such unprofitable projects not only exerted a strongly negative impact on profits but also deprived us of sales opportunities elsewhere, resulting in a major impact on revenues.



President and CEO Jutaro Takinami

Under these conditions, we launched a group-wide sales effort to generate business on the one hand while on the other hand implementing cost-saving measures, including cutbacks in personnel and subcontracting costs along with tighter cost controls. These efforts, however, were not sufficient to absorb the contraction of net sales and the severe pressures on profitability.

Medium-Term Management Targets

In view of our performance results for the fiscal year ended March 31, 2003, the most important issue for the ISID Group is to recover profitability and return to growth. In order to recover profitability, our priority will be to strengthen risk management in the system development area. We have therefore established far-reaching measures to take effect this term in order to prevent problems and offer high-quality system development services. In this context, we have tightened our management rules for system development work and are providing for their rigorous implementation. We have also put into place strict internal checks and controls and are reviewing our training programs for development staff.

Under these stringent conditions, we need to expand our service range to customers and step up our business activities in order to achieve the continuous growth that is our management priority. In those areas that are the particular strength of our Group and in which we can most effectively apply our deep insight into our clients' business operations and advanced technology capabilities, we will thus consistently deliver high value-added solutions by harnessing our combined Group power to provide total integrated service offerings, from consulting to system configuration and operation. In this manner we will gain the solid confidence of our customers as a reliable IT partner and consolidate our management base by winning continuous orders.

We will also focus on the development of new businesses and markets to pave the way for Group growth. We are firmly committed to strategic investments with high revenue potential such as the development of our own software products and for joint CRM projects with member companies of the Dentsu Group. Through the ongoing provision of such high value-added solutions we will be able to further cement customer trust and set in motion a favorable cycle that will help us achieve a steady income base.

As for upgrading productivity and optimizing our cost structure, we will promote the efficiency of



our development through the rigorous application of our system development platform. By keeping our subcontract costs under strict control, we are doing our best to improve productivity. In our commitment to optimizing our cost structure, we are also maintaining an ongoing effort to curtail expenses, including a disciplined commitment to performance-based remuneration in the area of personnel costs.

Based on these measures, our medium-term management targets are to achieve an annual average growth rate of 5% or more in consolidated net sales until the fiscal year ending March 31, 2006, and to reach or exceed a 6% of net sales to ordinary profit ratio by the end of that same term. These figures will serve as a milestone on the journey of our long-term corporate growth and in our efforts to improve sustainable profitability. The attainment of these goals is vital for laying the foundation for further corporate growth during and following the fiscal year ending March 31, 2007.

Although we are also continuing to implement management strategies for our Group through equity tie-ups and joint ventures, the estimated amounts that will be contributed by any companies likely to join the Group in the near future have not been included in our medium-term management targets.

Strengthening Corporate Governance

We are proceeding with the reorganization and reinforcement of our management structure in our commitment to achieving the medium-term management targets. With regard to our board of directors, we decided to form a nonhierarchical board of directors consisting of the president and executive directors without the previously intermediary positions of executive vice president and senior executive directors. We also decided to appoint the president as the chief executive officer (CEO) and designated the executive directors, who are responsible for oversight of business operations, as senior executive officers or executive officers. This institutional change is intended to clarify operational responsibility as well as to expedite management decision making and empower the authority of directors for the conduct of the business. We are committed to constructing a management responsibility system that will enhance shareholders' profits and further strengthen our corporate governance while at the same time improving the business promotion system toward the recovery of business performance through these policies.

Increase in Shareholder's Value

While our business results have been unfavorable for the term under review, we have maintained dividends for the fiscal year ended March 31, 2003, at the projected level of ¥20 per share for the year.

ISID Management Philosophy

Mission Statement

ISID is dedicated to significantly contribute to the prosperity of our clients and society, with integrity as our moral backbone, by the judicious application of information technologies, working as a team of professionals who are always creative and innovative.

Corporate Vision

“IT Solution Innovator” ISID

1. Market Creation

ISID challenges to create the new market through its advanced expertise and high degree of creativity.

2. Best Solution through Best Practice

ISID, fully utilizing Best Practices, proposes to its clients effective IT solutions that take advantage of the state-of-the-art technologies available, and implement them to clients' satisfaction.

3. The Key Asset, Human Resources

ISID strives to improve the quality of its services to clients by encouraging its people to make efforts to enhance their professional caliber and personal virtue.

ISID, Forever New

Continually innovate, and remain at the forefront.

ISID Corporate Culture

- Responsive Teamwork, with Integrity
- Being Alert and Eager to Do What You Have to Do
- Service to Our Clients Comes First

Our plans for the fiscal year ending March 31, 2004, are that dividends will remain at ¥20 per share for the year. This decision is based on our fundamental policy of distributing profits as a means for ensuring that our shareholders realize stable, long-term profit returns.

The greatest asset of the ISID Group is our people and the value derived from our frontier spirit that ever strives to attain the new. This concept has been a constant aspect of our corporate culture since the organization was first established, and will be a steadfast pillar for generations to come.

Under the corporate slogan of the ISID Group, “ISID, Forever New,” we are determined to provide our shareholders and stakeholders with more than a satisfactory return on investment. Achieving this goal requires the entire Group to work as one in overcoming the present adversities and focusing all our energy on increasing the value of our shares through the improved performance that results from offering our customers the best possible solutions.

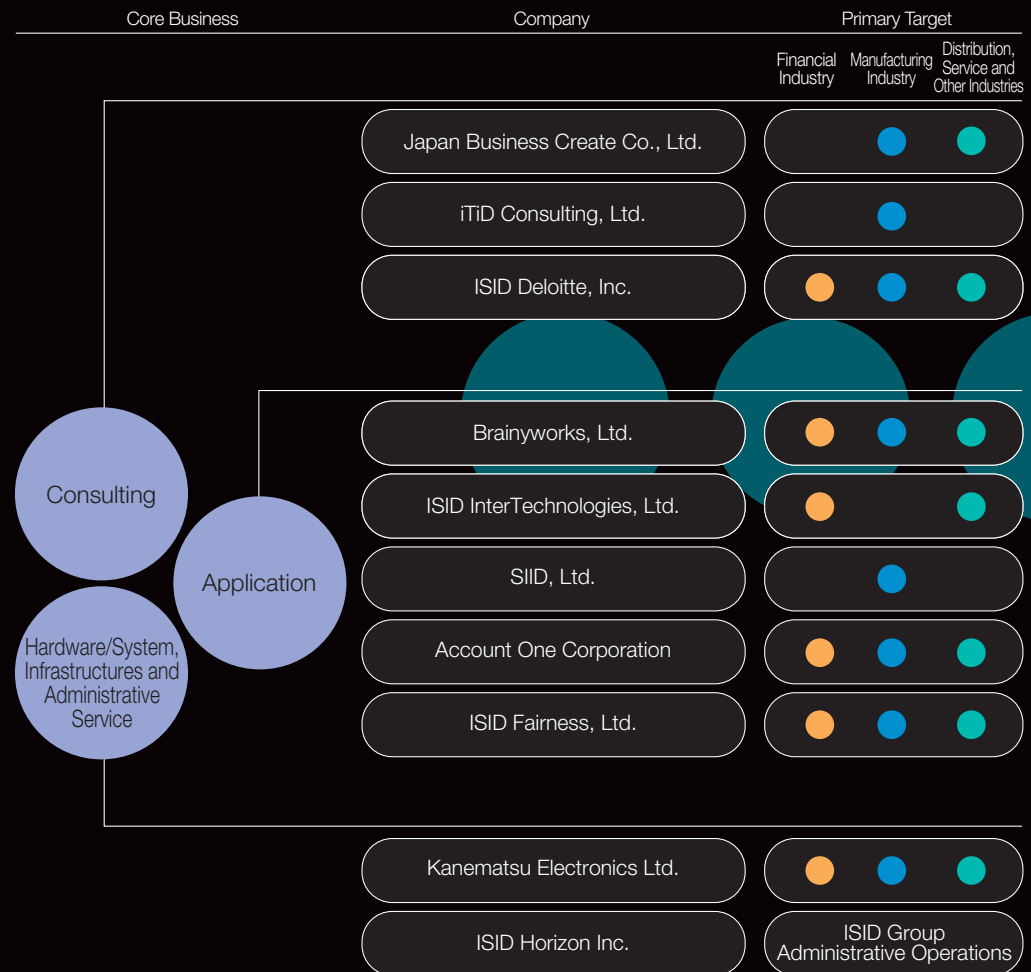
Thank you for your continued support and encouragement.



Jutaro Takinami
President and CEO

ISID actively pursues business and capital alliances that deliver maximum customer satisfaction in a quest to further enhance both the quality and range of our total solutions as well as our corporate structure.

ISID intends to provide total solutions in every step of consulting, system planning and design/development, provision and support of software products, network construction, and the selection and procurement of hardware to achieve maximum customer satisfaction. Therefore, we also extend the range and quality of our total solutions and strengthen our corporate structure driven by the force of synergies generated through business and capital alliances with companies possessing high-level expertise in such categories as consulting, applications, hardware/system and infrastructures. By means of these various strategies for strengthening Group power, the ISID Group seeks to ensure long-term growth.



(As of August 1, 2003)

Overview and Positioning of Domestic Group Companies

Consulting

Japan Business Create Co., Ltd. (JBC)

Japan Business Create Co., Ltd., possesses Japan's highest level of expertise as a consulting firm with an established track record in reforming business model concepts and processes from the viewpoint of SCM and ERP. A prime reason for its respected track record is its neutrality in providing its consultation services and designing and supporting SCM/ERP from the perspective of client needs without presupposing any specific brand software selection. JBC plays an important role in the SCM/ERP business of the ISID Group and realizing Product Lifecycle Management (PLM), encompassing design, development, manufacturing and sales.

iTiD Consulting, Ltd. (iTiD)

iTiD is a consulting firm that realizes process reform through a unique tool which quantitatively assesses more than 100 aspects of the design and development processes of the manufacturing industry, providing a baseline for improvement per index. Its consulting services for reforming design and development processes are closely related to the Product Data Management (PDM) model, in which product-related CAD and CAE data are effectively managed and shared inside the company, yielding a lot of results in synergy with the PDM solution in the manufacturing field of ISID. The ISID Group has positioned iTiD at the heart of its solution business strategy for the manufacturing industry.

ISID Deloitte, Inc.

The services of ISID Deloitte, Ltd., range from consulting and system construction to support for strategy planning, business development, and business reform solutions, based on Internet technologies fueled by the explosion of broadband networks. CRM represents a key field to future growth for these businesses, and requires both profound insight and a strategic perspective on the future of the market. As a member of both the

ISID and Dentsu Groups, ISID Deloitte provides a high-level CRM solution utilizing proven expertise in business development, the formulation of management strategy, and marketing offered by Dentsu Inc. and all Dentsu Group companies.

Applications

Brainyworks, Ltd.

While Brainyworks possesses solid experience in system development for the financial industry, it is also strong in package integration and network construction. The company provides systems mainly for regional banks as well as leading banks and plays an important role in large-scale systems construction projects in ISID's services for the financial industry. It also represents an important channel for providing regional banks with the various services of the ISID Group.

Brainyworks also has an extensive line of its own in-house developed software and plays a predominant role in expanding such software as an engine of growth for the ISID Group.

ISID InterTechnologies, Ltd.

ISID InterTechnologies has been highly evaluated by its clients for its system development technology capabilities and engages in system construction as an important partner of ISID. The company also takes charge of comprehensive network construction and management, drawing upon its expertise in operation management and maintenance services that ensure customer satisfaction, and therefore represents a vital component in the service expansion strategy of the ISID Group.

SIID, Ltd.

SIID was established to develop, sell and support the mechanical CAD/CAM software U-Graph® under license from Seiko Instruments Inc. (SII). Its particular strength is in the evaluation and utilization of data to create actual products based on accurate simulations, drawing upon its wealth of experience in die technology and processing

technology inherited from SII. SIID offers customers' optimum machine design solutions on the basis of extensive service expertise and proven results cultivated through the business of U-Graph® through cooperation with ISID who has abundant project achievement with I-deas® CAD/CAM software, and strives to promote the expansion of the entire CAD/CAM market as a member of the ISID Group.

Account One Corporation ISID Fairness, Ltd.

Account One Corporation provides account aggregation services to display the list of online account information such as bank accounts and airline mileage services. ISID Fairness provides real-time money market information over the Internet. Both companies are key content providers, one of the growth strategies of the ISID Group, while also planning and developing content with enhanced usability.

Hardware/System, Infrastructures and Administrative Services

Kanematsu Electronics Ltd. (KEL)

KEL possesses an impressive track record in hardware sales and the construction of system and infrastructures. The ISID Group is pursuing the expansion of businesses related to the construction of network environments, server environments and enhancement of its open system technology by integrating KEL's technology for constructing system and infrastructures with ISID's system construction technology.

ISID Horizon Inc.

ISID Horizon was established in April 2002 with the transformation of the administrative and indirect divisions of ISID. ISID Horizon promotes the improved business efficiency of the entire group by providing its expertise in administration to not only ISID but also all ISID Group companies.





We focus on system investment projects that directly impact the management challenges and growth strategies of financial institutions, such as streamlining and improving the efficiency of operations, compliance with revised regulations, improving the efficiency of loan/credit operations and enhancing corporate competitiveness.

Business Outline

ISID has earned the trust of financial institution clients by focusing on the specific fields in which we can most effectively apply our proven expertise. These fields include systems for upgrading the range and quality of customer services, such as Internet banking; systems for compliance with revised regulations, including settlement systems for Real-Time Gross Settlement (RTGS) liquidity management; support for dealing operations and risk management; and system construction and support for the Japanese financial institutes with overseas branches. ISID provides services that achieve a high level of customer satisfaction by concentrating on the strategic and necessary investment areas that are essential for financial institutions.

Business Performance in the Fiscal Year Ended March 31, 2003

In the fiscal year, we saw promising results from system development projects such as an Internet-based account aggregation service system which was adopted by multiple clients, including Toyota Motor Corporation and Bank of Tokyo-Mitsubishi, Ltd., and a loan business support system for which we received orders from a number of leading city banks. However, as we entered the latter half of the fiscal year, financial institutions further restrained their IT investments, and several new development projects were put on hold or postponed. Several unprofitable large-scale system development projects showed a loss.

Outlook for the Fiscal Year Ending March 31, 2004

The business climate for financial industry solutions for the fiscal year ending March 31, 2004, is expected to remain difficult and far from optimistic. We aim to achieve business growth by developing themes and targets on the specific needs of financial institutions.

Concretely, we are targeting the construction of systems which directly contribute to such areas as streamlining and improving business efficiency, adapting to regulatory changes in settlement systems, improving the efficiency of loan/credit operations in the wake of increasingly restrictive asset evaluations at financial institutions, and enhancing corporate competitiveness. Regulatory changes, loan/credit-related businesses, and enhancing corporate competitiveness will be particularly important themes for our business performance in this term because these areas represent necessary strategic investments given especially high priority for their direct impact on management issues and growth strategies of financial institutions, and because these areas would most benefit from the advanced technology and the ISID Group's abundant insight into our customers' business operations.

ISID is committed to offering our customer high-quality services through enhanced project management and risk control skills and by combining the collective strength of the ISID Group.



■ **ISID's commitment to improving the efficiency of loan/credit processes**

BIS Capital Accord requires more sophisticated determinations of credit risk, while the Program for Financial Revitalization and the Financial Inspections Manual of the Financial Services Agency call for financial institutions to implement and quarterly disclose self-asset assessments, thereby significantly tightening asset management. Under these circumstances, every financial institution is reviewing its processes from credit businesses to loan operations. The ISID Group is committed to providing solutions that optimize all loan/credit processes, such as the packaged systems related to ratings and self-assessments, while at the same time, packaging loan work flow systems.

■ **ISID's commitment to revised regulations**

Reformation of the securities settlement system has steadily progressed, despite the uncertain schedule for T+1 (next-day settlement of securities transactions). Other domestic reforms moving toward enactment in the near future include the DVP system for non-exchange transaction deliveries, the transfer system for non-government bonds and investment trust, and the establishment of the Japan Government Bond Clearing Corporation. Financial institutions will need to rapidly migrate to major new systems to hedge the potential operational risks and increased costs, which might be caused by drastically changed work processes associated with those reforms.

In response to these regulatory changes, ISID provides total solutions through the sale of the S.T.P. Engine, our original package software that serves as the core for Straight Through Processing (STP) and enables the improvement of efficiency for electronic settlement, along with fine-grained support features, such as templates optimized for each new regulation and related procedures.

■ **ISID's commitment to enhancing corporate competitiveness**

Financial institutions are now attempting to enhance their productivity to strengthen earning power by developing new sources of profit and reforming their deskwork processes. The ISID Group is supporting financial institutions in the creation of new service menus and upgrading their customer services by providing account aggregation and ASP-type financial information services. Anticipating rising demand for streamlining back-office processes and workflow, ISID is committed to actively providing solutions that support the improved earning power of financial institutions, including the processes reform using the S.T.P. Engine.



Our manufacturing industry solutions address such universal issues as making products that sell, shortening the time to market, reducing product development costs, and improving quality by taking full advantage of the collective strength of the ISID Group, including our extensive operational expertise, advanced technology and customer support prowess.

Business Outline

ISID started providing solution services for the manufacturing industry in 1982 as Japan's pioneer in the field of CAE (Computer-Aided Engineering: the use of computers to analyze such product properties as strength, operating noise and vibration characteristics during the design process). ISID has offered advanced solutions such as CAD/CAM, product data management (PDM) and enterprise resource planning (ERP) to address the universal manufacturing industry challenges of making products that sell, shortening the time to market, reducing development costs, and improving quality. Our deep insight into customers' business operations, consulting capability, and fine-grained support systems based on a thorough understanding of development and manufacturing processes are highly regarded by clients.

We also support product lifecycle management (PLM) solutions to take advantage of our extensive range of expertise to optimize all design and development processes and enable a consolidate management.

Business Performance in the Fiscal Year Ended March 31, 2003

CAD/CAM software, one of our main businesses, experienced sluggish sales growth in the fiscal year due to a delay in the launching of a new product for our ERP system construction business and subdued IT investments by manufacturers. However, by concentrating on consulting services for design and development process reforms, product data management (PDM) system construction, and the sale of product analysis software, we achieved favorable results and steadily expanded our business by winning orders from several leading manufacturers of automobiles, precision equipment, and electric appliances. The consulting business led by iTiD Consulting, Ltd., and Japan Business Create, Co., Ltd., our consolidated subsidiaries, remained particularly strong. Completing the transformation of SIID, Ltd., into a wholly owned subsidiary further strengthened ISID's competitive advantage by enhancing our product lineup and business scale in CAD/CAM software.

Outlook for the Fiscal Year Ending March 31, 2004

The manufacturing industry business during the fiscal year ending March 31, 2004, is expected to face a tough environment since investment in the industry will be kept tightly controlled. System investments for the aforementioned challenges, including reducing development costs, however, will be needed to improve the growth potential of manufacturing companies and are becoming especially critical in the face of intensifying competition. For example, ISID is well positioned to respond to the vital concern of leading manufacturing companies already utilizing 3D CAD, based on its track record of reforms across the entire workflow, extending from design and development process improvement to digital data management.

Consequently, with increasing demand for strategic investment projects in the manufacturing industry directly related to corporate management issues represented by CAE, PDM, and ERP, the ISID Group will assist manufacturing companies realize their growth potential by utilizing our deep insight into customer business operations and advanced technology.



■ Improving the design and development process

iTiD Consulting provides comprehensive services using the iTiD Index, its original assessment method, from the introduction of reform practices with concrete targets set by analyzing the customer's current design/development processes, to implementation and outcome measurement. Analysis-driven design, one example of these practices, will establish analytic models of the entire product at the early stages of the design/development process. This enables more design proposals to be evaluated sooner, thus improving product quality and reducing the number of prototypes. ISiD provides PDM solutions as an important element of design/development process reform. PDM solutions facilitate the efficient management and exchange within the corporation of product digital data such as CAD and CAE data.

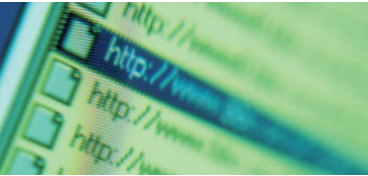
ISiD Group maintains an extensive customer base of 1,000 of the world's leading manufacturers in the automobile, precision equipment and electronics industries, as well as an impressive track record and expertise, which represent our core competencies. Driven by these competencies, we will continue to be an excellent partner supporting manufacturing companies in thoroughly reforming their design/development processes.

■ Providing solutions with an emphasis on CAE

In order to bring down costs, more manufacturers are seeking to produce fewer physical prototypes. To meet this need, ISiD, as a pioneer in CAE solutions, provides comprehensive solutions that go beyond the selection and procurement of CAE products and extend across the complete management of data quality and construction of a CAE support system, data conversion and compensation system, and design navigation system. We are well on the way to establishing an impressive track record primarily from our work with leading manufacturing companies, and we intend to further expand our business by repackaging and marketing this expertise.

■ ERP solution

With the abundant know-how in the product design/development area, the ISiD Group provides high added value in the field of SCM/ERP for improving corporate information systems and facilitating data exchange with partner companies. We won multiple orders for the construction of ERP systems to be implemented in the fiscal year ending March 31, 2004. Japan Business Create Co., Ltd., (JBC), another Group company, also possesses a wealth of experience as a pioneer in the field of SCM/ERP consulting in Japan. ISiD is committed to further broadening the ERP business by accelerating business cooperation with JBC.



We contribute to the success of our customers as a reliable IT partner who sharpens their competitiveness with high value-added system development including system construction and operation, the introduction of systems for consolidated accounting, and the construction of e-CRM and Enterprise Information Portal (EIP).

Business Outline

The ISID Group has many achievements of large-scale system development projects in the distribution, service and other industries, including system integration and system operation services. As an IT partner, we also provide various services that sharpen the competitiveness of our clients, including accounting solutions that support comprehensively a series of consolidated settlement operations through system and management consolidation efforts, and e-CRM solution utilizing advanced marketing know-how that is cultivated as a member of the Dentsu Group.

Business Performance in the Fiscal Year Ended March 31, 2003

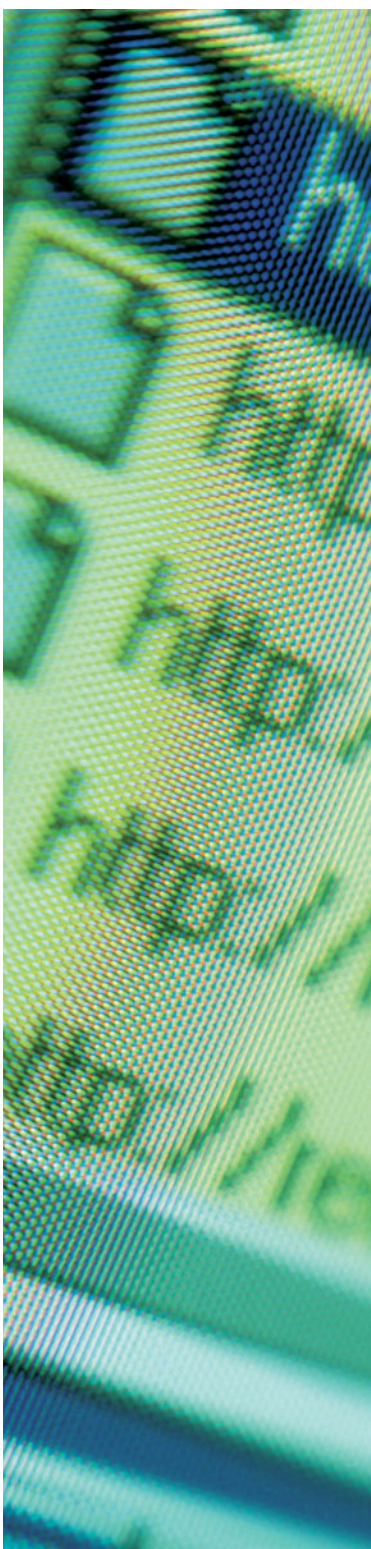
In the fiscal year, system integration and system operation services for particular clients centered on leading firms remained strong. Expanded performance in these areas will lead to an increase in stock businesses and provide a foundation for long-term growth. The ISID Group will earn the solid trust of its customers as an IT partner by providing total integrated services, from consulting to system construction and operation, to realize continuous growth.

Some progress was achieved in e-CRM solutions, including the construction of Customer Free Choice, a quotation system for Mitsubishi Motors Corporation's Colt compact car, and the design of CRM sites for several leading precision equipment manufacturers.

Demand for CRM is expected to continue growing. ISID will develop this business through maximum synergy with ISID Deloitte, providing strategic CRM solutions based on a profound insight into the market.

Outlook for the Fiscal Year Ending March 31, 2004

With general IT investment kept under tight control, the business environment for the distribution, service and other industries as a whole during the fiscal year ending March 31, 2004, is expected to be difficult with fierce price competition. ISID is, however, committed to enhancing performance by specializing in areas where we can take maximum advantage of the ISID Group's expertise, and providing services that are directly related to the corporate management of customers by the innovative consolidated accounting package software "STRAVIS", providing e-CRM and EIP solutions and the construction of accounting-oriented ERP systems.



■ Accounting solutions

Anticipating that consolidated financial settlements would emerge as a critical function, ISID has been marketing its proprietary consolidated accounting package software since the early 1980s. The package solution has been highly evaluated by many clients based on its support of the full range of settlement operations, from data entry and collection to disclosure, and system and management consolidation, while also providing business-analysis tools for more efficient corporate management.

Drawing upon the success of this product and our accumulated experience, in July 2003 ISID began selling STRAVIS, an innovative consolidated accounting package software. Business accounting today requires companies more than ever before to make faster decisions and provide greater detail in financial reports in preparation for quarterly settlements and corporate group restructuring. Yet, for most companies, meeting these challenges raises issues of increased workloads and system investments, since system and management consolidation operations are handled by different people, systems and operational flows. STRAVIS has raised the expectations of customers and the industry as a whole by addressing these concerns through the combination of three concepts: integrating systems and management consolidation, improving overall speed, and providing a professional-level system solution.

■ e-CRM solutions

Diversifying consumer preferences and purchasing patterns are creating new opportunities for e-CRM solutions. Retaining customer loyalty to a particular product, brand, or company is vital for maintaining a stable business foundation and promoting long-term growth. In this context, e-CRM solutions are becoming increasingly important tools for continuous growth. e-CRM solutions position the Internet not only as a base for transmitting information but also as a communication media for collecting and analyzing customer information, at the same time offering products, services and information that match customer needs.

ISID provides distinctive, high value-added e-CRM solutions based on the state-of-the-art technologies and advanced system development technologies of our Group, combined with the vast expertise offered by Dentsu Inc. and all Dentsu Group companies in business development, business strategy planning and marketing.

■ Enterprise Information Portal (EIP) solutions

While the broadband environment is steadily penetrating the home-use market, it is already well-established in companies that have utilized intranets. With such infrastructures in place, there is increasing demand for reform of internal processes and knowledge sharing through the construction of Enterprise Information Portals (EIP) that offer various types of content such as imaging solutions and e-learning that take full advantage of the high-speed, high-capacity characteristics of broadband.

The ISID Group has an extensive track record in system construction, and is well ahead of the competition based on its constituent technologies related to broadband, including several system construction contracts received in the fiscal year ended March 31, 2003. We are committed to applying our energies to EIP as an area with significant growth potential.



Further Enhancing Our Project Management and Risk Control Capabilities

With system development as one of our major services, project management is a vital concern for the ISID Group in order to ensure the timely delivery of high-quality systems to clients and generate sufficient revenues. Therefore our Group has rigorously applied the principles of project management to our system development services. However, during the fiscal year ended March 31, 2003, a quality issue arose in one of our system development projects, requiring the deployment of additional engineers. Consequently, although we successfully resolved the quality problem, the resulting delay in final delivery past the original deadline considerably affected Group revenue.

Our analysis of the delay identified such issues as design changes during the development stage and inadequate technical capabilities of overseas and domestic partners, in addition to our own shortage of engineers. Recognizing that these risks must be more effectively managed, we comprehensively reviewed our project management guidelines, including the overall stance of ISID and employee training, and instituted a new project management system.

Organizational Commitment — Strengthening Oversight and Support Functions

We established the Business Development and Control Division as a clearly distinct function from our business operation divisions that are in charge of front-line sales, and within the new division, the System Administration and Control Department. The mission of the new division is to facilitate timely, company-wide management decisions and to promptly address identified risks as well as to strengthen our oversight functions. The division also supports the introduction of leading-edge technologies and new development techniques in ways that are both effective and efficient. We are committed to bolstering our ability to propose solutions, control risk, and contain costs by strengthening our check and support functions.

Strengthening Project Management Processes and Employee Education

We tightened the rules of our review board to strengthen project management processes. The review board is an examination committee joined by people in charge of technology, sales and project management and is convened at every stage of system configuration to examine potential risks from a variety of perspectives, including the sufficiency of the order amount and technical matters at the point orders are received, the status of progress during the development stage, and the exchange of learning and expertise after a project has been completed and can be viewed as a case study. Although the review board has existed for years, we now intend for the board to focus on the early detection of risks and the development of solutions based on stricter rules that are thoroughly applied across all of our operations.

In order to strengthen employee training, we review educational programs that enhance the abilities of project managers and development engineers and implement thorough management education to continually raise the level of our project management competencies.

Advancing Risk Control Abilities

The vision of the ISID Group is captured in these statements: "ISID challenges to create the new markets through its advanced expertise and high degree of creativity" and "ISID, fully utilizing Best Practices, proposes to its clients effective solutions that take advantage of state-of-the-art technologies available, and implements them to clients' satisfaction." A major objective of our new project management system is to establish a supportive environment in which employees can develop strong risk management skills by being encouraged to take on greater challenges and not to avoid risks at any cost or limit their sales activities only to the "tried and true." We are convinced that this supportive environment represents a firm foundation for long-term growth.

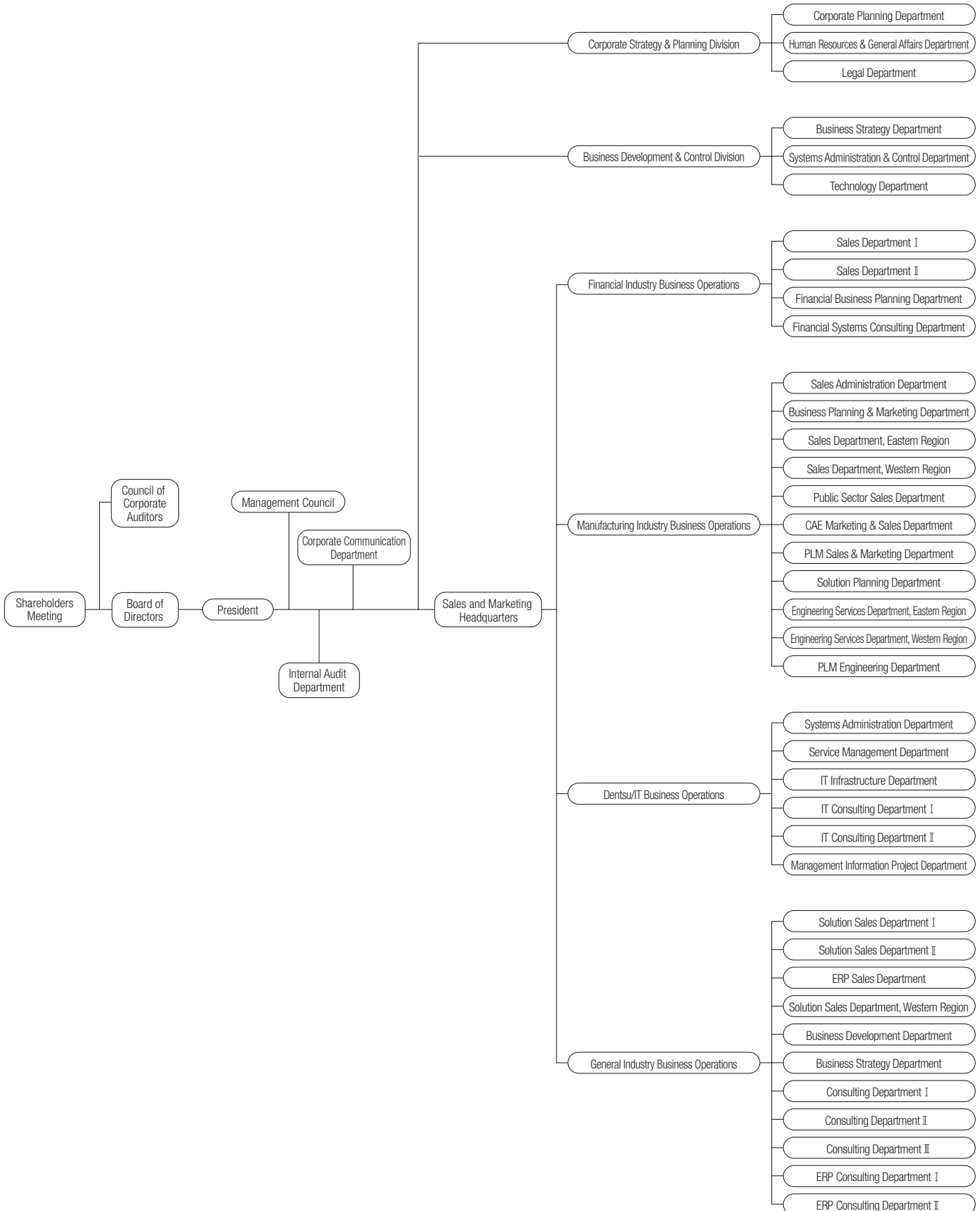
The ISID Group is determined to enhance the satisfaction of stakeholders including shareholders by recovering our business performance and achieving further growth while firmly maintaining the "Frontier Spirit" at the heart of our corporate culture for years to come.

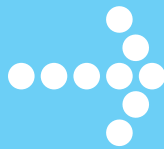


Executive Director
Kenji Ryu



Organization Chart (As of April 1, 2003)





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Review of Operations

In the fiscal year ended March 31, 2003, sporadic signs of improvement in exports and production proved to be short-lived and fell short of an economic recovery. Corporate IT investments remained subdued and harsh business conditions prevailed for the ISID Group.

In the financial industry, we concentrated our efforts in Internet-related, settlement and investment-related solutions where we possess a competitive edge. We delivered our Internet-based account aggregation service system to multiple companies including Toyota Motor Corporation and the Bank of Tokyo-Mitsubishi, Ltd., and also succeeded in winning orders for a loan business support system from a number of leading banks. However, as we entered the latter half of the fiscal year, financial institutions further restrained their system investments, and several new development projects for strategic systems construction were put on hold or postponed. Furthermore, the bottom line was significantly impacted by the need to allocate additional engineers to several large-scale system development projects to ensure quality and speed up delivery.

In the manufacturing industry, we concentrated on consulting services for design and development process reforms, product data management (PDM) system construction, and the sale of product analysis software. We steadily expanded our business by winning orders from several leading manufacturers of automobiles, precision equipment, and electric appliances. Our consulting business, led by consolidated subsidiaries iTiD Consulting, Ltd., and Japan Business Create Co., Ltd., demonstrated particularly solid growth. Nevertheless, sales of our mainstay CAD/CAM software stagnated due to a delay in the launching of a new product for our ERP system construction business and subdued investments by manufacturers.

In new business, we have continued to pursue solution construction utilizing Internet environments undergoing a rapid switch to broadband. As a consequence, we began construction of Customer Free Choice, a quotation system for Mitsubishi Motors Corporation's Colt compact car, as well as the construction of a CRM Web site for a leading precision equipment manufacturer.

With regard to the strategic aspect of promoting group management, we moved to strengthen our solution-providing capabilities in the PLM field by forging closer ties with SIID Ltd., which had become a subsidiary during the previous fiscal year, by purchasing additional shares in the company on March 31, 2003, making it a wholly owned subsidiary.

In the fiscal year under review, while we enjoyed some measure of success in several of our priority fields, the stringent control on IT investments across our core markets led to a significant deterioration in the climate for gaining orders in the wake of heavy pressure on prices and fierce competition. Furthermore, unprofitable system development projects had an enormous impact on income, and although we intensified our marketing and cost-reduction efforts, including cutbacks related to personnel and subcontracting along with tighter cost control, these measures were not sufficient to counterbalance dampened sales and the severe constraints on profitability.

As a result, net sales for the fiscal year decreased 2.3% to ¥70,813 million. In terms of profit, we regret having to report an operating loss of ¥1,569 million compared with an operating income of ¥5,361 million in the previous fiscal year, and a net loss of ¥2,058 million compared with a net income of ¥2,752 million.

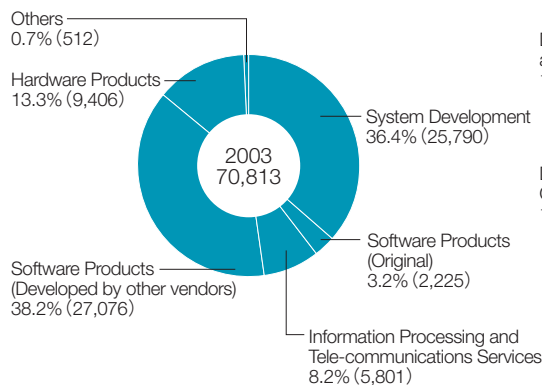
Results of operations by service item are as follows:

Net sales of system development declined 13.2% to ¥25,790 million due to a considerable deterioration in orders received from financial institutions. Net sales of software products dropped

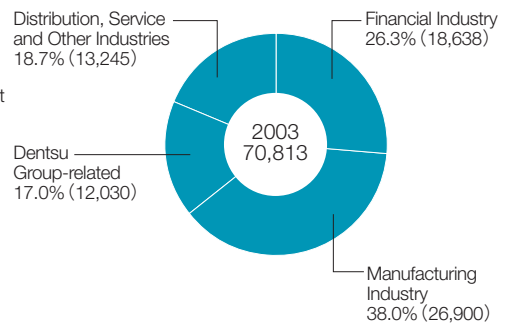
29.1% to ¥2,225 million due to the delayed introduction of the T+1 securities settlement system and stagnant sales of T+1-related solutions at consolidated subsidiaries. Net sales of information processing and telecommunications services rose 6.1% to ¥5,801 million on steady system outsourcing demand. Net sales of software products increased 14.1% to ¥27,076 million, as SIID Ltd. was included in the consolidated accounting from the fiscal year. Net sales of communication equipment fell 6.3% to ¥9,406 million, and net sales from training seminars and other activities organized by ISID rose 45.0% to ¥512 million.

By industry, net sales to the financial industry decreased 32.5% to ¥18,638 million, net sales to the manufacturing industry increased 19.7% to ¥26,900 million, net sales to the Dentsu Group increased 21.9% to ¥12,030 million, and net sales to the distribution, service and other industries increased 6.2% to ¥13,245 million.

Consolidated sales ratio by product line
(¥ million)



Composition of sales by industry
(¥ million)



Cash Flow Analysis

Cash and cash equivalents for the fiscal year under review decreased ¥8,337 million from the previous year to ¥6,735 million.

Net cash used in operating activities was ¥6,904 million, a decrease of ¥7,389 million compared with the previous year, due to a ¥2,707 million net loss in income before income tax and a settlement payment of ¥3,374 million that accompanied revised employee retirement benefits for companies included under consolidated accounting.

Net cash used in investing activities was ¥702 million, primarily due to expenditures related to the acquisition of additional shares in a consolidated subsidiary, representing ¥7,967 million less than the ¥8,669 million spent in the previous fiscal year for such investments as acquiring the shares of an affiliate and in purchasing marketable securities for managing excess funds.

Net cash used in financing activities was ¥536 million, primarily for dividend payments, representing ¥430 million less than the ¥966 million spent in the previous fiscal year to repay short-term borrowings by subsidiaries to reduce the Group's interest-bearing liabilities.



Consolidated Balance Sheets

INFORMATION SERVICES INTERNATIONAL-DENTSU, LTD. AND CONSOLIDATED SUBSIDIARIES
As of March 31, 2003 and 2002

	Millions of yen		Thousands of U.S. dollars (note 3)
	2003	2002	2003
Assets			
Current assets:			
Cash (note 4).....	¥6,813	¥9,074	\$56,775
Trade notes and accounts receivable (note 15).....	18,911	14,780	157,592
Securities (notes 4 and 5).....	1,242	9,337	10,350
Inventories (note 6).....	1,986	1,755	16,550
Deferred tax assets (note 9).....	2,224	2,426	18,533
Advance payments.....	2,614	3,015	21,783
Other.....	647	451	5,392
Allowance for doubtful receivables.....	(64)	(60)	(533)
Total current assets.....	34,374	40,781	286,450
Property and equipment:			
Buildings.....	668	717	5,567
Furniture and fixtures.....	253	276	2,108
Other.....	2	3	17
Total property and equipment.....	924	997	7,700
Intangible assets:			
Consolidation goodwill (notes 12 and 17).....	4,495	4,139	37,458
Other.....	1,669	1,120	13,908
Total intangible assets.....	6,164	5,260	51,367
Investments and other assets:			
Investment securities (note 5).....	5,226	5,597	43,550
Long-term loans.....	4	4	33
Deferred tax assets (note 9).....	689	601	5,742
Lease deposits.....	2,971	2,506	24,758
Other.....	520	367	4,333
Allowance for doubtful receivables.....	(28)	(29)	(233)
Total investments and other assets.....	9,383	9,048	78,192
Total assets.....	¥50,848	¥56,087	\$423,733

See accompanying notes to consolidated financial statements.

	Thousands of		
	Millions of yen	U.S. dollars (note 3)	
	2003	2002	2003
Liabilities and Shareholders' Equity			
Current liabilities:			
Trade notes and accounts payable.....	¥10,246	¥8,101	\$85,383
Short-term debt (note 7).....	144	16	1,200
Current installments of long-term debt (note 7).....	-	31	-
Accrued income taxes (note 9).....	328	1,569	2,733
Deferred tax liabilities (note 9).....	-	2	-
Other payables.....	680	4,085	5,667
Advance receipts.....	2,866	2,829	23,883
Other.....	3,273	2,615	27,275
Total current liabilities.....	17,538	19,250	146,150
Long-term liabilities:			
Long-term debt, excluding current installments (note 7).....	-	65	-
Deferred tax liabilities (note 9).....	707	1,609	5,892
Allowance for employees' retirement benefits (note 8).....	1,413	1,267	11,775
Other.....	184	313	1,533
Total long-term liabilities.....	2,304	3,256	19,200
Total liabilities.....	19,843	22,507	165,358
Minority interests.....	177	335	1,475
Shareholders' equity:			
Common stock (note 13).....	8,180	8,180	68,167
Authorized 98,000,000 shares in 2003 and 49,000,000 shares in 2002; issued 32,591,240 shares in 2003 and 16,295,620 shares in 2002			
Additional paid-in capital (note 14).....	15,285	15,285	127,375
Retained earnings (note 14).....	7,158	9,729	59,650
Other securities valuation difference.....	242	(75)	2,017
Foreign currency translation adjustments.....	(14)	147	(117)
Treasury stock, at cost.....	(25)	(22)	(208)
5,570 shares in 2003 and 2,090 shares in 2002			
Total shareholders' equity.....	30,826	33,244	256,883
Total liabilities, minority interests and shareholders' equity.....	¥50,848	¥56,087	\$423,733

See accompanying notes to consolidated financial statements.



Consolidated Statements of Income

INFORMATION SERVICES INTERNATIONAL-DENTSU, LTD. AND CONSOLIDATED SUBSIDIARIES
Years ended March 31, 2003 and 2002

	Millions of yen		Thousands of U.S. dollars (note 3)
	2003	2002	2003
Net sales (note 15)	¥70,813	¥72,447	\$590,108
Cost of sales	54,994	52,196	458,283
Gross profit	15,818	20,250	131,817
Selling, general and administrative expenses (notes 10 and 11)	17,388	14,889	144,900
Operating income (loss)	(1,569)	5,361	(13,075)
Other income (expenses):			
Interest and dividend income.....	96	52	800
Interest expenses.....	(6)	(12)	(50)
Exchange gain (loss).....	(33)	35	(275)
Equity in income (loss) of affiliated companies.....	(109)	265	(908)
Loss on disposal of fixed assets.....	(121)	(36)	(1,008)
Loss on devaluation of investment securities.....	(592)	-	(4,933)
Amortization of transition difference on adoption of accounting standard for retirement benefits (note 8).....	(146)	(521)	(1,217)
Loss on termination and amendment of employees' retirement benefit plans (note 8).....	-	(1,363)	-
Amortization of consolidation goodwill (note 12).....	(280)	(793)	(2,333)
Other, net.....	56	36	467
	(1,137)	(2,337)	(9,475)
Income (loss) before income taxes	(2,707)	3,023	(22,558)
Income taxes (note 9)	(652)	268	(5,433)
Minority interests	2	1	17
Net income (loss)	¥(2,058)	¥2,752	\$(17,150)

	Yen		U.S. Dollars (note 3)
	2003	2002	2003
Net income (loss) per share (note 2(m))	¥(63.17)	¥83.72	\$(0.53)

See accompanying notes to consolidated financial statements.



Consolidated Statements of Shareholders' Equity
 INFORMATION SERVICES INTERNATIONAL-DENTSU, LTD. AND CONSOLIDATED SUBSIDIARIES
 Years ended March 31, 2003 and 2002

	Millions of yen		Thousands of U.S. dollars (note 3)
	2003	2002	2003
Common stock:			
Balance at beginning of year.....	¥8,180	¥8,180	\$68,167
Balance at end of year.....	8,180	8,180	68,167
Additional paid-in capital:			
Balance at beginning of year.....	15,285	15,285	127,375
Balance at end of year.....	15,285	15,285	127,375
Retained earnings:			
Balance at beginning of year.....	9,729	7,295	81,075
Net income (loss).....	(2,058)	2,752	(17,150)
Dividends.....	(488)	(296)	(4,067)
Directors' bonuses.....	(24)	(22)	(200)
Balance at end of year.....	7,158	9,729	59,650
Other securities valuation difference:			
Balance at beginning of year.....	(75)	191	(625)
Net change during the year.....	317	(266)	2,642
Balance at end of year.....	242	(75)	2,017
Foreign currency translation adjustments:			
Balance at beginning of year.....	147	4	1,225
Net change during the year.....	(161)	143	(1,342)
Balance at end of year.....	(14)	147	(117)
Treasury stock:			
Balance at beginning of year.....	(22)	-	(183)
Increase during the year.....	(3)	(22)	(25)
Balance at end of year.....	(25)	(22)	(208)
Total shareholders' equity at end of year.....	¥30,826	¥33,244	\$256,883

See accompanying notes to consolidated financial statements.



Consolidated Statements of Cash Flows

INFORMATION SERVICES INTERNATIONAL-DENTSU, LTD. AND CONSOLIDATED SUBSIDIARIES
Years ended March 31, 2003 and 2002

	Millions of yen		Thousands of U.S. dollars (note 3)
	2003	2002	2003
Cash flows from operating activities:			
Income (loss) before income taxes.....	¥(2,707)	¥3,023	\$(22,558)
Adjustments to reconcile income (loss) before income taxes to net cash provided by operating activities:			
Depreciation.....	698	647	5,817
Amortization of consolidation goodwill.....	762	1,189	6,350
Provision for employees' retirement benefits, net of payments.....	259	(1,478)	2,158
Payable for termination and amendment of employees' retirement benefit plans.....	(3,374)	3,374	(28,117)
Interest and dividend income.....	(96)	(52)	(800)
Interest expenses.....	6	12	50
Equity in income of affiliated companies.....	-	(222)	-
Loss on devaluation of investment securities.....	592	-	4,933
Increase in trade receivables.....	(4,466)	(2,178)	(37,217)
Increase in inventories.....	(246)	(122)	(2,050)
Decrease in advance payments.....	395	146	3,292
Increase (decrease) in trade payables.....	2,195	(825)	18,292
Increase (decrease) in advance receipts.....	45	(800)	375
Increase (decrease) in accrued consumption taxes.....	406	(258)	3,383
Other, net.....	137	(16)	1,142
Sub-total.....	(5,389)	2,436	(44,908)
Interest and dividend income received.....	95	46	792
Interest paid.....	(1)	(5)	(8)
Income taxes paid.....	(1,609)	(1,992)	(13,408)
Net cash provided by (used in) operating activities.....	(6,904)	485	(57,533)
Cash flows from investing activities:			
Payments for purchase of securities.....	(5,745)	(4,184)	(47,875)
Proceeds from redemption of securities.....	7,731	1,004	64,425
Payments for purchase of property and equipment.....	(227)	(317)	(1,892)
Payments for purchase of investment securities.....	(267)	(3,508)	(2,225)
Payments for loans.....	(236)	(5)	(1,967)
Proceeds from collection of loans.....	208	6	1,733
Payments for purchase of intangible assets.....	(1,054)	(605)	(8,783)
Increase (decrease) in cash and cash equivalents from acquisition of consolidated subsidiaries.....	332	(604)	2,767
Payments for purchase of additional interests in consolidated subsidiaries.....	(1,078)	-	(8,983)
Payments for time deposits.....	(59)	(74)	(492)
Proceeds from time deposits.....	85	-	708
Other, net.....	(392)	(380)	(3,267)
Net cash used in investing activities.....	(702)	(8,669)	(5,850)

	Thousands of		
	Millions of yen	U.S. dollars (note 3)	
	2003	2002	2003
Cash flows from financing activities:			
Proceeds from short-term debt.....	50	-	417
Repayments of short-term debt.....	(66)	(655)	(550)
Repayments of long-term debt.....	(97)	-	(808)
Proceeds from issuance of shares of common stock to minority interests.....	65	-	542
Payments for purchase of treasury stock.....	(2)	(56)	(17)
Proceeds from sale of treasury stock.....	-	31	-
Dividends paid.....	(486)	(294)	(4,050)
Other, net.....	-	7	-
Net cash used in financing activities.....	(536)	(966)	(4,467)
Effect of exchange rate changes on cash and cash equivalents.....	(56)	69	467
Net decrease in cash and cash equivalents.....	(8,200)	(9,081)	(68,333)
Cash and cash equivalents at beginning of year.....	15,072	24,154	125,600
Decrease in cash and cash equivalents from corporate division.....	(136)	-	(1,133)
Cash and cash equivalents at end of year (note 4).....	¥6,735	¥15,072	\$56,125

See accompanying notes to consolidated financial statements.



(1) Basis of Presenting Consolidated Financial Statements

Information Services International-Dentsu, Ltd. ("the Company") maintains its books of account and prepares its financial statements in conformity with financial accounting standards of Japan, and its subsidiaries in conformity with those of the countries of their domicile.

The accompanying consolidated financial statements have been prepared from the accounts maintained by the Company and its subsidiaries in accordance with the provisions set forth in the Japanese Commercial Code and in conformity with accounting principles and practices generally accepted in Japan, which may differ in some material respects from accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

In preparing the accompanying consolidated

financial statements, certain reclassifications have been made to the consolidated financial statements issued domestically under the Japanese Securities and Exchange Law in order to present them in a form which is more familiar to readers outside Japan. In addition, the notes to the consolidated financial statements include information which is not required under accounting principles generally accepted in Japan but is presented herein as additional information.

As permitted under accounting practices generally accepted in Japan, amounts of less than ¥1 million have been omitted. As a result, the totals shown in the accompanying consolidated financial statements do not necessarily agree with the sum of the individual amounts.

(2) Summary of Significant Accounting Policies

(a) Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its significant subsidiaries. The excess of the cost of the Company's investments in the consolidated subsidiaries over the fair value of the net assets of the acquired subsidiaries at the date of acquisition is being amortized on a straight-line basis over 5 or 10 years. All significant intercompany accounts and transactions have been eliminated in consolidation.

(b) Foreign Currency Translation

Assets and liabilities of foreign subsidiaries are translated into Japanese yen at the exchange rates in effect at the balance sheet dates. Revenue and expense accounts are translated at the average exchange rates prevailing during the year. Gains and losses resulting from the translation of foreign currency financial statements are generally excluded from the consolidated statements of income and are accumulated under the balance sheet caption "Foreign currency translation adjustments" in shareholders' equity.

All receivables and payables denominated in foreign currencies at the balance sheet dates are translated at the exchange rates in effect as of the balance sheet dates, and the unrealized gain or loss is reflected in other income (expenses).

(c) Cash and Cash Equivalents

For purposes of the consolidated statements of cash flows, the Company considers cash, bank deposits which may be withdrawn on demand and all highly liquid investments with maturities of three months or less that are easily transferable to cash and without diminution of principal to be cash and cash equivalents.

(d) Securities

Held-to-maturity securities are amortized or accumulated to face value. Other securities with market value are carried at market value. The difference between acquisition cost and carrying value of other securities, including unrealized holding gains and losses, is recognized in "Other securities valuation difference" in shareholders' equity. Other securities without market value are carried at cost. Cost of other securities sold is computed based on the moving average method.

(e) Inventories

Inventories are principally stated at cost. Cost is determined principally by the individual method.

(f) Property and Equipment

Property and equipment are stated at cost, net of accumulated depreciation of ¥1,953 million (\$16,275 thousand) and ¥2,160 million at March 31, 2003 and 2002, respectively. Depreciation of property and equipment is computed principally by the declining-balance method.

The range of useful lives is principally as follows:

Buildings.....	8-18 years
Furniture and fixtures.....	5-15 years

(g) Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

(h) Software

Software is carried at cost less amortization. Amortization of software to be sold is calculated using the greater of the amount computed either based on current period sales in proportion to estimated total product sales or by the straight-line method over estimated useful lives of 3 years or less. Amortization of software for internal use is calculated by the straight-line method over estimated useful lives of 5 years or less. Software is included in intangible assets — other.

(i) Retirement Benefits

Until March 31, 2002, the Company had non-contributory retirement and severance plans that provided for lump-sum benefit payments, based on length of service and certain other factors, to employees who retired or terminated their employment for reasons other than dismissal for cause and also maintained funded tax-qualified pension plans as retirement and severance plans for its employees. The Company ceased these defined retirement benefit plans at March 31, 2002 and introduced a defined contribution pension plan effective from April 1, 2002. Certain of the Company's consolidated subsidiaries have defined retirement benefit plans and defined contribution pension plans.

With respect to certain domestic consolidated subsidiaries who have defined retirement benefit plans, the allowance for retirement benefits for employees is provided based on the estimated retirement benefit obligation and the pension assets. Past service liabilities are amortized using the straight-line method over 10 years, which is within the estimated average remaining service years of employees. Actuarial gains and losses are amortized using the straight-line method over 5 years commencing in the year after it is incurred. Transition differences on adoption of the accounting standard for retirement benefits are amortized using the straight-line method over 5 years.

Following the cessation of the Company's defined retirement benefit plans, the Company adopted "Accounting for Transfers among Retirement Benefit Plans" issued by the Accounting Standards Board of Japan. In accordance with this standard, the unrecognized net obligation that was incurred by March 31, 2002 of ¥1,363 million was accounted for as "Loss on termination and amendment of retirement benefit plans" included in other income (expenses) for the year ended March 31, 2002.

Directors and statutory auditors of the Company and a consolidated subsidiary are entitled to lump-sum payments under an unfunded retirement plan. Allowance for retirement benefits for directors and statutory auditors has been provided at an estimated amount of ¥168 million (\$1,400 thousand) and ¥283 million at March 31, 2003 and 2002, respectively, and is included in long-term liabilities — other.

(j) Derivatives

The Company does not hold or issue derivatives for trading purposes. Significant derivatives held by the Company are comprised principally of foreign exchange forward contracts and currency option contracts to manage foreign currency risk.

These contracts are accounted for using deferral hedge accounting. Deferral hedge accounting requires unrealized gains or losses to be deferred as liabilities or assets. The Company has also developed a hedging policy to control various aspects of derivative transactions, including authorization levels and transaction volumes. Based on this policy, the Company hedges, within certain scopes, risks arising from changes in foreign currency exchange rates.

The Company does not assess the hedge effectiveness of these contracts because it can assume that the important conditions about the means for hedging and the hedged item are the same, and the currency risk of cash flow is avoided through the hedge term.

(k) Leases

Finance leases, except for those where the legal title of the underlying property is transferred from the lessor to the lessee at the end of the lease term, are accounted for as operating leases.

(l) Appropriation of Retained Earnings

Under the Japanese Commercial Code, the appropriation of retained earnings with respect to a given financial period is made by resolution of the shareholders at a general meeting to be held subsequent to the close of such financial period. The accounts for that period do not, therefore, reflect such appropriation (see note 14).

(m) Net Income (Loss) per Share

Until the year ended March 31, 2002, the average number of shares outstanding during each year, retroactively adjusted for share split to the beginning of year, less the average number of

treasury shares, had been used in computing net income (loss) per share. Effective from the year ended March 31, 2003, the Company adopted the Financial Accounting Standard No. 2, "Accounting Standard for Earnings per Share", and the Financial Accounting Standards Implementation Guidance No. 4, "Implementation Guidance for the Accounting Standard for Earnings per Share". Net income per share in the consolidated statement of income for the year ended March 31, 2002 has been recalculated based on these standards.

(n) Accounting for Treasury Stock and Reversal of Legal Reserves

Effective from April 1, 2002, the Company adopted the Financial Accounting Standard No. 1, "Accounting Standard on Treasury Stock and Reversal of Legal Reserves". There was no effect on net income from adoption of this standard.

(o) Reclassifications

Certain reclassifications have been made to the prior year's consolidated financial statements to conform with the presentation used for the year ended March 31, 2003.

(3) Financial Statement Translation

The consolidated financial statements are expressed in Japanese yen. However, solely for the convenience of the reader, the consolidated financial statements at and for the year ended March 31, 2003 have been translated into United States dollars at the rate of ¥120 = US\$1, the approximate exchange rate on the Tokyo Foreign Exchange Market on March 28, 2003. This translation should not be construed as a representation that the amounts shown could be

converted into U.S. dollars at such rate. Also, the individual amounts expressed in Japanese yen, for which amounts less than ¥1 million have been omitted, have been translated into United States dollars. As a result, the totals shown in the accompanying consolidated financial statements expressed in United States dollars do not necessarily agree with the sum of the individual amounts.

(4) Cash and Cash Equivalents

Reconciliations of cash per the consolidated balance sheets and cash and cash equivalents per the consolidated statements of cash flows are as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Cash.....	¥6,813	¥9,074	\$56,775
Add:			
Securities with maturities of three months or less.....	2	6,104	17
Less:			
Time deposits with maturities greater than three months..	79	105	658
Cash and cash equivalents.....	¥6,735	¥15,072	\$56,125

(5) Securities

(a) Marketable other securities

The acquisition cost, carrying amount (market value) and gross unrealized holding gain or loss of marketable other securities are summarized as follows:

	Millions of yen			
	Acquisition cost	Gross unrealized holding gain	Gross unrealized holding loss	Carrying amount (Market value)
2003				
Equity securities.....	¥540	¥443	¥46	¥936
	¥540	¥443	¥46	¥936
2002				
Equity securities.....	¥449	¥ —	¥137	¥311
	¥449	¥ —	¥137	¥311

	Thousands of U.S. dollars			
	Acquisition cost	Gross unrealized holding gain	Gross unrealized holding loss	Carrying amount (Market value)
2003				
Equity securities.....	\$4,500	\$3,692	\$383	\$7,800
	\$4,500	\$3,692	\$383	\$7,800

(b) Sale of other securities

Proceeds from sale of other securities for the year ended March 31, 2003 are ¥12 million (\$ 100 thousand).

Realized gains from sale of other securities for the year ended March 31, 2003 are ¥9 million (\$ 75 thousand).

(c) Non-marketable securities

The following is a summary of non-marketable securities:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Held-to-maturity securities:			
Commercial paper.....	¥ —	¥6,991	\$ —
Discounted financial bonds.....	239	239	1,992
Straight bond.....	1,001	—	8,342
Other securities:			
Unlisted shares (excluding shares traded in the over-the-counter market).....	427	978	3,558
Free financial fund.....	—	2,004	—
Money management fund.....	—	100	—
Other.....	2	2	17

(d) Aggregate annual maturities

The aggregate annual maturities at par value of other securities with maturity and held-to-maturity securities at March 31, 2003 are as follows:

	Millions of yen		Thousands of U.S. dollars	
	Due within one year	Due over one year	Due within one year	Due over one year
Other:				
Straight bond.....	¥1,001	¥—	\$8,342	\$—
Discounted financial bonds....	239	—	1,992	—
	¥1,240	¥—	\$10,333	\$—

(6) Inventories

Inventories at March 31, 2003 and 2002 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Merchandise.....	¥490	¥127	\$4,083
Work in process.....	1,489	1,624	12,408
Other.....	6	3	50
	¥1,986	¥1,755	\$16,550

(7) Short-term Debt and Long-term Debt

Short-term debt at March 31, 2003 and 2002 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Borrowing from a commercial company with an average interest rate of 1.5%.....	¥144	¥—	\$1,200
Bank borrowing with an average interest rate of 1.7%.....	—	16	—
	¥144	¥16	\$1,200

Long-term debt at March 31, 2002 is summarized as follows:

	Millions of yen
Loans, principally from banks due 2002 to 2005 with an average interest rate of 2.1%.....	¥97
Less: Portion due within one year.....	31
	¥65

(8) Employees' Retirement Benefits

The plan's funded status and amounts recognized in the consolidated balance sheets at March 31, 2003 and 2002 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Retirement benefit obligation.....	¥1,845	¥1,932	\$15,375
Unrecognized transition difference on adoption of accounting standard for retirement benefits.....	(293)	(505)	(2,442)
Unrecognized actuarial gain or loss.....	(57)	34	(475)
Unrecognized past service liabilities.....	(81)	(194)	(675)
Allowance for employees' retirement benefits.....	¥1,413	¥1,267	\$11,775

Net periodic benefit cost for the years ended March 31, 2003 and 2002 consists of the following:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Service cost.....	¥135	¥511	\$1,125
Interest cost.....	50	162	417
Estimated return on plan assets.....	—	(13)	—
Amortization of transition difference on adoption of accounting standard for retirement benefits.....	146	521	1,217
Amortization of actuarial gain or loss.....	(6)	(0)	(50)
Amortization of past service liabilities.....	13	21	108
Net periodic benefit cost.....	339	1,203	2,825
Other cost.....	145	—	1,208
Loss on termination and amendment of employees' retirement benefit plans.....	—	1,363	—
Total cost.....	¥484	¥2,567	\$4,033

Other cost includes contribution payments for defined contribution pension plans.

Actuarial assumptions and basis for the calculation of retirement benefits are as follows:

	2003	2002
Method of benefit attribution.....	Benefit/year-of-service approach	Benefit/year-of-service approach
Discount rate.....	2.5%~3.0%	3.0%
Estimated rate of return on plan assets.....	—	2.0%
Period of amortization of unrecognized past service liabilities.....	10 years	10 years
Period of amortization of unrecognized actuarial gains or losses.....	5 years	5 years
Period of amortization of transition difference on adoption of accounting standard for retirement benefits.....	5 years	5 years

(9) Income Taxes

The Company and its domestic subsidiaries are subject to Japanese corporation, inhabitants and business taxes based on income which, in the aggregate, result in a statutory tax rate of approximately 42% for the years ended March 31, 2003 and 2002.

The income tax expenses reflected in the consolidated statements of income for the years ended March 31, 2003 and 2002 consist of the following:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Current.....	¥362	¥2,258	\$3,017
Deferred.....	(1,014)	(1,989)	(8,450)
	¥(652)	¥268	\$(5,433)

Reconciliation of the statutory tax rate and the effective tax rate as a percentage of income before income taxes for the year ended March 31, 2002 is as follows:

	2002
Statutory tax rate.....	42.0%
Change in valuation allowance.....	(35.4)
Expenses not deductible for income tax purposes.....	2.8
Other.....	(0.5)
Effective tax rate.....	8.9%

Since the Company suffered loss before income taxes for the year ended March 31, 2003, disclosure of details is omitted.

Significant components of deferred tax assets and liabilities at March 31, 2003 and 2002 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Deferred tax assets:			
Tax loss carryforward.....	¥2,744	¥539	\$22,867
Allowance for employees' retirement benefits.....	478	324	3,983
Accrued expenses.....	762	527	6,350
Accrued business taxes.....	30	135	250
Amortization of goodwill.....	391	793	3,258
Other payables.....	—	1,417	—
Other.....	894	497	7,450
Total gross deferred tax assets.....	5,300	4,235	44,167
Less: Valuation allowance.....	(789)	(677)	(6,575)
Total net deferred tax assets.....	4,511	3,558	37,592
Deferred tax liabilities:			
Reserve for software development and maintenance provided solely for tax purposes.....	(2,137)	(2,140)	(17,808)
Other.....	(166)	(2)	(1,383)
Total deferred tax liabilities.....	(2,304)	(2,142)	(19,200)
Net deferred tax assets.....	¥2,206	¥1,415	\$18,383

Until March 31, 2002, certain consolidated subsidiaries did not recognize deferred tax assets since the temporary differences were not likely to be realized in the foreseeable future. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the temporary differences are deductible, management believes that two of the consolidated subsidiaries will realize the benefits of these deductible differences, net of valuation allowance, at March 31, 2003 in the foreseeable future. As a result, the deferred tax assets of the consolidated subsidiaries were recognized with a change in valuation allowance as of March 31, 2003.

Japanese Local Tax Law has been amended and pro forma standard taxation will be effective from April 1, 2004. The statutory tax rate used as of March 31, 2003 for the calculation of deferred tax assets and liabilities, which are based on temporary differences expected to be recovered or settled before March 31, 2004, was the rate before the amendment, and for non current deferred tax assets and liabilities expected to be recovered or settled after April 1, 2004 was the rate after the amendment. The effect on net income for the year ended March 31, 2003 of this change in tax rate is insignificant.

(10) Selling, General and Administrative Expenses

Significant components of selling, general and administrative expenses for the years ended March 31, 2003 and 2002 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Provision for doubtful receivables.....	¥10	¥27	\$83
Sales promotion.....	1,419	1,213	11,825
Market development.....	1,757	1,510	14,642
Salary and wages.....	5,527	4,400	46,058
Provision for retirement benefits.....	54	219	450
Entrustment costs.....	1,787	1,506	14,892

(11) Research and Development Costs

Research and development costs charged to expenses for the years ended March 31, 2003 and 2002 are ¥413 million (\$3,442 thousand) and ¥951 million, respectively.

(12) Amortization of Consolidation Goodwill

For the year ended March 31, 2003, the Company recognized extraordinary amortization of consolidation goodwill of ¥280 million (\$2,333 thousand), in connection with the recognition of deferred tax assets of a consolidated subsidiary at March 31, 2003, which were not previously recognized in earlier years' consolidated financial statements as explained in note (9), and in connection with the deterioration in the financial condition of a newly consolidated subsidiary, which

has been consolidated from the year ended March 31, 2003.

In connection with the recognition of deferred tax assets of a consolidated subsidiary at March 31, 2002, which were not previously recognized in earlier years' consolidated financial statements, the Company recognized extraordinary amortization of related consolidation goodwill of ¥793 million for the year ended March 31, 2002.

(13) Common Stock

During the years ended March 31, 2003 and 2002, the Company issued 16,295,620 and 1,481,420 shares of common stock, respectively. Each of the Company's shares were split into 1.1 on August 20, 2001 and 2 shares on November 20, 2002, respectively.

(14) Additional Paid-in Capital, Retained Earnings and Dividends

The Japanese Commercial Code provides that an amount equal to at least 10% of appropriations paid in cash be appropriated as a legal reserve until the aggregate amount of additional paid-in capital and legal reserve equals 25% of common stock.

Retained earnings included a legal reserve of ¥160 million (\$1,333 thousand) and ¥160 million at March 31, 2003 and 2002, respectively.

The maximum amount that the Company can distribute as dividends is calculated based on the

non-consolidated financial statements of the Company and in accordance with the Japanese Commercial Code.

In accordance with the Japanese Commercial Code, proposed appropriation of retained earnings has not been reflected in the financial statements at the end of each financial period. The proposed appropriation of retained earnings at March 31, 2003, which was approved by the shareholders' meeting held on June 25, 2003, was cash dividends of ¥325 million (\$2,708 thousand).

(15) Transactions with Related Parties

At March 31, 2003 and 2002, the Company's outstanding shares of common stock were owned 61.8% by Dentsu Inc. and 38.2% by other shareholders.

Significant balances and transactions with Dentsu Inc. at and for the years ended March 31, 2003 and 2002 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Trade notes and accounts receivable.....	¥4,786	¥3,140	\$39,883
Net sales.....	10,887	8,629	90,725

(16) Leases

The Company and its consolidated subsidiaries occupy offices and other facilities under various lease arrangements.

Finance leases, except for those where the legal title of the underlying property is transferred from the lessor to the lessee at the end of the lease term, are accounted for as operating leases. If machinery and equipment under such finance leases had been capitalized at March 31, 2003 and 2002, the effect would be as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Market value at inception of leases.....	¥7,523	¥6,932	\$62,692
Less: Accumulated depreciation.....	3,484	3,441	29,033
Assets under finance leases, net.....	¥4,039	¥3,490	\$33,658

Future minimum payments required under finance leases at March 31, 2003 and 2002 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Within one year.....	¥1,720	¥1,554	\$14,333
Over one year.....	2,367	1,997	19,725
	¥4,088	¥3,551	\$34,067

The lease expenses for finance leases for the years ended March 31, 2003 and 2002 amounted to ¥1,942 million (\$16,183 thousand) and ¥1,733 million, respectively.

(17) Acquisitions

In May 2001 and January 2002, the Company acquired, in two installments, 66.8% of the outstanding shares in Japan Business Create Co., Ltd. ("JBC") in cash. As a result, the Company owned 66.8% of the outstanding shares in JBC at March 31, 2003.

In September 2001 and March 2002, the Company subscribed for newly issued 333,333 shares in ISID Inter Technologies, Ltd. ("ISID-IT") in connection with the conversion of debentures and acquired 36.7% of the outstanding shares in ISID-IT in cash, respectively. As a result, the Company owned 91.7% of the outstanding shares in ISID-IT at March 31, 2003.

In March 2002 and March 2003, the Company acquired, in two installments, 100.0% of the outstanding shares in SIID, Ltd. ("SIID") in cash. As a result, the Company owned 100.0% of the outstanding shares in SIID at March 31, 2003.

In August 2001 and March 2003, the Company acquired, in two installments, 60.0% of the outstanding shares in Account One Corporation ("Account One") in cash. As a result, the Company owned 60.0% of the outstanding shares in Account One at March 31, 2003.

The difference between the purchase price and the fair value of the net assets of the acquired subsidiary at the date of acquisition is included in consolidation goodwill and is amortized on a straight-line basis over 5 or 10 years. Consolidation goodwill amounted to ¥4,495 million (\$37,458 thousand) and ¥4,139 million at March 31, 2003 and 2002, respectively.

In May and June 2001, the Company acquired 3.8% of the outstanding shares in Kanematsu Electronics Ltd. ("KEL") in cash and subscribed to purchase newly issued 1,980,000 shares in KEL in cash, respectively. As a result, the Company owned 20.0% of the outstanding shares in KEL, which was treated as an affiliated company at March 31, 2003.



The Board of Directors and Shareholders
Information Services International-Dentsu, Ltd.

We have audited the accompanying consolidated balance sheets of Information Services International-Dentsu, Ltd. and consolidated subsidiaries as of March 31, 2003 and 2002, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to independently express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards, procedures and practices generally accepted and applied in Japan. Those standards, procedures and practices require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Information Services International-Dentsu, Ltd. and consolidated subsidiaries at March 31, 2003 and 2002, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles and practices generally accepted in Japan.

The U. S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2003 are presented solely for the convenience of the reader. Our audit also included the translation of yen amounts into U. S. dollar amounts and, in our opinion, such translation has been made on the basis described in note 3 to the consolidated financial statements.

Shin Nihon & Co.

Tokyo, Japan
June 25, 2003

See note (1) to the consolidated financial statements which explains the basis of preparing the consolidated financial statements of Information Services International-Dentsu, Ltd. under Japanese accounting principles and practices.



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December 1975	Information Services International-Dentsu, Ltd. (ISID) was established in Chuo-ku, Tokyo, as a joint venture of Dentsu Inc. and General Electric Company in the U.S.A.
January 1976	Established the Osaka sales branch (present Osaka office) in Kita-ku. Established the Nagoya sales branch (present Nagoya office) in Naka-ku.
September 1982	Began marketing CAE software under license from Structural Dynamics Research Corporation in the U.S.A. (the present Electronic Data Systems Corporation).
May 1986	Certified as a General Type II Telecommunications Carrier by the Ministry of Posts and Telecommunications (the present Ministry of Public Management, Home Affairs, Posts and Telecommunications).
November 1986	Established the London branch office.
March 1987	Established ISI-Dentsu of America Inc.
November 1988	Moved the ISID headquarters to Nakano-ku, Tokyo.
December 1988	Recognized by the Ministry of International Trade and Industry (the present Ministry of Economy, Trade and Industry) as a Qualified Systems Integrator.
February 1989	Began accepting orders for the corporate information systems of Dentsu Inc. in relation to system development and operation services.
October 1989	Established the Hong Kong branch office.
August 1990	Established ISI-Dentsu of Asia, Ltd. to assume the business of the Hong Kong branch office.
January 1991	Established ISI-Dentsu of Europe, Ltd. to assume the business of the London branch office.
February 1991	Established Dentsu Systems-International, Ltd. (acquired by ISID in July 1997) as a joint venture with Dentsu Inc.
April 1992	Established ISI-Dentsu Singapore Pte. Ltd.
March 1997	Established ISI-Dentsu (Malaysia) Sdn. Bhd. as a subsidiary of ISI-Dentsu Singapore Pte. Ltd.
September 1997	Established ISI-Dentsu Holdings, Inc. in the U.S.A.
February 1999	Established the Nishi-Ochiai office as a system development center.
March 2000	Recognized by the Ministry of International Trade and Industry (the present Ministry of Economy, Trade and Industry) as a Specified System Operation Company.
November 2000	Listed in the First Section of the Tokyo Stock Exchange.
March 2001	Made KISCO Solutions, Ltd. (the present Brainyworks, Ltd.) a subsidiary through stock acquisition .
June 2001	Established iTiD Consulting, Ltd. as a joint venture with International TechneGroup Inc. in the U.S.A. Made Kanematsu Electronics Ltd. an affiliated company by accepting the allocation of new stock to a third party.
September 2001	Made KEICHO, Ltd. (the present ISID InterTechnologies, Ltd.) a subsidiary through stock acquisition.
January 2002	Made Japan Business Create Co., Ltd. a subsidiary through stock acquisition.
February 2002	Established ISID Deloitte, Inc. as a joint venture with Deloitte Tohmatsu Consulting Ltd. (the present Braxton Ltd.)
March 2002	Made SIID, Ltd. a subsidiary through stock acquisition.
April 2002	Established ISID Horizon Inc.
May 2002	Established ISI-Dentsu Shanghai Co., Ltd. as a subsidiary of ISI-Dentsu of Asia, Ltd.
August 2002	Established ISID Fairness, Ltd.
March 2003	Termination of the global Remote Computing Service.



Board of Directors (As of June 25, 2003)

President and CEO	Jutaro Takinami
Executive Director	Yutaka Kimura
Executive Director	Kenji Ryu
Executive Director	Naoki Kawajiri
Executive Director	Haruo Iwata
Executive Director	Hajime Oda
Executive Director	Yozo Ogata
Executive Director	Hirotarō Suzuki
Executive Director	Tatsuo Otake
Executive Director	Hitoshi Hanatsuka
Corporate Auditor	Takeo Tsuchihashi
Corporate Auditor	Kazuo Ichijo
Corporate Auditor	Tadashi Kiuchi
Corporate Auditor	Tamotsu Murai

Company Outline

Established	December 11, 1975
Capital	8,180.5 million yen
Consolidated Number of Employees	1,832 (As of March 31, 2003)

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Nagoya Office	Kanematsu Nagoya Bldg., 2-9-3 Sakae, Naka-ku, Nagoya 460-0008, Japan TEL (052) 205-0131 FAX (052) 205-1400
Shiodome Office	1-8-1 Higashi-Shimbashi, Minato-ku, Tokyo 105-7001, Japan TEL (03) 6217-8583 FAX (03) 6217-8968
Mitaka Office	6-17-15 Shimo-Renjaku, Mitaka-shi, Tokyo 181-0013, Japan TEL (0422) 72-4880 FAX (0422) 72-4900
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