





Contents

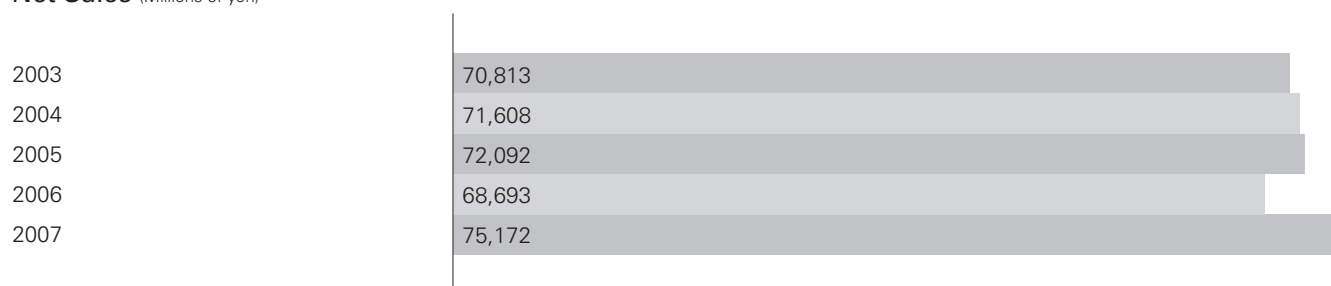
- 2 Financial Highlights
- 3 Message from Management
- 4 IT Solution Innovator ISID
- 6 Discussion and Analysis of Financial Information and Business Performance
- 12 Medium-Term Management Plan Progress
- 18 Research and Development Activities
- 20 Corporate Governance
- 24 Risks and Uncertainties
- 26 ISID Group Business Structure
- 28 Business Highlights
- 30 Certifications Acquired
- 31 Contributing to the Community
- 32 Financial Section
- 52 ISID Story
- 54 ISID Solutions
- 56 Group Companies
- 57 Executives and Company Profile

Financial Highlights

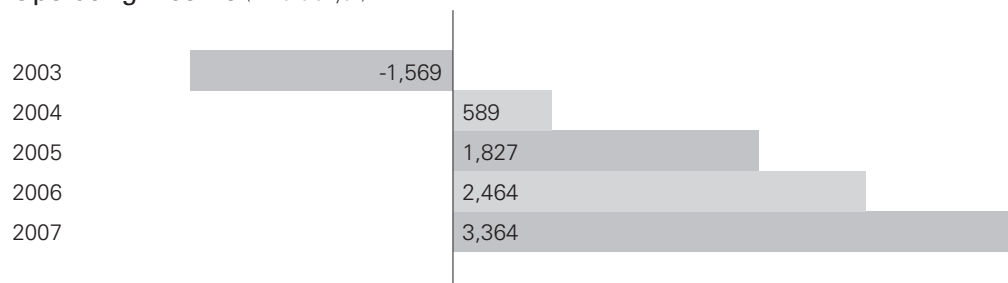
Information Services International-Dentsu, Ltd.
and Consolidated Subsidiaries
Years ended March 31, 2007 and 2006

	During the Fiscal Year (Millions of yen)			At Fiscal Year-End (Millions of yen)		Per Share (Yen)	
	Net Sales	Operating Income	Net Income	Total Assets	Net Assets	Net Income	Net Assets
2006	¥68,693	¥2,464	¥1,274	¥49,955	¥31,340	¥39.11	¥961.79
2007	¥75,172	¥3,364	¥1,564	¥50,725	¥32,212	¥48.00	¥982.03

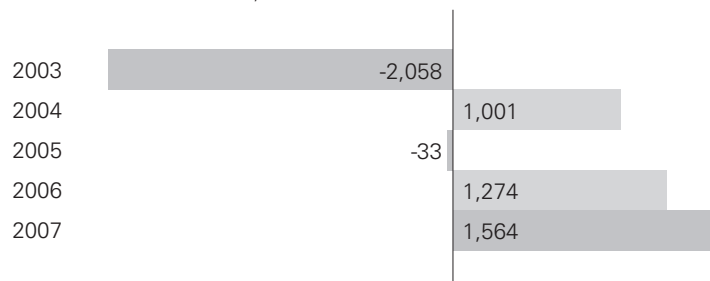
Net Sales (Millions of yen)



Operating Income (Millions of yen)



Net Income (Millions of yen)



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, client situations and other factors, and involve risks and uncertainties that may cause actual performance to differ from the projections discussed in forward-looking statements, owing to changes in the domestic and overseas business environment.

Message from Management

In fiscal 2007, ended March 31, 2007, the ISID Group posted consolidated net sales of ¥75,172 million, operating income of ¥3,364 million, ordinary income of ¥3,619 million, and net income of ¥1,564 million.

The ISID Group's businesses of developing systems for the financial and services sectors have been successful. Accordingly, during the year management concentrated its attention on these businesses, resulting in year-over-year growth in sales and net income.

Since the Company announced its three-year, medium-term management plan in November 2004, it has had a variety of achievements, including, implementing measures for improving its software business, opening new markets, and expanding existing markets. Other initiatives include increasing our lineup of software offerings and introducing new services.

The ISID Group will continue along its path to improved profitability and renewed growth.

The Company declared a year-end dividend of ¥10 per share. Combined with an interim dividend of ¥10 per share, per share dividends for the year were ¥20. Plans call for maintaining annual dividends of ¥20 per share in fiscal 2008.



The ISID Group continues to react swiftly to changes in its business environment and build its core competencies to lay the groundwork for sustained growth, thereby meeting the expectations of its shareholders and other stakeholders.

We thank you for your confidence to date and look forward to your continued support.



Chairman and CEO
Hideaki Furukawa

President and COO
Koichi Mizuno



IT Solution Innovator ISID

ISID strives to be an innovator in the IT solutions business.

1. Market Creation

ISID creates new markets through its advanced expertise and creativity.

2. Best Solutions through Best Practices

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

3. Our 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 professionalism and personal virtues. ISID innovates continuously to remain at the leading edge. ISID strives to be an innovator in the IT solutions business.

ISID, Forever New

From Japan to World Leader

Information Services International-Dentsu, Ltd. (ISID), was established in 1975 as a joint venture between Dentsu Inc. and the General Electric Company (GE). Since that time, we have been taking an integrated approach toward adding value to customers' businesses through information technology (IT).

As our customers' businesses have grown more global, the level of IT services they require has risen. In line with these changes, the ISID Group has formulated the new vision of moving "from Japan to world leader." We are working to fulfill this vision in two ways, the first of which is to solidify and maximize the benefits of our core competencies. The second is to continue to match our core competencies swiftly with ongoing advances in customers' IT needs through the innovative strength of the ISID Group.

Our core competencies include the ability to meet customers' IT needs with operational expertise and leading-edge technologies, as well as the sustained organizational strength to continue applying value-added knowledge to create solutions and services. We maintain an air of friendly competition with our clients, as we cultivate our own expertise by helping to achieve their business goals.

For example, our abundant financial sector expertise evolved from the experience we gained by configuring international financial business systems at the time of our establishment. Since that period, we have accumulated expertise in the advanced financial transactions business. By configuring transaction management systems, we have developed skills in advanced financial transaction businesses in Europe and the United States. We systematized this know-how, turning financial-sector business into one of the ISID Group's core competencies. We have developed strong business relationships across a wide-ranging customer base, spanning categories from the market transaction, corporate customer transaction and settlement businesses to transaction business targeting individual customers, such as Internet banking systems and real-time trading systems.

For the manufacturing sector, through the process of offering engineering solutions and services spanning computer-aided design (CAD), computer-aided manufacturing (CAM), computer-aided engineering (CAE) and product data management (PDM), we have built up our own knowledge of how to improve R&D within the manufacturing sector. As a structure that responds to a host of client needs, we have linked ISID Group companies into a value chain that connects product development processes from planning

and design to preparing for production. Such activities embody our aim to become Japan's leading corporate group that solves customers' management issues through IT.

We also work with customers in a host of other sectors, such as the apparel, food service and airline industries, configuring POS systems, store management systems, mileage systems, backbone business systems and other strategic systems that directly address management issues. We also provide ongoing functionality upgrades and system management services. In addition, we foster cooperation with other Dentsu group companies to offer IT solutions for corporate marketing.

By providing such services, we deepen our understanding of clients' industries, which enables us to address their issues by deploying even more appropriate technologies. In addition to strengthening our core competencies, through such activities we aim to raise customer satisfaction with our services.

Our lineup of activities ranges from consulting and system configuration to sales of software packages, technical support and outsourced system management services. To support customers' IT systems from numerous angles, ISID Group companies also form liaisons to promote services that offer highly specialized personnel and advanced expertise. We believe that exceeding customer expectations is the key to achieving our goal of moving "from Japan to world leader." We are working toward the situation in which all members of the ISID Group embrace this goal and combine it with their strong wills and the ability to take action.



Discussion and Analysis of Financial Information and Business Performance

Net Sales

During fiscal 2007 ended March 31 2007, the Japanese economy continued to recover, driven by higher corporate earnings and increased capital investment. Our operating environment was also buoyed by growing interest in investment in IT infrastructure.

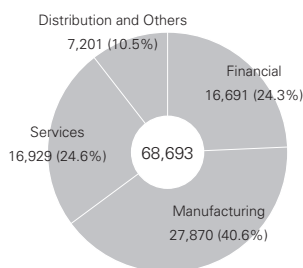
The overall environment remained difficult, however, as client companies demanded better prices, quality, feature sets, and schedules for delivery and installation—all indicators of heightened concern about cost-effectiveness.

In this environment, the ISID Group's efforts to offer solutions responsive to its customers' needs led to a 9.4% increase in consolidated net sales during the year, to ¥75,172 million. Primary contributing factors included increased operating activities by the Company; ISID TechnoSolutions, Ltd.; and ISI-Dentsu Shanghai Co., Ltd., the Group's Chinese subsidiary; as well as earnings from ESTECH Corporation coming into the scope of the Group's consolidated earnings.

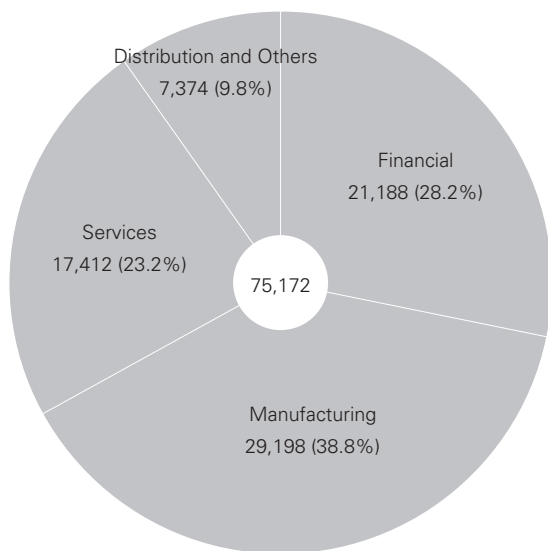
Business Performance by Customer Segment

The ISID Group’s business performance by customer segment in fiscal 2007 was as follows:

Consolidated Net Sales by Sector (Millions of yen)
 Figures within parentheses are percentages of the total.



Fiscal 2006



Fiscal 2007

Financial Sector Business

The ISID Group’s net sales to the financial sector in fiscal 2007 exceeded those for fiscal 2006. The Group expanded its system development for major banks, particularly in system integration and rebuilding of legacy systems. Sales were also strong in such products as the new BIS-compliance module of the Company’s RiskTaker package for lending operations by regional financial institutions, with new orders being placed by 14 banks in fiscal 2007, bringing the total to 34. System development for online securities trading expanded as well, including building a new trading system for Monex, Inc. The Company has also entered a new business sector, offering On-Demand Workspaces, a document management service for syndicated loans. All of Japan’s megabank groups—Mizuho Corporate Bank, Ltd., the Sumitomo Mitsui Banking Corporation, and The Bank of Tokyo-Mitsubishi UFJ, Ltd.—have adopted this service.

The Company’s net sales to the financial sector thus significantly exceeded those for fiscal 2006, raising overall ISID Group net sales above the previous year, despite a year-over-year decline in sales to the same sector on the part of Brainyworks, Ltd.

Net Sales: Financial (Millions of yen)

Fiscal 2007	21,188
Fiscal 2006	16,691

Manufacturing Sector Business

The ISID Group’s net sales to the manufacturing sector in fiscal 2007 exceeded those for fiscal 2006. The Company experienced a decline, primarily in its sales of CAD and CAE software.

In the CAD sector, the Company took steps, including adding more personnel, to enhance its system migration business for customers transitioning from the I-deas CAD software package to the new NX CAD package. Although technical support services for the migration business grew year over year, CAD software sales suffered because of the need to divert time and personnel to troubleshooting during the initial stages of migration, as well as conducting runtime tests.

Demand was strong from customers in the CAE sector for using computer analysis to identify issues with manufacturing development and mounting countermeasures, prior to prototyping. The Company has been enhancing its offerings, particularly in consulting, by adding more personnel, and its CAE technical

support services grew year over year as a result. CAE software sales declined, however, chiefly owing to the maturity of some of the Company's flagship software products in this sector.

At the same time, other sales to manufacturing were successful, including consulting services and tools pertaining to building internal control systems, ERP systems, and consolidated accounting systems. These sales raised the Company's net sales to the manufacturing sector above those in fiscal 2006.

Across the ISID Group, ISID TechnoSolutions, Ltd. had higher revenues in fiscal 2007 versus fiscal 2006. The analysis consulting services offered by newly consolidated ESTECH Corporation also contributed positively to raising the Group's manufacturing sector net sales over fiscal 2006.

Net Sales: Manufacturing (Millions of yen)

Fiscal 2007	29,198
Fiscal 2006	27,870

Services Sector Business

The ISID Group's net sales to the services sector in fiscal 2007 exceeded those for fiscal 2006.

The Company's net sales in fiscal 2007 for information processing and telecommunications services, together with outsourcing of development of large-scale systems, exceeded those for fiscal 2006. The ISID Group's net sales in fiscal 2007 grew year over year, owing to unit growth, despite a decline at Brainyworks, Ltd.

Net Sales: Services (Millions of yen)

Fiscal 2007	17,412
Fiscal 2006	16,929

Business in Distribution and Other Sectors

The ISID Group's net sales to the distribution and other sectors in fiscal 2007 exceeded those for fiscal 2006.

The Company's net sales targeting distribution and other sectors in fiscal 2007 were flat compared with fiscal 2006, owing primarily to stable sales of system development and operation services to key customers. ISID TechnoSolutions had higher sales of CAD software to educational institutions in fiscal 2007 than in fiscal 2006, which contributed to an increase in net sales for the ISID Group in fiscal 2007 versus fiscal 2006.

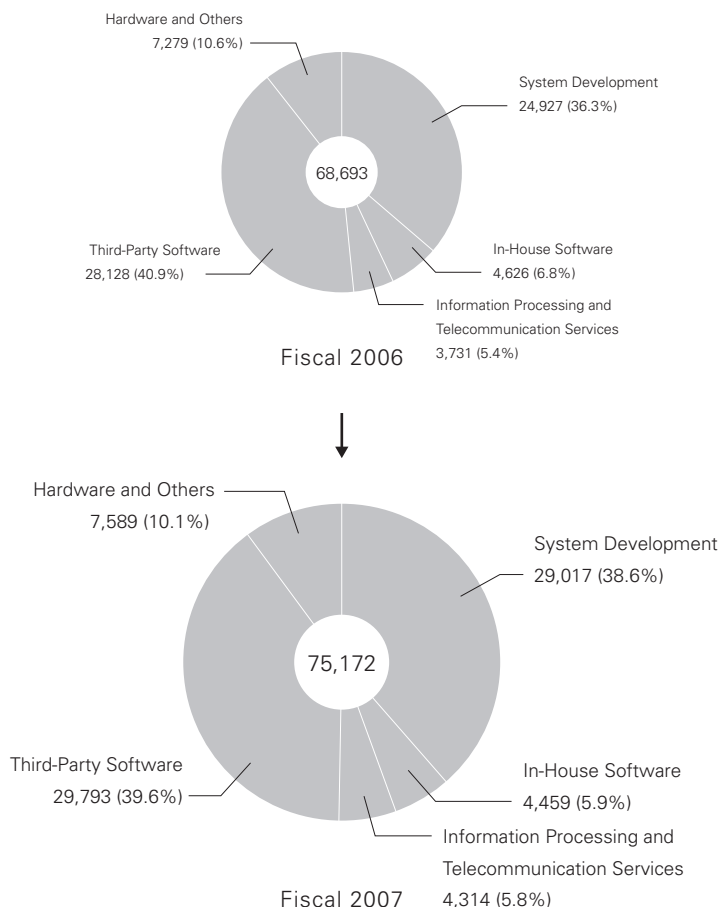
Net Sales: Distribution and Other Sectors (Millions of yen)

Fiscal 2007	7,374
Fiscal 2006	7,201

Business Performance by Product or Service

The ISID Group's business performance by type of product or service in fiscal 2007 was as follows:

Consolidated Net Sales by Product or Service (Millions of yen)
 Figures within parentheses are percentages of the total.



System Development

The ISID Group's net sales in system development in fiscal 2007 came to ¥29,017 million. The Company's net sales in the financial and services sectors in fiscal 2007 exceeded those for fiscal 2006, totaling ¥23,126 million in fiscal 2007. In the ISID Group, net sales in fiscal 2007 exceeded those in fiscal 2006, with ISI-Dentsu Shanghai exceeding net sales for the previous fiscal year, especially in the financial sector.

In-House Software

The ISID Group's net sales of in-house software in fiscal 2007 came to ¥4,459 million. The Company's net sales of in-house software in fiscal 2007 came to ¥2,775 million, driven by strong sales of RiskTaker and the STRAVIS consolidated accounting system. This and growth in sales by ISID TechnoSolutions to the manufacturing sector in fiscal 2007 were offset by a year-over-year decline at Brainyworks, Ltd., owing to large sales in fiscal 2006. Thus, the ISID Group's net sales declined from fiscal 2006 to fiscal 2007 in this sector.

Information Processing and Telecommunication Services

The ISID Group's net sales of information processing and telecommunication services in fiscal 2007 came to ¥4,314 million. The Company's net sales of information processing and telecommunication services in fiscal 2007 were ¥3,831 million, primarily driven by growth in system operations for the services sector in fiscal 2007. Brainyworks, Ltd. also had some growth in this sector in fiscal 2007 over fiscal 2006, contributing to the Group's growth in net sales.

Third-Party Software

The ISID Group's net sales of third-party software in fiscal 2007 came to ¥29,793 million. The Company's net sales of third-party software in fiscal 2007 came to ¥23,793 million, driven primarily by growth in technical support services pertaining to building enterprise resource management (ERP) systems, despite a decline in year-over-year sales of computer-aided design (CAD) and computer-aided engineering (CAE) software for the manufacturing sector in fiscal 2007. ISID TechnoSolutions' net sales in this sector in fiscal 2007 exceeded those for fiscal 2006, and similar net sales growth gained by making ESTECH a consolidated subsidiary also

contributed to the Group's growth in net sales.

Hardware and Others

The ISID Group's net sales of hardware in fiscal 2007 were ¥7,405 million, of which the Company's net sales accounted for ¥4,761 million. The Group's net sales of others in fiscal 2007 came to ¥184 million, with the Company contributing ¥108 million.

ISID's Products and Services

Category	Description
System Development	Consulting and other services related to systemization, system development, and system maintenance and support
In-House Software	Sales of packaged software developed in-house, as well as maintenance and support
Information Processing and Telecommunication Services	System Outsourcing Services
Third-Party Software	Sales, maintenance, and support of third-party software, including technical support services, i.e., consulting, installation support, and customization
Hardware	Hardware sales, maintenance, and support
Others	Seminars related to the ISID Groups services, etc.

Overview of Products and Services

System Development

ISID engages primarily in the development of system applications that address the needs of its clients' businesses. ISID is the prime contractor, receiving orders directly from customers. Based on our extensive industry and operational experience, we understand customers' needs and propose and develop systems from that standpoint. ISID provides an array of services that cover the system lifecycle, including planning, design, development, testing, and maintenance.

In-House Software

This category describes software that ISID develops either entirely on its own, or in collaboration with other companies, and then sells. In our software development and commercialization, we aim to anticipate customers' needs, arising as they do from changes in their business policies and market environments.

Information Processing and Telecommunication Services

ISID maintains its own computer center, from which it offers round-the-clock system outsourcing services, providing customer system operations, maintenance, and support.

Third-Party Software

ISID sells leading-edge software, provided by domestic and foreign vendors. Our advantage in this category is the ability to select and offer the software that best meets our customers' needs.

Underpinning this ability is our wide-ranging research, including that conducted at our overseas locations, to gather the most up-to-date information on software. Prior to installation, we provide detailed consulting and customization. During the installation process, we provide user training. Post installation, we offer operational, maintenance, and other software support services.

Hardware

When selling such hardware as servers, personal computers and network appliances, ISID takes a neutral stance, one that does not favor any particular vendor. This approach allows us to provide the most appropriate hardware for the customer.

Profitability

Compared with fiscal 2006, gross profit expanded 12.2% in fiscal 2007, to ¥21,307 million. This growth chiefly reflected successful efforts on the part of the ISID Group to eliminate unprofitable business. The gross profit ratio improved 0.7 percentage point.

SG&A expenses rose ¥1,418 million, or 8.6%, to ¥17,943 million. Primary factors driving growth in this area were higher operating costs incurred by the Company as sales activities increased, expenses relating to migrating to a new 3-D CAD system, increased personnel and employment-related expenses pertaining to Group subsidiaries, and the amortization of goodwill associated with making ESTECH a consolidated subsidiary.

The increase in gross profit over fiscal 2006 by ¥2,318 million more than offset the increase in SG&A expenses of ¥1,418 million over fiscal 2006, resulting in a rise in operating income over fiscal 2006 of ¥900 million, to ¥3,364 million. The operating income ratio improved 0.9 percentage point, to 4.5%. Group net income in fiscal 2007 thus increased ¥290 million over fiscal 2006, to ¥1,564 million. Net income ratio improved 0.2 percentage point to 2.1%.

Capital Resources and Liquidity

Assets

On March 31, 2007, total assets were ¥50,725 million, up from ¥49,955 million at the end of fiscal 2006. Current assets rose ¥1,751 million, buoyed by an increase in accounts receivable of ¥2,764 million and an increase in cash and cash equivalents of ¥1,621 million, together with a decline in short-term investments of ¥2,039 million. Non-current assets declined ¥981 million, owing primarily to amortization of goodwill in the amount of ¥696 million.

Liabilities

Total liabilities on March 31, 2007 were ¥18,513 million, compared with ¥18,407 one year earlier. Current liabilities increased ¥2,044 million compared with fiscal 2006, owing primarily to an increase in accrued income taxes of ¥1,022 million and an increase in advance receipts of ¥494 million. On the other hand, long-term deferred tax liabilities declined ¥535 million, and retirement benefits decreased ¥1,328 million, owing to the discontinuation of lump-sum severance payment plans for some consolidated subsidiaries, resulting in an overall reduction in long-term liabilities by ¥1,938 million. The Group incurred no interest-bearing debt from loans by financial institutions, etc., during the fiscal year in review.

Net Assets

Net asset amounted to ¥32,212 million on March 31, 2007. Net income during the year brought about a ¥911 million increase in retained earnings, but shifts in market prices caused a ¥301 million decrease in the valuation of other available-for-sale securities. From the year under review, the Group adopted the Accounting Standards for the Representation of Net Assets in the Balance Sheets (Business Accounting Standards No. 5, December 9, 2005) and the Guidance for the Application of the Accounting Standards for the Representation of Net Assets in the Balance Sheets (Business Accounting Standards Guidance No. 8, December 9, 2005).

Cash Flows

Consolidated cash flows during fiscal 2007 resulted in a decline of ¥378 million in cash and cash equivalents, to ¥11,043 million. Operating activities contributed ¥2,026 million, while investment activities resulted in a decline of ¥1,754 million, together with an additional ¥688 million from financing activities.

Cash Flows from Operating Activities

Income before taxes and minority interests contributed ¥3,424 million, and depreciation provided ¥1,372 million. Increased sales liabilities used ¥2,734 million, the discontinuation of lump-sum severance payment plans for some consolidated subsidiaries reduced retirement benefits ¥1,328 million, and income taxes and other payments used ¥864 million. After these deductions, net cash provided by operating activities totaled ¥2,026 million.

Income before taxes and minority interests increased ¥639 million over fiscal 2006. The increased sales liabilities, reduced retirement benefits, and increases in income taxes and other payments of ¥499 million, actually reduced cash by ¥589 million.

Cash Flows from Investing Activities

Purchases of software and other intangible assets used ¥1,085 million, and the acquisition of investment securities required another ¥458 million, resulting in a decline in net cash generated by investment activities of ¥1,754 million.

Compared with fiscal 2006, the lack of acquisitions of shares in subsidiaries, which totaled ¥1,321 million in fiscal 2006, and a reduction of ¥981 million in purchases of software and other intangible assets did not offset a decline in income of ¥5,089 million from sales of investment securities. As a result, cash from investing activities was ¥3,542 million lower than in fiscal 2006.

Cash Flows from Financing Activities

The main uses of cash were dividends paid, at ¥652 million, and net cash used in financing activities totaled ¥688 million. Cash from financing activities was, therefore, nearly the same as in fiscal 2006, when dividends paid required ¥652 million and net cash used in financing activities totaled ¥698 million.



*Medium-Term Management
Plan Progress*



In November 2004, the ISID Group announced a three-year management plan, which ends in fiscal 2008 and defines three goals:

1. To put into practice our corporate slogan:
"IT Solution Innovator ISID"
2. To return to profitability, achieving a consolidated ratio of operating income to net sales of 7% in fiscal 2008
3. To return to a growth trajectory, achieving average growth in consolidated net sales of not less than 4% between fiscal 2004 and fiscal 2008

Accordingly, our operating performance objectives for fiscal 2008 are consolidated net sales of ¥85,000 million, and consolidated operating income of ¥5,800 million.

The ISID Group's progress toward these goals during fiscal 2007, the second year of this plan, is outlined below.



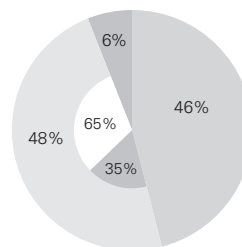
Restructuring Our Business Portfolio

The ISID Group is working to further increase profitability by changing the composition of its net sales structure, while also aggressively expanding its net sales overall. We are working to increase the share of our net sales that we derive from sales of software packages, centering on sales and maintenance of in-house and third-party software, which are highly profitable. As a consequence, the portion of net sales accounted for by our human services operations, which consist of system development and technical support, will decline compared with that of the software package business.

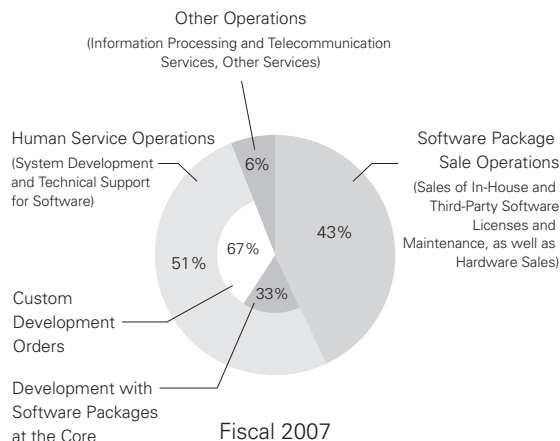
To reduce development risks, we are working to change the portion of net sales accounted for by our human service operations by increasing the portion of these sales accounted for by development with these software packages at their core, thus comparatively reducing the portion of these sales accounted for by the development of custom job orders.

In fiscal 2007, however, solid growth in system development for the financial and services sectors—combined with making ESTECH Corporation, which generates revenues primarily through technical support services, into a consolidated subsidiary—increased the portion of net sales accounted for by our human service operations three percentage points over fiscal 2006, to 51%. At the same time, declines in sales of CAD and CAE software resulted in a decline of three percentage points over fiscal 2006 in net sales accounted for by our software packages, to 43%.

Changes in the Breakdown of Consolidated Net Sales by Business Portfolio



Fiscal 2006



Fiscal 2007

Expansion of Existing Markets

Market in the Financial Sector

In fiscal 2007, we focused on expanding business in the pre-existing financial sector. To this end, we have cultivated better relations with the major Japanese banks, taking into account robust demand for IT investment in this sector. At the same time, we secured new orders for RiskTaker, our system for the lending operations of regional financial institutions, from 14 banks in fiscal 2007 to 34 banks using the system. As a result, the Group has a share of the total regional bank market for systems for lending operations of approximately 30%.

System development for securities trading expanded as well, including an order to build a trading system for Monex, Inc. We also began offering a new service in fiscal 2007: document management system for syndicated loans, which has been adopted by all of Japan's megabank groups. All in all, the Group's customer base in the financial sector has been growing steadily. We foresee that IT investment on the part of financial institutions will continue to be strong in fiscal 2008. We will therefore work to further expand our customer base by developing new solutions, as well as expand sales of legacy systems.

Market in the Manufacturing Sector

As previously stated, in the manufacturing sector market sales of CAD software declined as the Group diverted time and personnel in a concentrated manner to troubleshooting during the initial stages of migrations, as well as conducting runtime tests for the new NX CAD software package. The Group has been working closely with UGS Corporation*, the developer of NX, on trouble-shooting the software. We will continue this relationship with the expectation that more customers will migrate to NX, so that customers can make the migration conclusively and efficiently. We are also working to increase in our net sales in software and technical support services.

There is an increasing sense in the CAE market that some flagship software packages are reaching their maturity, resulting in a slump in CAE software sales. At the same time, demand is strong for computerized analysis, driving demand for consulting pertaining to such analysis on the one hand, while a shortage of engineers to do the analysis work is driving demand for outsourcing of such analysis on the other. ISID made ESTECH Corporation which offers just such analytical consulting services, a Group company in fiscal 2006, and founded ISID Hokkaido in fiscal 2007 to take on analysis outsourcing work. Our Shanghai

subsidiary also put a program in place to take on analysis outsourcing work.

The concerns facing our customers are evolving from the software installation stage to the software utilization stage and from there to overall optimization of the product development process. Customers are thus demanding solutions that confront each of their respective concerns. In addition to carrying out operations with an emphasis on problem-solving, the ISID Group is working with the aforementioned companies, as well as iTiD Consulting, Ltd., which offers consulting in process reformation, and ISID TechnoSolutions, which specializes in cast and molding designs, among other aspects of the preparing of manufacturing facilities. Together, we will strive to fulfill the requirements of our ever-more sophisticated customers.

* UGS Corporation was acquired on May 4, 2007 by Siemens A.G., and operates as UGS PLM Software, part of the Siemens Automation & Drives Group.

Markets in Cross-Industry Sectors

Our customer base in cross-industry sectors is expanding steadily. There were 74 orders in fiscal 2007 for STRAVIS, driven by policy needs: early announcement of financial results, quarterly disclosures, or internal control. Sales of POSITIVE, the human resources management system from Brainyworks, Ltd., exceeded those for fiscal 2006, driven by sales using the software's industry-specific templates.

The ISID Group will continue its operating activities in this sector, making ongoing improvements to its offerings.

Cultivation of New Markets and Fields

Marketing Solutions

In fiscal 2006, the ISID Group commenced sales of the Affinium software package from Unica Corporation, a U.S. company. We have already introduced the package at two companies and we are currently fielding inquiries from such companies as financial institutions and mail-order business operators, as we aggressively pursue new business in this area.

Consumer Goods Sector Solutions

The ISID Group is cultivating a market for product process solutions for manufacturers of consumer goods. Following surveys of interest in, and test marketing of, Teamcenter-CPG, a software package developed by UGS Corporation, the ISID Group has opted to enter into full-scale operations in this sector.

Internal Control Solutions

The ISID Group has commenced offering ISID Internal Control for Enterprise, or D*ICE, a comprehensive internal control service that serves a wide range of requirements, from consulting to IT solutions, to meet legislative and other regulatory demands. Eight companies have placed orders for these consulting services. The iGrafx, a document drawing tool to help visualize business processes, is also selling well.

Support for Open Source Business Solutions

The ISID Group has also undertaken to support open-source business application development. We used Seasar2, an open-source development framework written in Java, to build a market risk management system for Tokyo-Mitsubishi UFJ Bank. The system represents a leading-edge case history of applying open-source software to large-scale mission-critical system development. The ISID Group will engage in more such utilization of open-source software going forward.

Aggressively Promoting R&D Investment

The ISID Group is heavily engaged in developing new software and added functionality for existing software products in-house, as well as researching new technologies, despite a reduction in investment in R&D to ¥1,079 million, or 52.8% of R&D investment in fiscal 2006. The Company has invested in developing new features for such current in-house software products as RiskTaker; STRAVIS; RTGS, its liquidity management system; CAE-ONE, its framework to improve the efficiency of CAE tasks; and PDCubic, its 3-D data exchange system. The Company has also invested in developing such new software as BusinessSPECTRE, a tool for building business intelligence systems; a Japanese localized version of On-Demand Workspaces; and Xythos/JSOX, an add-on system to the Xythos Web-based document management tool for internal control compliance. In addition, we are conducting research with Elysium Co., Ltd., to develop tools that automate the generation of screen definitions from new technology products, based on screen design information written in traditional system development languages, in response to popular demand from businesses that need to renovate systems developed long ago.

The Company is also carrying out R&D efforts in such sectors as product development process management for the consumer goods sector, open-source software, and technologies for CAD system migration.

Brainyworks is developing additional functions for POSITIVE and e-MARKETBRAIN, its integrated CRM system for financial institutions. ISID TechnoSolutions is improving the functionality of its Mold Planner mold/casting design system. And iTiD Consulting is engaged in R&D pertaining to consulting methodologies.

Reforming Our Cost Structure

To raise profitability, we are making sustained efforts to hold down subcontractor costs and other external costs of sales.

Subcontractor costs at the Company exceeded those called for in our plans, however, due to unprofitable projects. This is one factor behind the lower gross profit ratio that we experienced in fiscal 2007.

The Company has instituted a review board and a project management office (PMO) and created a risk management process, whereby sales proposals must be approved by the Board of Directors prior to submission to customers to avoid future occurrences of unprofitable projects. The Company is also improving its project management by increasing the number of personnel who are accredited as Project Management Professionals (PMPs). The objective of all of these measures is to identify and deal with risks at an early stage. In fiscal 2007, the Company improved its risk management by expanding the reach of its risk management policies and procedures to encompass the development process, from beginning to end, starting at the inquiry and proposal stage and continuing through the drawing up of contracts, development, delivery, and activation of a given product. The Company will rigorously avoid unprofitable work.

The ISID Group carried out 450 man-months of offshore development, primarily in China, in fiscal 2007, or approximately four times as much offshore development as it performed in fiscal 2006. The Group will continue to engage in offshore development, as it represents an effective means of controlling external costs of sales.

Optimizing the Overall Group Structure

ISID Group companies are collaborating on making proposals to customers, as well as investigating collaborations on in-house software development, under the aegis of the new Group framework built during the restructuring in fiscal 2006.

The Group founded a new company, ISID Hokkaido, Ltd., in December 2006, to handle outsourcing of analysis work, an area where demand from the manufacturing sector is expected to increase. In this way, ISID Hokkaido is contributing to improving the Group's offerings to the manufacturing sector.

The companies that form the ISID Group have their respective specialties. The Group will further tighten the connections among its companies to create and offer cost-effective solutions to the increasingly diverse and sophisticated concerns that confront its customers.



Research and Development Activities

The ISID Group is heavily engaged in developing new software and adding functionality to existing software products in-house, as well as researching new technologies, despite a reduction in R&D investment to ¥1,079 million, or 52.8% of R&D investment in fiscal 2006. An overview of the ISID Group's primary R&D initiatives follows.

Development of BusinessSPECTRE, a Tool for Building Business Intelligence Systems

The ISID Group developed BusinessSPECTRE, a tool for building business intelligence systems, which links SAP solutions with Microsoft SQL Server 2005.

Japanese Localization of On-Demand Workspaces, a Service for Managing Syndicated Loan Documents

The ISID Group has executed the Japanese localization of On-Demand Workspaces, a service for managing syndicated loan documents, developed by IntraLinks, Inc., a U.S. company.

Xyθος/JSOX, a Version of the Xyθος Web-based Document Management Tool with Internal Control Compliance

The ISID Group has developed such features as organization management, progress management, authorization process

management, and testing management, as options that make the Xyθος Web-based document management tool compliant with internal control, i.e., JSOX.

R&D into Product Lifecycle Management (PLM) Business for Consumer Goods Sector

The ISID Group has researched a system for optimizing the overall product development process in the consumer goods sector.

Research and Development Relating to the new NX Series of CAD Software Products

The ISID Group has surveyed customers in the manufacturing sector that use the I-deas CAD software package as to what technologies they need to make a smooth upgrade to the new NX CAD software.

Commercialization of a Tool for Automating Generation of Screen Definitions

In response to popular demand for the renovation of systems developed in the past, the ISID Group, in a collaborative research effort with business partner Elysium Co., Ltd., is developing a tool that automates the generation of screen definitions using Flex based on screen design information written in traditional system development languages.

Research into Technologies for Raising Quality in System Development

The ISID Group is researching analysis technologies for raising the quality of program code and developing techniques and policies intended for use in actual development situations, with the aim of increasing its systems development capabilities.

Contributing to the Seasar Foundation

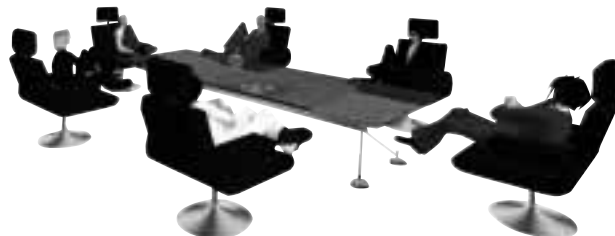
The ISID Group is contributing manpower to the development community for Seasar2, a lightweight open-source framework created in Japan to help promote the Japanese open-source sector.

R&D into Broadband Applications

The ISID Group is researching the Japan Gigabit Research Network (JGN2), in collaboration with the Japanese National Institute of Information and Communications Technology (NICT), and promoting the utilization of JGN2 in business applications that involve high-speed transmission of high-definition video, such as teleconferencing or distance training and education.

Commencing Research Activities in Second Life

The ISID Group is studying the issues involved with conducting business in Second Life and solutions to those problems, as well as investigating the possibilities inherent in using Second Life in its business operations.



Corporate Governance

Fundamental Approach toward Corporate Governance

ISID's corporate philosophy is to contribute significantly to the prosperity of its shareholders, clients and society as a whole, with integrity as its moral backbone. Based on these principles, we recognize the importance of conducting business quickly, fairly and transparently, to achieve the stable and continuous growth of ISID and the ISID Group.

For this reason, we have separated the decision-making and business execution functions. This division is designed to ensure sound business operations and risk management through the appropriate supervision and auditing of these functions by Board members and auditors.

Additionally, ISID views compliance as the foundation of sound business management, and we endeavor to promote ethics and a law-abiding spirit among all ISID and ISID Group Board members and employees.

Corporate Governance Measures and Their Implementation Status

(1) Management Control Structure for Decision-Making, Execution and Supervision, and Status of Corporate Governance System

Corporate Institutions and Status of Internal Control System Establishment

1. Board of Directors and Business Execution System

The Board of Directors makes decisions on important matters and supervises the execution of business. As of the publication date of this annual report, the Board of Directors consisted of nine members, including one external director. To ensure prompt response to changes in the management environment and to clarify management responsibilities for each fiscal year, directors are elected to a one-year term of office.

In June 2003, the Company introduced the executive officer system. On April 1, 2005, this system was revised to disallow, as a general rule and except for representative directors, directors from serving concurrently as executive officers. This measure was designed to reinforce corporate governance, creating a system of responsibility for management and business execution conducive to raising shareholder returns.

To speed the management decision-making process and raise operating efficiency, a full-time Board of Directors was established as a separate management body. This Board's objectives include resolving important management issues other than those resolved by the Board of Directors and deliberating items for resolution prior to their resolution by the Board of Directors. Various committees are also in place to deliberate and make decisions on topics related to daily business execution, within the scope of authority delegated by the full-time Board of Directors.

2. Audits by Corporate Auditors and Internal Audits

The Company employs a system of corporate auditors. The Council of Corporate Auditors determines audit policy and assignments and audits the execution of duties of directors, based in its audit plan. As of the publication date of this annual report, the Council of Corporate Auditors had four members, of whom three were external corporate auditors. A Corporate Auditors Office is in place to support the smooth operation of audit activities. As of this writing, two people were assigned to this office.

The corporate auditors and the Council of Corporate Auditors conduct the following activities to foster communications with the audit firm:

1. The audit plans, interim audit reports and year-end audit reports by Deloitte Touche Tohmatsu, an audit firm, are heard by the Council of Corporate Auditors.
2. The council receives from the auditing firm reports on significant themes concerning the accounting audits (annually or semiannually)
3. The standing corporate auditor, auditing firm and Internal Audit Department meet to share information and confirm important themes pertaining to the fiscal year-end accounting audit.
4. The council exchanges information with corporate auditors of subsidiaries and shares information related to accounting audits.

The Corporate Auditors Office conducts internal audits and reports audit results to the representative director. In accordance with these results, the representative director instructs relevant departments as to required improvements. As of the publication date of this annual report, four members were assigned to the Corporate Auditors Office. The Corporate Auditors Office coordinates the following activities, which are performed by corporate auditors:

1. The integration of year-end audit plans by the standing corporate auditors and the head of the Corporate Auditors Office
2. The hearing of internal audit plans by the Council of Corporate Auditors
3. Following the completion of internal audits, the hearing of internal audit reports by the standing corporate auditor
4. The hearing of internal audit reports by the Council of Corporate Auditors
5. Eliciting the cooperation of domestic subsidiaries and overseas companies in on-site audits

If necessary, ISID's directors, executive officers or employees may also serve as directors or corporate auditors of major Group companies, contributing to the formation of transparent and effective management and supervisory systems. Corporate auditors may conduct audits of Group companies, as necessary, to audit the execution of duties by directors. In addition, ISID's Corporate Auditors Office conducts audits of Group companies.

3. Accounting Audits

The Company has concluded an auditing contract with Deloitte Touche Tohmatsu, an audit firm, to perform stringent audits of ISID's nonconsolidated accounts and the consolidated accounts of the ISID Group. The accounting audit system employed in fiscal 2007 comprised the following personnel:

1. Certified public accountants who conducted audits:
Takashi Nagata, assigned Managing Partner
Kenichi Kimura, assigned Managing Partner
2. Associated auditing firm: Deloitte Touche Tohmatsu. Period of consecutive audit: three years.
3. Personnel assisting in audit activities:
Three certified public accountants
three accounting assistants
three other people

4. Status of Establishment of Internal Control Systems

Within the ISID Group, the Internal Control Committee is responsible for the establishment and improvement of internal control systems. A representative director chairs this committee, whose membership includes directors, presidents and division or department managers of Group companies and the people in charge of business affairs at Group companies. The ISID Group's basic policy concerning the establishment of internal control systems is described below.

Basic Policies

1. Structure for Establishing Internal Control Systems

The Internal Control Committee, chaired by the representative director, has been established to create, operate and improve internal control systems for the ISID Group. Under the Internal Control Committee, which functions as a secretariat, the Internal Control Promotion Office has been established to promote the ongoing effectiveness of internal control systems.

2. Compliance System for Directors

The Company's directors comply with the Dentsu Group Charter of Corporate Conduct, as well as Our Commitment to Integrity, the ISID Group's definition of standards of conduct. Directors also execute business activities, complying as appropriate with regulations for the Board of Directors, the Full-Time Board of Directors and executives.

In the event that a director is determined to have acted in material violation of any laws or ordinances, the Articles of Incorporation or other important compliance standards, such violation is reported promptly to the Board of Directors or the Full-Time Board of Directors. This information is also reported to the corporate auditors.

3. Systems to Improve the Efficiency of Business Execution by Directors

In principle, the Board of Directors meets once each month. The full-time Board of Directors generally meets once a week. These meetings are conducted to make decisions on important business topics and supervise the execution of business.

The full-time Board of Directors delegates, in principle to directors, the responsibility for establishing various committees. These committees are responsible for deliberating and making decisions on topics of business execution, within the scope of the authority they have been delegated.

Decisions made by the Board of Directors, the full-time Board of Directors and various committees are transmitted directly from the director in charge of that particular task to division managers, and then to employees through lines of authority or via the internal electronic bulletin system, as appropriate.

4. Systems for Storing and Managing Information on the Execution of Business by Directors

Information concerning the execution of business by directors is stored and managed as appropriate, in accordance with the Company's internal regulations.

5. Risk Management System

The Company has established risk management regulations, and by putting in place plans to respond to important operational risks the Company strives to minimize the impact of risks that materialize.

Specific risk management activities are conducted by the Internal Control Committee, and various departments that manage individual risks.

By remaining aware of and regularly reviewing important risks, the Internal Control Committee ensures the effectiveness of risk management activities. The committee is responsible for overseeing the implementation status of plans to counter risk that are drawn up by the various departments that handle individual risks.

Under the supervision of the Internal Control Committee, departments that manage risk establish and carry out plans to counter the risks they have been assigned to handle.

6. Compliance System for Employees

The Company's employees act in accordance with the Dentsu Group Charter of Corporate Conduct, as well as Our Commitment to Integrity, the ISID Group's definition of standards of conduct.

ISID has put in place various supervisory divisions and committees to enforce its employee compliance system. In addition, the Internal Audit Department conducts internal audits on these activities at the instruction of the representative directors.

We have created the Ethics and Compliance Committee to oversee ISID Group behavioral standards.

ISID employs D-EAR, the Dentsu group's internal reporting system, as well as its own reporting system, the Ethics Helpline. Employees are free to report or ask for advice on perceived violations, using either D-EAR or the Ethics Helpline. Such information is reported promptly to a standing corporate auditor, if warranted.

If opinions or improvements to the compliance system for ISID Group employees are called for by the corporate auditors, directors shall respond without delay in making such improvements.

7. Organizations to Assist the Activities of Corporate Auditors, and Independence

ISID has established a Corporate Auditors Office within its organizational structure to enable employees to assist the activities of corporate auditors. These employees report directly to the Council of Corporate Auditors and are entirely independent from directors.

8. Corporate Auditor Reporting System and Ensuring Audit Effectiveness

Directors or employees who become aware of actions that have the potential to significantly undermine trust in the Company or to substantially impact its operating performance, or actions that contravene laws and regulations, the Articles of Incorporation or internal rules or that constitute fraudulent actions shall report such actions to the corporate auditors without delay, in accordance with the law and internal rules. If necessary, the corporate auditors shall

request relevant reports from the Company's directors and employees.

As they deem necessary, corporate auditors may employ the services of outside specialists, such as attorneys, certified public accountants and specialist institutions.

9. Internal Control Systems of the Corporate Group, including the Parent Company and Its Subsidiaries

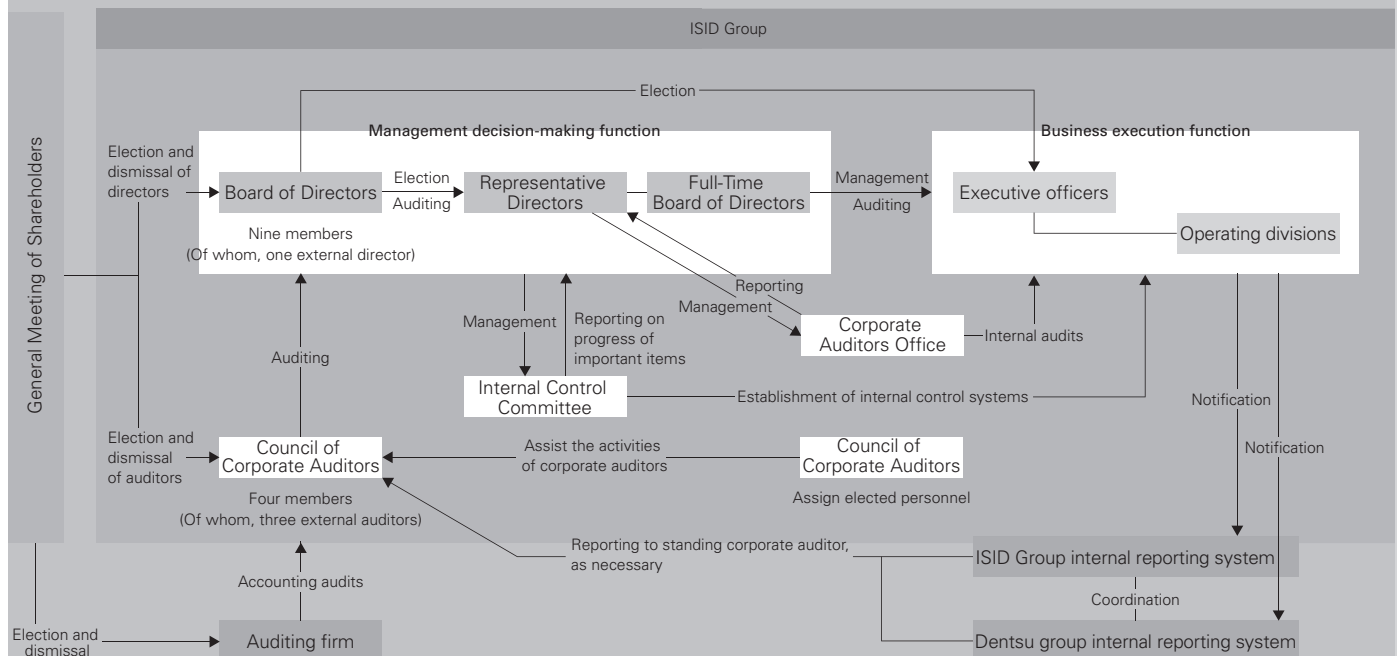
As a subsidiary of the Dentsu Inc. corporate group, we comply with the Dentsu Group Charter of Corporate Conduct and contribute to the corporate value of the Dentsu group. However, as we are a publicly listed company in our own right, we maintain independence from Dentsu.

Through the activities of the Internal Control Committee, internal supervisory departments and committees, we actively support each subsidiary's establishment and operation of internal control systems, as well as improvements, and cooperate with subsidiaries in their implementation.

The current state of the ISID Group's business execution, management supervision and internal control systems as of the date of this annual report's creation are outlined below.

Risk Management System

To prevent behavior that violates various laws and regulations, as well as events that would impede the sound development of the ISID Group in its operating activities, we work to instill an ethical and a law-abiding spirit in all executives and employees. To this



end, the Ethics and Compliance Committee strives to spread the Dentsu Group Charter of Corporate Conduct and ISID Group's code of conduct, called Our Commitment to Integrity, throughout the ISID Group. We are also implementing an internal reporting system for the early discovery and rectification of risks.

The ISID Group has established the Information Security Committee to protect client, personal and other information assets. This committee creates and enforces regulations on information management. The committee also conducts employee training on information management. Through such efforts, the committee works to enhance security and coordinate activities among ISID Group companies. ISID, Brainyworks and ISID InterTechnologies have received Privacy Mark certification from the Japan Information Processing Development Corporation, evincing the ability to handle private information appropriately. ISID, Brainyworks, ISID InterTechnologies, ISID TechnoSolutions, iTiD Consulting, ISID Fairness, Sanki and Dentsu eMarketing One previously received BS7799-2:2002 international information security management system (ISMS) certification, as well as domestic ISMS Ver 2.0 certification. In March 2007, these companies acquired ISO/IEC27001:2005 certification, an international ISMS certification standard maintained by the International Organization for Standardization (ISO), as well as domestic JISQ27001:2006 certification.

In April 2004, we established the Project Management Office (PMO). This move was designed to strengthen risk management, thereby ensuring profitability, in our mainstay system development business.

To enhance risk management, in April 2007 we established the Risk Management Regulations. These regulations defines the risks of which the Company is aware, evaluates these risks establishes risk management systems and defines crisis responses related to these risks. In addition to clarifying the most important risks with the potential to significantly affect overall Group operations, these regulations define the departments in charge of handling individual risks. The Internal Control Promotion Office, which serves as the center for departments handling individual risks, strives to enhance the overall risk management system on an ongoing basis by employing the companywide Plan, Do, Check, Act (PDCA) cycle.

Executive Remuneration

In fiscal 2007, total annual remuneration for directors was ¥206 million. Total annual remuneration for corporate auditors was ¥31 million. ISID abolished new allowances for retirement bonuses for directors as of June 28, 2001, and discontinued new allowances for retirement bonuses for corporate auditors as of June 28, 2005.

Audit Fees

Total compensation to Deloitte Touche Tohmatsu in fiscal 2007 for work stipulated in Item 1, Article 2, of the Certified Public

Accountant Law (1948 Law No. 103) amounted to ¥25 million. Compensation for work other than that stated above totaled ¥7 million.

(2) Outline of the Personal, Financial, Business and Other Special-Interest Relationships between the Company and its External Director and External Auditors

One executive officer of Dentsu, ISID's parent company, is concurrently a director of ISID. Also, one Dentsu employee concurrently serves as a corporate auditor of ISID.

(3) Initiatives during the Past Year to Enhance Corporate Governance

Principal initiatives during the past year are described above in (1) Management Control Structure for Decision-Making, Execution and Supervision; and Status of Corporate Governance System. During the year, we managed various bodies, including the Ethics and Compliance Committee, the Information Security Committee, the Project Management Office and the Internal Control Committee, continuing to identify issues and improve their operations.

(4) Overview of Liability Limitation Agreements

In accordance with Paragraph 2, Article 32, of the Articles of Incorporation, the Company has liability limitation agreements in place with its external director. Similarly, liability limitation agreements are concluded with external auditors under Paragraph 2, Article 42, of the Articles of Incorporation. An overview of liability limitation agreements between the Company and its external director and external auditors is provided below.

Liability Limitation Contract with External Director

The Company has a liability limitation agreement in place with its external director in accordance with Article 423, Paragraph 1, of the Companies Act to limit liabilities provided under Article 425, Paragraph 1. These agreements limit the liability of the external director to ¥6 million or the legally specified amount, whichever is greater, on condition that the director has performed his duties in good faith and without gross negligence.

Liability Limitation Contracts with External Auditors

The Company has liability limitation agreements in place with its external auditors in accordance with Article 423, Paragraph 1, of the Companies Act to limit liabilities provided under Article 425, Paragraph 1. These agreements limit the liability of each external auditor to ¥6 million or the legally specified amount, whichever is greater, on condition that the auditor has performed his duties in good faith and without gross negligence.

Risks and Uncertainties

Outlined below are some of the major risks that may affect the ISID Group's business results and financial condition. The ISID Group endeavors to prevent the escalation of such risks and, in the event any mishap occurs, we will do our utmost to address the situation. Items listed in this section were identified by the ISID Group as of the time this annual report was produced.

(1) Risks Associated with Changes in the Business Environment

The ISID Group's business focuses on providing various solutions that incorporate information technology to meet the IT needs of companies. Therefore, changes in corporate IT investment trends caused by changing economic conditions may impact the ISID Group's business results. Dentsu is a major client of the ISID Group. Since February 1989, ISID has consistently received orders from Dentsu for the construction and operation of Dentsu's in-house information system; ISID has signed an agreement for outsourcing computer operations, an agreement of significant importance to management. Business conducted with Dentsu accounted for 19.2% of the ISID Group's net sales in the fiscal year under review. Accordingly, changes in Dentsu's IT investment levels may affect the ISID Group's business results.

Part of the solutions provided by the ISID Group consists of software imported from overseas and the acquisition costs of such products and related services are regularly paid to suppliers in amounts denominated in foreign currencies (mainly U.S. dollars). Although we endeavor to comply with our profit planning and purchase foreign exchange forward contracts to hedge the risks involved, changes in foreign exchange rates may impact the ISID Group's business results.

The ISID Group endeavors to deliver services that its customers value highly and that are priced commensurately. In addition, we work continuously to raise productivity and optimize our cost structure to enable ongoing increases in profitability. However, severe competition continues to prevail in the information service industry, to which the ISID Group belongs, and our corporate clients are highly price-conscious regarding IT investment. As a result, order prices remain vulnerable to downward pressure, which in turn may affect the ISID Group's business results. The ISID Group commissions outside business partners to provide some of the products and services it forms into solutions and provides to its clients. Depending on the situation with regard to the supply and demand of human resources at these partner companies, unit costs of outsourced business could increase, which could affect the business results of the ISID Group. Unforeseen situations are particularly likely to surface with respect to business

commissioned to business partners overseas, in line with societal changes in the regions where these companies operate.

The information services business is particularly prone to changing customer needs and ongoing advancements in information technology. The ISID Group responds to such environmental changes by optimizing its Group systems and organizations, conducting R&D aggressively and through various management measures. However, should the ISID Group be unable to address rapid shifts in customer needs quickly or fall behind in its technical innovation, the business results of the ISID Group could be affected.

(2) Risks Associated with Products and Services

In system development and software product development, the ISID Group undertakes the preliminary evaluation of orders and development plans for major development projects in terms of required specifications, technical difficulty, order prices and estimated cost of development. Once a project is launched, we regularly monitor progress against the initial plan and exercise rigorous control over risks associated with development. Furthermore, to consistently enhance our technological prowess and our ability to execute and manage development projects, we undertake such measures as training engineers and standardizing development processes. However, when entering a new business domain or introducing new technology, unforeseen problems could raise development costs and make a project unprofitable. Delays on the part of the corporate client in finalizing specifications, responding to changes in specifications and any problems that may occur in terms of product quality, delivery or other issues related to business partners may also lead to a situation in which costs exceed initial plans and profit margins are narrowed.

In delivering solutions to our clients, the ISID Group conducts operational testing deemed to be sufficient based on the required specifications, to ensure both quality and stable operation after delivery. However, there is no guarantee that defects will be completely eliminated. Defects may give rise to additional costs to recover quality, as well as to claims for damages and loss of trust. Products and services provided by the ISID Group may also become the subject of litigation or claims for compensation by third parties citing violation of intellectual property rights, and the ISID Group may thus be required to compensate for damages and/or incur the cost of acquiring or developing alternative technology.

The ISID Group provides systems, outsourcing and services and

operates data centers. The Company is registered with the Ministry of Economy, Trade and Industry (METI) as a certified systems operator and strives to consistently enhance the quality of its services. However, should human error, equipment failure or the outbreak of disaster disrupt the Company's provision of stable services, or should the Company's equipment become inoperable for one of the above-mentioned reasons, the ISID Group's business performance could be affected.

Changes in the management condition of principal suppliers may result in modifications in their management principles or business plans, potentially disrupting our supply of products or services to our corporate customers, and in turn affecting the ISID Group's business results. UGS PLM Solutions, Inc., is an important supplier of software in the areas of CAD, CAM, CAE and PLM, which constitute a major sales category of the ISID Group.

(3) Risks Associated with Management and Business Strategy

Investments in the development of new businesses and technologies aimed at expanding the scope of our business are carried out after sufficient assessment of feasibility and are undertaken to ensure success. However, assessing feasibility involves the extremely difficult task of predicting the future business environment and demand, and there is no guarantee that projected results will be achieved. In the event that development of such new businesses or products cannot be implemented as planned, the investment at risk may affect the ISID Group's business results.

The Company recruits, trains and seeks to optimally assign personnel as part of its ongoing efforts to ensure the provision of valuable solutions to its customers. Specifically, we are increasing our recruiting of new graduates and mid-career personnel and enhancing our personnel education and training. We have introduced METI's Skill Standards for IT Professionals (ITSS) at Group companies and strive to optimize personnel configurations and assignment. However, should we become unable to recruit or train appropriate personnel, the business operations of the ISID Group could be affected.

The ISID Group occasionally handles client data and personal data for the purpose of providing corporate clients with system development services or technical support. While we are fully aware of the significance of such information and treat it accordingly, should such confidential information be leaked, there is a possibility we will face damage claims or loss of trust. ISID, Brainyworks and ISID InterTechnologies have received Privacy Mark certification from the Japan Information Processing

Development Corporation, evincing the ability to handle private information appropriately. ISID, Brainyworks, ISID InterTechnologies, ISID TechnoSolutions, iTiD Consulting, ISID Fairness, Sanki and Dentsu eMarketing One previously received BS7799-2:2002 international information security management system (ISMS) certification, as well as domestic ISMS Ver 2.0 certification. In March 2007, these companies acquired ISO/IEC27001:2005 certification, an international ISMS certification standard maintained by the International Organization for Standardization (ISO), as well as domestic JISQ27001:2006 certification. The Company will continue its efforts to enhance information security.

ISID Group Business Structure

ISID aims to provide total solutions at every stage—consulting, system construction, implementation, and so on—to raise customer satisfaction in the financial, manufacturing, services, distribution and other industries. By forming business and capital alliances with companies possessing high-level expertise, we strengthen both the quality and the quantity of total solutions we are able to offer. In December 2006, we established ISID Hokkaido, Ltd., to provide computer-aided engineering (CAE) outsourcing services targeting manufacturers. By raising its group strength, the ISID Group seeks to ensure long-term growth.

Core Business	Domestic Group Company	Primary Target Market		
		Financial Industry	Manufacturing Industry	Services, Distribution and Other Industries
Consulting	īTiD Consulting, Ltd.		○	
	ESTECH Corporation		○	
	Dentsu eMarketing One Inc.	○	○	○
System construction/ implementation	Brainyworks, Ltd.	○	○	○
	ISID InterTechnologies, Ltd.	○	○	○
	ISID TechnoSolutions, Ltd.		○	
	ISID Hokkaido, Ltd. (New)		○	
	ISID Fairness, Ltd.	○		

Overview of Domestic Group Companies

Consulting

iTiD Consulting, Ltd. (iTiD)

iTiD is a consulting firm that reforms manufacturing development and design processes through a unique process innovation tool. The company's iTiD Index, Japan's first index for evaluating product development capabilities, scientifically and quantitatively measures and evaluates the relationships between development processes and business success. Focusing on product design and development process, the tool fosters radical system and business reforms that ultimately help to raise development capabilities. One approach is for ISiD to provide such IT solutions as CAD/CAE and PDM. The ISiD Group has positioned iTiD at the heart of its solutions strategy for the manufacturing sector.



ESTECH Corporation

The cornerstone of ESTECH's partnership with its customers is its ability to provide integrated test analysis and computer analysis on a consignment basis. This engineering and consulting company provides design and development support by solving technical issues and developing methods of predicting such hardware performance characteristics as vibration, noise, structure, durability and heat. Since its establishment in 1989, this company has earned a strong reputation for the extensive consulting and other services it has provided for leading companies in Japan and overseas in the automotive, electrical equipment and precision machinery sectors. Using the CAE solutions offered by ISiD, a Japanese pioneer in CAE that with a strong track record and extensive expertise, this company is key to the engineering business.



Dentsu eMarketing One Inc.

Based primarily on marketing consulting services, Dentsu eMarketing One is a one-stop provider of specialized services that include e-promotion, construction of marketing systems, web-based marketing, analysis of customer data and systems management services. This company combines the strengths of Dentsu Inc. and Dentsu group companies in business development, management strategy formulation and marketing with ISiD's advanced system configuration abilities to serve as a business partner that helps client companies address marketing-related issues.

Dentsu eMarketing One

System Construction/Implementation

Brainyworks, Ltd.

Brainyworks has an extensive record in the development of systems for the financial sector and is strong in package integration and network configuration. The company plays a major role in ISiD's large-scale system development projects for the financial sector. Having also developed an extensive array of its own packaged software involving CRM, networks, financial sector solutions and personnel management, Brainyworks is one of the ISiD Group's engines of growth and a central component of the strategy to expand sales of packaged software developed in-house.



ISiD InterTechnologies, Ltd.

ISiD InterTechnologies' corporate slogan is Stand by the Customer, the application of which may be one reason that customers give high marks to the company for its technical expertise in system development. The company consistently wins contracts for its capabilities in the integrated configuration and management of overall systems and networks and has earned high levels of customer satisfaction for its operations management and maintenance services. For these reasons, this company plays a vital role in the ISiD Group's service expansion strategy.



ISiD TechnoSolutions, Ltd.

Based on its abundant experience in molding and processing technologies, ISiD TechnoSolutions' strength lies in its ability to assess and apply data from simulation to product generation. Based on its broad-ranging operational expertise and extensive performance, combined with ISiD's ample CAD/CAE track record, ISiD TechnoSolutions provides customers with optimal design and manufacturing solutions.



ISiD Hokkaido, Ltd.

ISiD Hokkaido provides CAE business support to clients of ISiD's Manufacturing Solutions Division. The company specializes in services involving analysis, prototype verification and configuration of automation systems.

株式会社 ISiD北海道

ISiD Fairness, Ltd.

ISiD Fairness delivers financial market information over the Internet. In addition to cooperating with ISiD on projects involving the development of real-time trading systems, the company plans and develops leading-edge content.



Note: Product and service names are trademarks or registered trademarks of ISiD and their respective developers.

Business Highlights

June 9, 2006	Dentsu and 49 Dentsu group companies receive ISO 14001 (2004 version) consolidated certification
June 28, 2006	ISID begins new business for financial institutions operating in the syndicated loan sector ISID provides On-Demand Workspaces through business tie-up with Intralinks, Inc., of the United States
June 29, 2006	ISID and JustSystems Corporation collaborate in solution business using structural knowledge theory to improve design quality ISID promotes the use of structural knowledge to eliminate defects and enhance development capabilities
July 13, 2006	ISID develops BusinessSPECTRE software to coordinate data between SAP Solutions and Microsoft SQL Server 2005
July 19, 2006	Seasar2, the open-source development system, is used to create a large-scale risk management system for the Bank of Tokyo-Mitsubishi UFJ, Ltd.
August 2, 2006	ISID and HP Japan collaborate in the utilization of open-source software in the enterprise software domain ISID inaugurates a strategic alliance between system integrators and hardware vendors centering on Seasar2, which was developed in Japan
September 19, 2006	Reinforces loan business support system of Michinoku Bank, Ltd. Develops electronic notice board and customer management modules for the RiskTaker integrated loan business support solution
October 19, 2006	ISID produced the Affinium Campaign at L.L. Bean Improved the efficiency of catalog distribution operations
November 30, 2006	With Nomura Research Institute, Ltd., ISID provides joint Seasar2 and OpenStandia open-source software support
December 12, 2006	Establishes ISID Hokkaido, Ltd.
January 19, 2007	ISID commences sales of Xythos/JSOX software to enhance internal control documentation efficiency JSOX supports functions of the Web-based document management software
February 21, 2007	Megabank group employs ISID-provided On-Demand Workspaces as a common infrastructure in syndicated loan market

March 2, 2007	For Monex, Inc., ISID creates Monex Trader series, Japan's first real-time trading tool with system trading functions
March 15, 2007	54 Dentsu group companies receive Group verification of ISO/IEC27001:2005 and JISQ27001:2006, the information security management system certification Group verification of JISQ27001:2006
March 22, 2007	ISID commences Second Life R&D activities
April 27, 2007	ISID provides product development process support solution for the consumer goods suppliers
May 1, 2007	ISID, Microsoft and AMD establish Windows® cluster for CAE inspection center (WCTC) to perform CAE business for manufacturers using Windows®-based high-performance computing
May 8, 2007	With the achievement of the action plan based on Law for Measures to Support the Development of the Next Generation, ISID receives "standard responded for general business owner" certification from the Tokyo Labor Bureau
May 15, 2007	ISID introduces new consolidated management planning system for Zeon Corporation More efficient consolidated business activity speeds closing of accounts and accelerates management decision-making
June 4, 2007	ISID supports the introduction of derivatives management system at the Master Trust Bank of Japan, Ltd. Commencement of operations of Calypso, a packaged solution for integrated management of financial products
June 11, 2007	ISID launches videoconferencing system development kit for Mac OS X
June 13, 2007	ISID and Asahi Broadcasting jointly develop data broadcasting and communication content production and operation system for one-segment broadcasting
June 25, 2007	ISID enters tie-up with U.S. grid middleware developer DataSynapse, Inc.
July 2, 2007	ISID unifies product packaging by introducing new visual identity

Certifications Acquired



International Environmental Management System Certification
Dentsu group ISO 14001 certification acquired (June 2006)

The Company acquired consolidated ISO 14001 (2004 version) certification.

On June 5, 2006, the ISID Group* acquired consolidated ISO 14001 (2004 version) certification, along with Dentsu and other companies in the Dentsu group in Japan. This certification will contribute to the future development and proposal of environmentally friendly solutions by the ISID Group, Dentsu and other members of the Dentsu group, and encourage various efforts to reduce our environmental impact.



IS91070/ISO (JIS Q) 27001

The ISID Group* will work with Dentsu group companies on various initiatives to enhance information security.

The ISID Group* previously received BS7799-2:2002 ISMS certification, as well as domestic ISMS Ver. 2.0 certification, and has now acquired ISO/IEC27001:2005 certification, as well as domestic JISQ27001:2006 certification. The ISID Group will continue enhancing its information security management systems.

* ISID Group companies that have received certification are as follows:
ISID, Brainyworks, ISID InterTechnologies, ISID TechnoSolutions, iTID Consulting, ISID Fairness, Sanki and Dentsu eMarketing One



Striving to Achieve a Work-Life Balance

In 2005, ISID created an action plan based on the Law for Measures to Support the Development of the Next Generation. As part of its awareness enhancement activities, ISID created an internal website, the "Life-Work Balance Site for Supporting a Joint Work and Family Life" to encourage each employee to find a healthy and fulfilling balance between work and other parts of their lives. In May 2007, ISID acquired Next-Generation Certification (Kurumin) from the Tokyo Labor Bureau for its proactive efforts to support a balance between work and child care.

Contributing to the Community

As a corporate citizen, the ISID Group contributes to society through various activities to support the healthy development of the community.



Support for the United Nations' World Food Programme

A unique institution of the United Nations that provides food aid, the World Food Programme is also one of the leading worldwide institutions providing support for humanity. As a private-sector liaison for the organization, ISID supports its activities by sitting on the Board of Trustees of the Japan Association for the United Nations' World Food Programme, a non-profit organization (NPO) that elicits private-sector funding support and provides publicity.



UNESCO World Terakoya Movement "Kururimpa Project"

ISID participates in the UNESCO World Terakoya Movement's "Kururimpa Project," with Dentsu Inc., Dentsu Tec, Inc., and Cyber Communications Inc. The World Terakoya Movement is an activity promoted by the National Federation of UNESCO Associations in Japan to provide learning opportunities to children who cannot go to school and people who are illiterate. The four Dentsu group companies donate World Terakoya Movement logos, help with publicity and fund-raising activities, and our employees participate in volunteer activities through exhibitions and workshops.

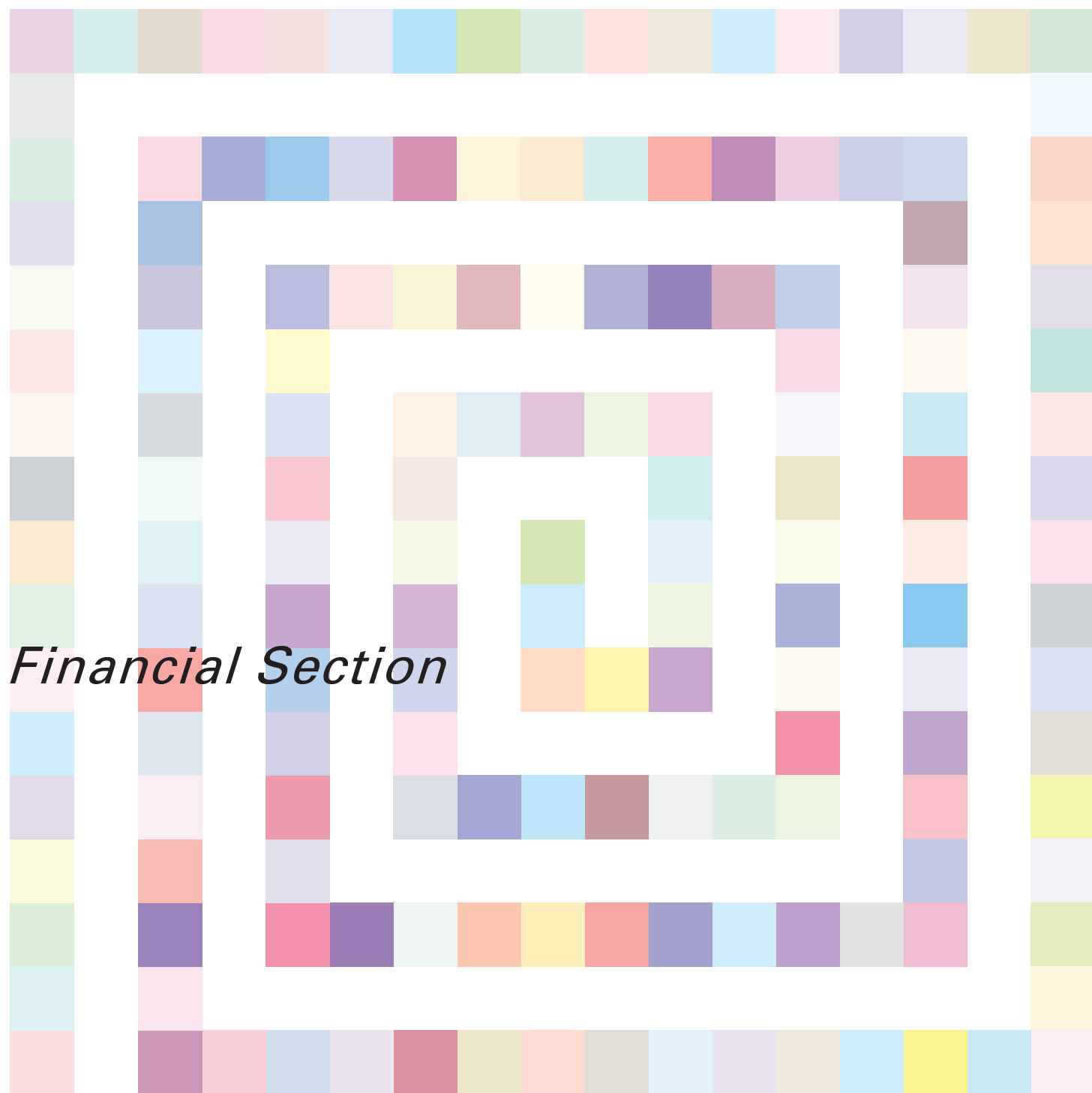


Support for People's HOPE Japan

By providing medical assistance, People's HOPE Japan helps to improve health environments for the people of underprivileged countries, towards its goal of offering "health opportunities for people everywhere." As an organization of medical volunteers from around the world, People's HOPE Japan undertakes the following activities:

- Supports medical education activities (preventive healthcare, training medical specialists)
- Provides support for medical funding and supplies
- Assists medical institutions and facilities
- Offers emergency medical aid
- Makes proposals for health and medical policy

As an advocate of People's HOPE Japan, ISID has been an active member since 1998.



Financial Section

- 34 - 35 Consolidated Balance Sheets
- 36 Consolidated Statements of Income
- 37 Consolidated Statement of Changes in Equity
- 38 Consolidated Statements of Cash Flows

Significant Accounting Policies and Forecasts

The ISID Group's consolidated financial statements are prepared on the basis of accounting principles generally accepted in Japan (Japanese GAAP). When preparing these statements, management must form estimates and make forecasts that may affect the Group's financial condition as of the end of the financial year and operating results for the fiscal year. These forecasts and estimates are based on the rational consideration of factors given past performance and conditions. However, estimates may vary from actual results. The significant accounting policies described below are those that management considers to have particular potential to impact the consolidated financial statements of the ISID Group.

1. Deferred Tax Assets

The ISID Group conducts tax planning, including the recording of deferred tax assets, which involves projections concerning future taxable income. The Group creates elimination schedules that include business plans and the future subtraction of (or addition to) deferred tax assets. If management determines that the realization of future business plans will be problematic, a valuation reserve is recorded against deferred tax assets.

2. Impairment Losses on Other Investment Securities

The ISID Group invests in the shares of some of its business partners, as management judges such investments to be necessary from an operating viewpoint. These shares, which are intended for holding, are categorized as "other investment securities." In the event of a sharp decline in the market value or the net asset value of these investments at the end of the fiscal year, and if management judges that the recovery of such value will be impossible, an impairment loss may be recorded.

3. Retirement Benefits

Some consolidated subsidiaries within the ISID Group employ lump-sum severance payment plans. Under this system, the Group's retirement benefit obligations and retirement benefit expenses are recorded on the basis of pension actuarial

calculations. These calculations incorporate such factors as the discount rate, future compensation levels, employee turnover and average employee service periods. The discount rate used in these calculations is based principally on the yield for long-term Japanese government bonds and other long-term interest rate levels. In addition, the performance in past fiscal years is also used as a reference when determining this rate.

4. Amortization of Software Developed for External Sale

The ISID Group calculates the amortization cost of software developed for external sale as the greater of either the amount based on sales in the year, as a proportion of total estimated sales, or the amount computed on the straight-line basis over the estimated sales period, not exceeding three years. As a result, this amount is impacted by projected future sales of the corresponding software. The ISID Group's sales projections are determined by taking into overall account such factors as market size, demand fluctuations, and activities with regard to competing products.

5. Goodwill

Judgments on the amortization of the ISID Group's goodwill account are made on the basis of individual subsidiaries, using the straight-line method over an effective period of either five or 10 years. The Group accounts for the impairment of fixed assets according to the Opinions on Accounting Standards for the Impairment of Fixed Assets by the Business Accounting Council on August 9, 2002, and the Guidance for the Application of the Impairment of Fixed Assets (Business Accounting Standards Guidance No. 6, October 31, 2003). Application to the goodwill account is based on the operating performance and business plans of subsidiaries. As of the end of the consolidated fiscal year under review, management judged the recording of impairment losses to be unnecessary. However, in the event that future projections fail to materialize, the recording of impairment losses may become necessary, impacting the goodwill account for the year in which losses are recognized.

Consolidated Balance Sheets

INFORMATION SERVICES INTERNATIONAL - DENTSU, LTD. AND CONSOLIDATED SUBSIDIARIES

At March 31, 2007 and 2006

	Thousands of		
	Millions of yen	U.S. dollars (note 3)	
	2007	2006	2007
Assets			
Current assets:			
Cash and cash equivalents (note 14)	¥11,043	¥ 9,422	\$93,544
Short-term investments (note 4)	—	2,039	—
Trade notes and accounts receivable (note 14)	20,154	17,390	170,727
Inventories (note 5)	1,000	1,490	8,473
Advance payments	3,659	3,447	30,995
Other current assets	455	596	3,852
Deferred tax assets (note 9)	1,121	1,332	9,496
Allowance for doubtful accounts	(33)	(68)	(279)
Total current assets	37,399	35,648	316,808
Property and equipment (note 2(e)):			
Buildings	793	879	6,713
Furniture and fixtures	271	299	2,299
Other	5	7	46
Total property and equipment	1,069	1,185	9,058
Investments and other assets:			
Software	2,408	2,588	20,395
Investment securities (note 4)	1,639	2,018	13,881
Investments in unconsolidated subsidiaries and affiliated companies	627	339	5,310
Long-term loans	2	3	20
Goodwill	2,997	3,693	25,386
Lease deposits	3,574	3,542	30,279
Deferred tax assets (note 9)	464	476	3,933
Other assets	553	469	4,685
Allowance for doubtful accounts	(7)	(6)	(63)
Total investments and other assets	12,257	13,122	103,826
Total assets	¥50,725	¥49,955	\$429,692

See notes to consolidated financial statements.

	Millions of yen		Thousands of U.S. dollars (note 3)
	2007	2006	2007
Liabilities and Equity			
Current liabilities:			
Accounts payable	¥ 7,737	¥ 7,552	\$ 65,540
Accrued income taxes	1,726	704	14,624
Advance receipts	4,186	3,692	35,458
Allowance for losses on contracts (note 2(h))	104	—	884
Deferred tax liabilities (note 9)	4	2	32
Other current liabilities	4,028	3,791	34,120
Total current liabilities	17,785	15,741	150,658
Long-term liabilities:			
Liability for employees' retirement benefits (note 6)	84	1,412	707
Retirement allowances for directors and corporate auditors	63	138	532
Deferred tax liabilities (note 9)	579	1,114	4,906
Other	2	2	19
Total long-term liabilities	728	2,666	6,164
Minority interests		208	
Commitment and Contingent Liabilities (note 12)			
Equity (notes 2(i), 7, 8 and 15):			
Common stock, authorized, 98,000,000 shares; issued, 32,591,240 shares in 2007 and 2006	8,180	8,180	69,297
Capital surplus	15,286	15,286	129,487
Retained earnings	8,316	7,404	70,445
Unrealized gain on available-for-sale securities	233	534	1,974
Deferred gain on derivatives under hedge accounting	0		3
Foreign currency translation adjustments	11	(37)	90
Treasury stock, at cost 7,409 shares in 2007 and 7,150 shares in 2006	(28)	(27)	(239)
Total	31,998	31,340	271,057
Minority interests	214		1,813
Total equity	32,212	31,340	272,870
Total liabilities and equity	¥50,725	¥49,955	\$429,692

See notes to consolidated financial statements.

Consolidated Statements of Income

INFORMATION SERVICES INTERNATIONAL - DENTSU, LTD. AND CONSOLIDATED SUBSIDIARIES

Years ended March 31, 2007 and 2006

	Millions of yen		Thousands of U.S. dollars (note 3)
	2007	2006	2007
Net sales (note 14)	¥75,172	¥68,693	\$636,779
Cost of sales	53,865	49,704	456,286
Gross profit	21,307	18,989	180,493
Selling, general and administrative expenses (notes 10 and 11)	17,943	16,525	151,999
Operating income	3,364	2,464	28,494
Other income (expenses):			
Interest and dividend income	71	81	605
Exchange gain (loss)	89	(16)	757
Equity in earnings of affiliated companies	38	153	320
Loss on disposal of fixed assets	(27)	(50)	(232)
Gain on sales of investment securities	—	724	—
Loss on devaluation of investment securities	(1)	(160)	(12)
Loss on sales of investment securities	(4)	—	(35)
Loss on cancellation of contract	—	(231)	—
Other—net	(106)	(180)	(896)
Other income (expenses)—net	60	321	507
Income before income taxes and minority interests	3,424	2,785	29,001
Income taxes (note 9)	1,819	1,498	15,403
Minority interests	41	13	349
Net income	¥ 1,564	¥ 1,274	\$ 13,249
		Yen	U.S. dollars
Per Share of Common Stock (note 2(q))	2007	2006	2007
Basic net income	¥48.00	¥39.11	\$0.4066
Cash dividends applicable to the year	20.00	20.00	0.1694

See notes to consolidated financial statements.

Consolidated Statements of Changes in Equity

INFORMATION SERVICES INTERNATIONAL - DENTSU, LTD. AND CONSOLIDATED SUBSIDIARIES

Years ended March 31, 2007 and 2006

	Thousands				Millions of Yen						
	Outstanding Number of Share of Common Stock	Common Stock	Capital Surplus	Retained Earnings	Unrealized Gain on Available for-sale Securities	Deferred Gain on Derivatives under Hedge Accounting	Foreign Currency Translation Adjustments	Treasury Stock	Total	Minority Interests	Total Equity
BALANCE, APRIL 1, 2005	32,584	¥8,180	¥15,286	¥6,782	¥458	¥	¥(117)	¥(27)	¥30,561	¥	¥30,561
Net income				1,274					1,275		1,275
Cash Dividends, ¥20 per share				(652)					(652)		(652)
Purchase of treasury stock	(0)							(0)	(0)		(0)
Net increase in unrealized gain on available-for-sale securities					76				76		76
Net change in foreign currency translation adjustments							80		80		80
BALANCE, MARCH 31, 2006	32,584	8,180	15,286	7,404	534		(37)	(27)	31,340		31,340
Reclassified balance as of March 31, 2006										208	208
Net income				1,564					1,564		1,564
Cash Dividends, ¥20 per share				(652)					(652)		(652)
Purchase of treasury stock	(0)							(1)	(1)		(1)
Net change in the year					(301)	0	48		(253)	6	(247)
BALANCE, MARCH 31, 2007	32,584	¥8,180	¥15,286	¥8,316	¥233	¥0	¥11	¥(28)	¥31,998	¥214	¥32,212

	Thousands				Thousands of U.S. Dollars (note 3)						
	Outstanding Number of Share of Common Stock	Common Stock	Capital Surplus	Retained Earnings	Unrealized Gain on Available for-sale Securities	Deferred Gain on Derivatives under Hedge Accounting	Foreign Currency Translation Adjustments	Treasury Stock	Total	Minority Interests	Total Equity
BALANCE, APRIL 1, 2006	32,584	\$69,297	\$129,487	\$62,716	\$4,524	\$	\$(317)	\$(236)	\$265,471	\$	\$265,471
Reclassified balance as of March 31, 2006									—	1,766	1,766
Net income				13,249					13,249		13,249
Cash dividends, ¥20 per share				(5,520)					(5,520)		(5,520)
Purchase of treasury stock	(0)							(3)	(3)		(3)
Net change in the year					(2,550)	3	407		(2,140)	47	(2,093)
BALANCE, MARCH 31, 2007	32,584	\$69,297	\$129,487	\$70,445	\$1,974	\$3	\$90	\$(239)	\$271,057	\$1,813	\$272,870

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

INFORMATION SERVICES INTERNATIONAL - DENTSU, LTD. AND CONSOLIDATED SUBSIDIARIES

Years ended March 31, 2007 and 2006

	Millions of yen		Thousands of
	2007	2006	U.S. dollars (note 3)
Cash flows from operating activities:			2007
Income before income taxes and minority interests	¥ 3,424	¥ 2,785	\$ 29,001
Adjustments for:			
Income taxes paid	(864)	(365)	(7,315)
Depreciation	1,372	1,916	11,622
Amortization of goodwill	656	538	5,561
Provision for liability for employees' retirement benefits, net	(1,328)	(689)	(11,257)
Increase in reserve for loss on contract	104	—	884
Equity in earnings of affiliated companies	(38)	(110)	(320)
Loss on disposal of property and equipment	27	50	232
Impairment of software	59	—	497
Gain on sale of investment securities	—	(724)	—
Loss on sale of investment securities	4	—	35
Loss on devaluation of investment securities	1	160	12
Changes in assets and liabilities, net of effects			
Increase in trade notes and accounts receivable	(2,734)	(518)	(23,164)
(Increase) decrease in inventories	491	(84)	4,156
Increase in advance payments	(208)	(338)	(1,760)
Increase in accounts payable	178	254	1,505
Increase in advance receipts	491	142	4,158
Increase in consumption taxes payable	63	9	535
Other, net	328	(411)	2,777
Total adjustments	(1,398)	(170)	(11,842)
Net cash provided by operating activities	2,026	2,615	17,159
Cash flows from investing activities:			
Purchases of securities	—	(40)	—
Proceeds from redemption of securities	40	40	335
Purchases of property and equipment	(119)	(123)	(1,007)
Purchases of investment securities	(458)	(411)	(3,879)
Proceeds from sales of investment securities	20	5,109	168
Purchases of subsidiaries' securities on change in the consolidated scope (Note 13)	—	(940)	—
Purchases of additional subsidiaries' securities	—	(381)	—
Proceeds from sales of subsidiaries' securities on change in the consolidated scope (Note 13)	—	376	—
Payments for loans receivable	(35)	(61)	(296)
Proceeds from collections of loans receivable	36	131	306
Purchases of intangible assets	(1,085)	(2,066)	(9,190)
Payments for lease deposits	(76)	(126)	(641)
Proceeds from lease deposits	44	367	373
Other, net	(121)	(87)	(1,023)
Net cash provided by (used in) investing activities	(1,754)	1,788	(14,854)
Cash flows from financing activities:			
Dividends paid	(652)	(652)	(5,520)
Other, net	(36)	(46)	(307)
Net cash used in financing activities	(688)	(698)	(5,827)
Foreign currency translation adjustments on cash and cash equivalents	38	80	322
Net (decrease) increase in cash and cash equivalents	(378)	3,785	(3,200)
Cash and cash equivalents, beginning of year	11,421	7,636	96,744
Cash and cash equivalents, end of year	¥11,043	¥11,421	\$ 93,544

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

INFORMATION SERVICES INTERNATIONAL - DENTSU, LTD. AND CONSOLIDATED SUBSIDIARIES

Years ended March 31, 2007 and 2006

(1) Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Securities and Exchange Law and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

The accounts of overseas subsidiaries are based on accounting records maintained in conformity with generally accepted accounting principles prevailing in the respective countries of domicile. The accompanying consolidated financial statements have been restructured and translated into English with some expanded descriptions from the consolidated financial statements of Information Services International-Dentsu Ltd. (the "Company") prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Securities and Exchange Law. Some supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

On December 27, 2005, the Accounting Standard Board of Japan (ASBJ) published a new accounting standard for the statement of changes in equity, which is effective for fiscal years ending on or after May 1, 2006.

The consolidated statement of shareholders' equity, which was previously voluntarily prepared in line with the international accounting practices, is now required under generally accepted accounting principles in Japan and has been renamed "the consolidated statement of changes in equity" in the current fiscal year.

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 Japanese GAAP but is presented herein as additional information. Certain reclassifications have been made in the 2006 consolidated financial statements to conform to the classifications used in 2007.

(2) Summary of Significant Accounting Policies

(a) Consolidation

The consolidated financial statements as of March 31, 2007 include the accounts of the Company and its 12 significant (12 in 2006) subsidiaries (together the "Group").

Under the control or influence concept, those companies for which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated, and those companies over which the Group has the ability to exercise significant influence are accounted for by the equity method. Investment in 1 (1 in 2006) affiliated company is accounted for by the equity method.

Investments in the remaining unconsolidated subsidiaries and affiliated companies are stated at cost, except that appropriate write-downs are recorded for investments in unconsolidated subsidiaries and affiliated companies that have incurred substantial losses deemed to be of a permanent nature. If the equity method

of accounting had been applied to the investments in these companies, the effect on the accompanying consolidated financial statements would not be material.

The excess of the cost of an acquisition over the fair value of the net assets of the acquired subsidiary at the date of acquisition is amortized on the straight-line basis over 5 or 10 years.

All significant intercompany balances and transactions have been eliminated in consolidation.

All material unrealized profit included in assets resulting from transactions within the Group is eliminated.

(b) Cash and Cash Equivalents

The Group considers cash, 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 without diminution of principal to be cash and cash equivalents.

Notes to Consolidated Financial Statements

INFORMATION SERVICES INTERNATIONAL - DENTSU, LTD. AND CONSOLIDATED SUBSIDIARIES

Years ended March 31, 2007 and 2006

(c) Securities

The Group's securities are classified as held-to-maturity debt securities or available-for-sale securities, depending on Management's intent. Held-to-maturity debt securities, which management has the positive intent and ability to hold to maturity, are reported at amortized cost. Available-for-sale marketable securities, which are not classified as the aforementioned securities, are reported at fair value, with unrealized gains and losses, net of applicable taxes, reporting in a separate component of equity. The cost of available-for-sale securities is stated at cost determined by the moving-average-method.

(d) Inventories

Inventories are stated principally at cost, determined by the specific identification method.

(e) Property and Equipment

Property and equipment are stated at cost, net of accumulated depreciation of ¥1,382 million (\$11,707 thousand) and ¥1,164 million at March 31, 2007 and 2006, respectively. Depreciation of property and equipment is computed principally by the declining-balance method.

The range of useful lives is principally as follows:

Buildings8-18 years
Furniture and fixtures.....5-10 years

(f) Software

Software is carried at cost less amortization. The amortization costs of software developed for external sale are computed as the greater of: (a) the amount based on sales in the year, as a proportion of total estimated sales, or (b) the amount computed on the straight-line basis over the estimated sales period, not exceeding 3 years. The software for internal use is amortized on the straight-line basis over the estimated useful life, not exceeding 5 years.

(g) Retirement Benefits

The Group introduced a defined contribution pension plan effective from April 1, 2002. Certain domestic consolidated subsidiaries have the severance lump-sum payments plans and defined contribution pension plans.

With respect to certain domestic consolidated subsidiaries that have the severance lump-sum payments plans, the allowance for retirement benefits for employees is provided based on the estimated retirement benefit obligation.

Retirement allowances for directors and corporate auditors are recorded to state the liability at the amount that would be required if all directors and corporate auditors retired at each balance sheet date. The retirement benefit for directors and corporate auditors are paid subject to the approval of the shareholders' meeting.

(h) Allowance for losses on contracts

The Group recorded a provision for the estimated loss on the contracts when it is probable that the total contract costs will exceed the total contract revenue at the time of the completion of the contract in the following fiscal period and the related loss amount can be reasonably estimated.

(i) Presentation of Equity

On December 9, 2005, the ASBJ published a new accounting standard for presentation of equity. Under this accounting standard, certain items which were previously presented as liabilities are now presented as components of equity. Such items include stock acquisition right, minority interests, and any deferred gain or loss on derivatives accounted for under hedge accounting. This standard is effective for fiscal years ending on or after May 1, 2006. The consolidated balance sheet as of March 31, 2007 is presented in line with this new accounting standard.

(j) Research and Development Costs

Research and development costs are charged to income as incurred.

(k) Leases

All leases are accounted for as operating leases. Under Japanese accounting standards for leases, finance leases that deem to transfer ownership of the leased property to the lessee are to be capitalized, while other finance leases are permitted to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the notes to the lessee's financial statements.

(l) Income Taxes

The provision for income taxes is computed based on the pretax income included in the consolidated statements of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted tax laws to the temporary differences.

(m) Appropriation of the Retained Earnings

Appropriation of the retained earnings at each year-end is reflected in the consolidated financial statements for the following year upon shareholders' approval.

(n) Foreign Currency Transactions

All short- and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at the balance sheet date. The foreign exchange gains and losses from translation are recognized in the consolidated income statement to the extent that they are not hedged by forward exchange contracts.

(o) Foreign Currency Financial Statements

The balance sheet accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the current exchange rate as of the balance sheet date except for equity, which is translated at the historical rate.

Differences arising from such translation were shown as "Foreign currency translation adjustments" in a separate component of equity. Revenue and expense accounts of consolidated foreign subsidiaries are translated into yen at the average exchange rate.

(p) Derivative Financial Instruments

The Group uses foreign exchange forward contracts to manage its exposures to fluctuations in foreign exchange rates. The Group does not enter into derivatives for trading or speculative purposes.

Derivative financial instruments and foreign currency transactions are classified and accounted for as follows: a) all derivatives be recognized as either assets or liabilities and measured at fair value, with gains or losses on derivative transactions are recognized in the consolidated income statement, and b) for derivatives used for hedging purposes. If derivatives qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and the hedged items, gains or losses on derivatives are deferred until maturity of the hedged transactions.

The foreign exchange forward contracts are utilized to hedge foreign currency exposures in procurement from overseas suppliers.

The foreign exchange forward contracts applied for forecasted transactions are measured at the fair value and the unrealized gains/losses are deferred until the underlying transactions are completed.

The Group has developed a hedging policy to control various aspects of derivative transactions, including authorization levels and transaction volumes. Based on this policy, the Group hedges, within certain limits, risks arising from changes in foreign hedging instruments' exchange rates.

The Group evaluates the effectiveness of hedging instruments for application of hedge accounting by analyzing the historical trends of hedged transaction and likeliness of designated hedged items.

(q) Per Share Information

Basic net income per share is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding in each period, which was 32,584 thousand shares for the years ended March 31, 2007 and 2006.

Diluted net income per share is not disclosed because there was no dilutive effect from potential shares for the years ended March 31, 2007 and 2006.

Cash dividends per share presented in the accompanying consolidated statements of income are dividends applicable to the respective years including dividends to be paid after the end of the year.

(r) Long-Lived Assets

In accordance with the accounting standard for impairment of fixed assets, the Group reviews its long-lived assets for impairment whenever events or changes in circumstance indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

Notes to Consolidated Financial Statements

INFORMATION SERVICES INTERNATIONAL - DENTSU, LTD. AND CONSOLIDATED SUBSIDIARIES

Years ended March 31, 2007 and 2006

(3) Financial Statement Translation

The consolidated financial statements are stated in Japanese yen the currency of the country in which the company is incorporated and operates. However, solely for the convenience of the reader, the consolidated financial statements as of, and for the year ended, March 31, 2007 have been translated into United States

dollars at the rate of ¥118.05 to US\$1, the approximate exchange rate on the Tokyo Foreign Exchange Market on March 31, 2007.

This translation should not be construed as a representation that the amounts shown could be converted into United States dollars at such rate.

(4) Short-Term Investments and Investment Securities

Short-term investments and investment securities at March 31, 2007 and 2006 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Short-term investments:			
Commercial paper	¥ —	¥1,999	\$ —
Discounted financial bonds	—	40	—
Total	¥ —	¥2,039	\$ —
Investment securities:			
Equity securities	¥1,472	¥1,800	\$12,466
Other	167	218	1,415
Total	¥1,639	¥2,018	\$13,881

The carrying amounts and aggregate fair values of marketable securities at March 31, 2007 and 2006 were as follows:

	Millions of yen			Fair value
	Cost	Unrealized gain	Unrealized loss	
2007				
Equity securities	¥340	¥347	¥ 1	¥ 686
Total	¥340	¥347	¥ 1	¥ 686
2006				
Equity securities	¥351	¥855	¥ —	¥1,206
Total	¥351	¥855	¥ —	¥1,206

	Thousands of U.S. dollars			Fair value
	Cost	Unrealized gain	Unrealized loss	
2007				
Equity securities	\$2,875	\$2,943	\$9	\$5,808
Total	\$2,875	\$2,943	\$9	\$5,808

The carrying amounts of non-marketable securities at March 31, 2007 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Available-for-sale			
Equity securities	¥786	¥ 593	\$6,658
Other	117	168	991
Held-to-maturity securities			
Commercial paper	—	1,999	—
Discounted financial bonds	—	40	—
Straight bonds	50	50	424
Total	¥953	¥2,850	\$8,073

Proceeds from sales of available-for-sale securities for the year ended March 31, 2007 and 2006 were ¥20 million (\$168 thousand) and ¥4 million, respectively. Gross realized losses on these sales, computed on the moving average cost basis, was ¥4 million (\$35 thousand) for the year ended March 31, 2007. Gross realized gains on these sales, computed on the moving average cost basis, was ¥3 million for the year ended March 31, 2006.

The amount of securities classified as held-to-maturity at March 31, 2007, based on their contractual maturity dates, was as follows:

	Millions of yen	Thousands of U.S. dollars
	Held to Maturity	Held to Maturity
Due within one year	¥ —	\$ —
Due after one year	50	424

(5) Inventories

Inventories at March 31, 2007 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Merchandise	¥ 55	¥ 60	\$ 466
Work in process	929	1,421	7,871
Other	16	9	136
Total	¥1,000	¥1,490	\$8,473

Notes to Consolidated Financial Statements

INFORMATION SERVICES INTERNATIONAL - DENTSU, LTD. AND CONSOLIDATED SUBSIDIARIES

Years ended March 31, 2007 and 2006

(6) Liability for Employees' Retirement Benefit

The liability for the employees' retirement benefit of the certain domestic subsidiaries at March 31, 2007 and 2006 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Projected benefit obligations	¥(84)	¥(1,432)	\$(707)
Unrecognized prior service cost	—	46	—
Unrecognized actuarial loss	—	(26)	—
Net liability for employees' retirement benefits	¥(84)	¥(1,412)	\$(707)

The components of net periodic cost are as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Service cost	¥ 77	¥168	\$ 658
Interest cost	25	46	210
Amortization of prior service cost	9	8	75
Recognized actuarial (gain) loss	(3)	8	(28)
Net periodic benefit costs	¥108	¥230	\$ 915
Costs for changing pension plans	63	156	530
Other retirement benefit costs	284	165	2,408
Total retirement benefit costs	¥455	¥551	\$3,853

Assumptions used for the years ended March 31, 2007 and 2006 are set forth as follows:

	2007	2006
Discount rate	2.5%	2.5%
Amortization period of prior service cost	10 years	10 years
Recognition period of actuarial loss	5 years	5 years

(7) Equity

On and after May 1, 2006, Japanese companies are subject to a new corporate law of Japan (the "Corporate Law"), which reformed and replaced the Commercial Code of Japan (the "Code") with various revisions that are, for the most part, applicable to events or transactions which occur on or after May 1, 2006 and for the fiscal years ending on or after May 1, 2006. The significant changes in the Corporate Law that affect financial and accounting matters are summarized below;

(a) Dividends

Under the Corporate Law, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders meeting. For companies that meet certain criteria such as; (1) having the Board of Directors, (2) having independent auditors, (3) having the Board of Corporate Auditors, and (4) the term of service of the directors is prescribed as one year rather than two years of normal term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends in

kind) at any time during the fiscal year if the company has prescribed so in its articles of incorporation.

Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate. The Corporate Law provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

(b) Increases/decreases and transfer of common stock, reserve and surplus

The Corporate Law requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the equity account charged upon the payment of such dividends until the total of aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Corporate Law, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Corporate Law also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts under certain conditions upon resolution of the shareholders.

(c) Treasury stock and treasury stock acquisition rights

The Corporate Law also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders which is determined by specific formula.

Under the Corporate Law, stock acquisition rights, which were previously presented as a liability, are now presented as a separate component of equity.

The Corporate Law also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights.

(8) Stock-Based Compensation Plans

The Company has a stock option plan. On June 28, 2001, the shareholders of the Company approved the issuance of stock options for the directors and employees of the Company. The issued stock options are exercisable from July 1, 2003 to June 28, 2011. The number of shares to be newly issued upon the exercise of the outstanding stock options as of March 31, 2007 was 100,000 shares of common stock of the Company. The options will be granted at ¥5,843 (\$49.50) per share as an exercise price of the Company's common stock at the date of option grant.

On June 25, 2002, the shareholders of the Company approved the issuance of stock options for the directors and employees of the Company and its affiliates. The issued stock options are exercisable from June 26, 2004 to June 25, 2012. The number of shares to be newly issued or transferred from treasury stock upon the exercise of the outstanding stock options as of March 31, 2007 was 116,000 shares of common stock of the Company. The options will be granted at ¥1,700 (\$14.40) per share as an exercise price of the Company's common stock at the date of option grant.

Notes to Consolidated Financial Statements

INFORMATION SERVICES INTERNATIONAL - DENTSU, LTD. AND CONSOLIDATED SUBSIDIARIES

Years ended March 31, 2007 and 2006

(9) Income Taxes

The Company is subject to Japanese national and local income taxes that in the aggregate, resulted in a normal effective statutory tax rate of approximately 41% for the years ended March 31, 2007 and 2006.

The income tax expenses reflected in the consolidated statement of income for the years ended March 31, 2007 and 2006 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Current	¥1,903	¥ 747	\$16,116
Deferred	(84)	751	(713)
Total	¥1,819	¥1,498	\$15,403

The tax effects of significant temporary differences and tax loss carryforwards that resulted in deferred tax assets and liabilities at March 31, 2007 and 2006 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Deferred tax assets:			
Tax loss carryforwards	¥ 977	¥ 691	\$ 8,270
Liability for employees' retirement benefits	33	622	283
Retirement allowances for directors and corporate auditors	26	56	216
Accrued expenses	782	715	6,622
Investment securities	181	182	1,532
Depreciation	244	310	2,065
Membership deposit	49	78	418
Other	431	407	3,654
Less valuation allowance	(636)	(646)	(5,383)
Total	¥ 2,087	¥ 2,415	\$17,677
Deferred tax liabilities:			
Special tax-purpose reserve	¥ (937)	¥(1,351)	\$ (7,935)
Other	(148)	(372)	(1,251)
Total	¥(1,085)	¥(1,723)	\$ (9,186)
Net deferred tax assets	¥ 1,002	¥ 692	\$ 8,491

A reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statements of income for the years ended March 31, 2007 and 2006 is as follows:

	2007	2006
Normal effective statutory tax rate	41.0%	41.0%
Expenses not deductible for income tax purposes	5.4%	4.4%
Equity in earnings of affiliated companies	(0.5%)	(2.2%)
Amortization of goodwill not tax-deductible	7.9%	7.9%
Valuation allowance	(0.3%)	2.1%
Other—net	(0.4%)	0.6%
Actual effective tax rate	53.1%	53.8%

At March 31, 2007, certain domestic subsidiaries have tax loss carryforwards aggregating approximately ¥1,609 million (\$13,630 thousand) which are available to be offset against taxable income of such subsidiaries in future years. These tax loss carryforwards, if not utilized, will expire as follows:

Year Ending March 31	Millions of yen	Thousands of U.S. dollars
2008		
2009		
2010		
2011		
2012		
2013	¥ 656	\$ 5,557
2014	953	8,073
Total	¥1,609	\$13,630

(10) Selling, General and Administrative Expenses

Significant components of selling, general and administrative expenses for the years ended March 31, 2007 and 2006 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Provision for doubtful accounts	¥ 4	¥ 36	\$ 32
Sales promotion	1,966	1,721	16,651
Market development	2,152	1,621	18,230
Salaries and wages	4,911	4,946	41,600
Provision for accrued pension and severance costs	25	52	209
Provision for accrued retirement benefits to directors and corporate auditors	7	2	57
Entrustment costs	2,011	1,637	17,034

Notes to Consolidated Financial Statements

INFORMATION SERVICES INTERNATIONAL - DENTSU, LTD. AND CONSOLIDATED SUBSIDIARIES

Years ended March 31, 2007 and 2006

(11) Research and Development Costs

Research and development costs charged to expense were ¥402 million (\$3,406 thousand) and ¥438 million, for the years ended March 31, 2007 and 2006, respectively.

(12) Leases

The Group leases certain offices and other facilities.

Pro forma information of leased property such as acquisition cost, accumulated depreciation, obligations under finance leases, depreciation expense, interest expense and other information of finance leases that do not transfer ownership of the leased property to the lessee on an "as if capitalized" basis for the years ended March 31, 2007 and 2006 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Acquisition cost:			
Furniture and fixtures	¥6,542	¥7,067	\$55,422
Software	1,610	1,879	13,635
Total acquisition cost	8,152	8,946	69,057
Accumulated depreciation	5,049	5,061	42,774
Net leased property	¥3,103	¥3,885	\$26,283

Obligations under finance leases:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Obligations under finance leases:			
Due within one year	¥1,597	¥2,038	\$13,526
Due after one year	1,563	1,906	13,243
Total	¥3,160	¥3,944	\$26,769

Total rental expenses for the above leases were ¥2,272 million (\$19,244 thousand) and ¥2,464 million for the years ended March 31, 2007 and 2006, respectively.

Pro forma depreciation expenses for the years ended March 31, 2007 and 2006, which have not been reflected in the accompanying consolidated statements of income, computed by the straight-line method, were ¥2,191 million (\$18,561 thousand) and ¥2,379 million, respectively.

The minimum rental commitments under non-cancelable operating lease at March 31, 2007 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Due within one year	¥ 1,741	¥ 1,707	\$ 14,748
Due after one year	19,896	21,491	168,537
Total	¥21,637	¥23,198	\$183,285

(13) Non-Cash Transactions

The Company acquired the shares of ESTECH Corporation ("Estech") during the year ended March 31, 2006. This resulted in Estech becoming a part of consolidated subsidiaries as at March 31, 2006. The assets and liabilities of Estech were included in the Company's consolidated financial statements as of March 31, 2006 and its related acquisition cost and payment were as follows:

	Millions of yen
	2006
Current assets	¥ 606
Fixed assets	167
Googwill	626
Current liabilities	(74)
Non-current liabilities	(125)
Acquisition cost of shares	1,200
Cash and cash equivalents owned by the company	(260)
Net payment for acquisition	¥ 940

On the other hand, the Company sold all the shares of Business Create Corporation ("Business Create") during the year ended March 31, 2006. This resulted in Business Create no longer being included in the Company's consolidated financial statements as at March 31, 2006 after the sale. The assets and liabilities of Business Create were excluded from the Company's consolidated financial statements as of March 31, 2006 and its related gross sales and net proceeds were as follows:

	Millions of yen
	2006
Current assets	¥ 243
Fixed assets	150
Googwill	140
Current liabilities	(53)
Minority interests	(47)
Gain on sales of shares	74
Gross shares amount of shares	507
Cash and cash equivalents owned by the company	(131)
Net proceeds from sales	¥ 376

Notes to Consolidated Financial Statements

INFORMATION SERVICES INTERNATIONAL - DENTSU, LTD. AND CONSOLIDATED SUBSIDIARIES

Years ended March 31, 2007 and 2006

(14) Transactions with Related Parties

At March 31, 2007 and 2006, 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. for the years ended March 31, 2007 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Trade notes and accounts receivable	¥ 6,538	¥ 6,350	\$ 55,383
Deposits paid (cash and cash equivalents)	8,199	7,490	69,457
Net sales	14,459	13,554	122,480

(15) Subsequent Event

The following appropriation of retained earnings at March 31, 2007 was approved at the Company's shareholders' meeting held on June 26, 2007:

	Millions of yen	Thousands of U.S. dollars
	2007	2007
Year-end cash dividends, ¥10 (\$0.09) per share	¥326	\$2,760

Independent Auditors' Report

Deloitte.

Deloitte Touche Tohmatsu
MS Shinjuku Building
4-13-21, Shinjuku
Minato-Ku, Tokyo 106-8520
Japan
Tel: +81(3)3457 7321
Fax: +81(3)3457 1884
www.deloitte.com/jp

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
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, 2007 and 2006, and the related consolidated statements of income, changes in equity, and cash flows for the years then ended, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Information Services International-Dentsu, Ltd. and consolidated subsidiaries as of March 31, 2007 and 2006, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

Our audits also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note (3). Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Deloitte Touche Tohmatsu

June 26, 2007

Member of
Deloitte Touche Tohmatsu

Beginning business as Japan's first private-sector computer timesharing service, ISID was a product of Dentsu's spirit of innovation and GE's expertise in information technology. Retaining that "Japan's first" spirit in our corporate DNA, we continue to take on new challenges with relish.



ISID STORY

ISID was established in 1975 as a joint venture between Dentsu—the largest single advertising agency in the world in terms of net sales—and GE, the renowned U.S. manufacturer, establishing Japan's first commercial computer time-sharing service. In those days before the era of personal computers and local-area networks, GE operated massive computer centers in the United States and Europe and was a leading provider of computing services. ISID was created to provide Japanese companies with easy access to this international network, an innovative service.

Time-sharing service was accepted as an important business backbone for major Japanese manufacturing and financial companies to expand their business globally. ISID's commercial timesharing service earned a top share of the Japanese market. We gained experience in providing leading-edge business applications to operate on time-sharing services. It was this experience that became the key enabler for ISID to shift from being a vendor of time-sharing services to our current incarnation as an integrator of open systems. Our experience in structural analysis for machine design led to the sale of software and provision of consulting services for the manufacturing sector and on to CAE business development. Through experience in financial business and order receipt/placement systems, we developed a cadre of development engineers with detailed operational expertise and a proposal-oriented marketing style. We later applied these strengths to the development of systems for the financial and distribution sectors.

Through a deepening relationship with Dentsu, we made advances in in-house corporate management information systems, as well as systems to track corporate advertising and event-related activities. Ultimately, ISID evolved to the state of being able to offer leading companies over a wide range of industries optimal solutions that combine business applications and IT infrastructure, based on a clear understanding of their businesses and skills in the most current information technologies. Such is ISID's current state, and we will move forward from here. We provided Japan's first commercial computer time-sharing service. We were born through a marriage between Dentsu's innovation and GE's information technologies. Taking full advantage of the "Japan's first" spirit that is inherent in our corporate DNA, we will continue to face new challenges with relish.

- 1971 Dentsu Inc.'s Tokyo headquarters established a time-sharing service bureau. Through a technical tie-up with General Electric Company (GE) of the United States, Dentsu initiated MARK I, Japan's first computer time-sharing service.
- 1975 Information Services International-Dentsu, Ltd. (ISID) was established as a joint venture between Dentsu and GE. Linked to large GE computer centers via communication satellites and undersea cable, the MARK III service commenced, offering enhanced functionality, and was configured for numerous companies.
- 1976 Using the MARK III service, we began providing structural analysis software for machine design, which led to later developments in CAE.
- 1982 ISID began offering QUIK-COMM, Japan's first international electronic mail service. At a time when telex communication was the norm, numerous international companies adopted this faster and less expensive mode of communications. We established the CAE Technology Center. Through a contractual relationship with Structural Dynamics Research Corporation of the United States (current-day Siemens UGS PLM Software), we commenced sales of that company's CAE software.
- 1986 ISID applied to Japan's Ministry of Posts and Telecommunications (now the Ministry of Internal Affairs and Communications) for certification as a Type II telecommunications carrier.



- 1988 The Company registered with the Ministry of International Trade and Industry (now, the Ministry of Economy, Trade and Industry, or METI) as a systems integrator.
- 1989 ISID began receiving ongoing orders for the development and operation of Dentsu's internal information systems.
- 1990 ISID received several orders from leading financial institutions to develop large-scale funds/foreign exchange and risk management systems operating on Unix, Windows and RDB platforms. The Company's current style of combining excellent products and technologies freely, rather than relying on designated vendors, and providing detailed proposal-based open-system integration evolved from this time.
- 1991 ISID began developing a track record as a provider of world-class CAD, CAM, CAE and PDM software. As an early adopter of advanced process innovation methods, we began offering Japan's first integrated product design and manufacturing process consulting services.
- 1995 As Internet-based commerce evolved, we became the first Japanese corporate partner of Netscape Communications Corporation, of the United States.
- 1997 Through an alliance with VeriSign, Inc., and Microsoft Corporation, we developed Japan's first browser-based financial applications using 128-bit secure socket layer protection (a highly secure communications encryption technology) for leading banks.
- 1999 ISID developed Japan's first large-scale Internet banking systems that employed a Java application server.
- 2000 ISID was certified by MITI (now METI) as a designated systems operation company. ISID listed its shares on the First Section of the Tokyo Stock Exchange. We configured numerous e-commerce systems for global leaders in the manufacturing, distribution and other services sectors.
- 2001 In another first for Japan, we distributed high-resolution, real-time images of a total solar eclipse in Africa over Internet television using a high-speed IPv6 network. These images were used in live news broadcasts by commercial television stations. We configured an IPv6 ISID in-house network connecting about 5,000 terminals, Japan's first large-scale network. We also developed a large-scale Internet banking system for a major Internet bank, marking the first time in Japan for such a system to be Windows-based.
- 2004 ISID's corporate headquarters relocated to Tokyo's Shinagawa area. The concentration of ISID and its Group companies led to stronger synergies.
- 2005 Prior to the introduction of the new Java dependency injection (DI) technology, we became the first entity in Japan to provide commercial support for the Seasar2 open-source DI container.

ISID Solutions

Remaining a company of choice, ISID provides solutions ranging from the industry-specific and specialized to the multibusiness and shared.

Finance

We meet new challenges in the financial business through a combination of advanced expertise and financial industry knowledge.

- **Retail business solutions**
Support for financial institutions' individual customers
 - Real-time trading systems
 - Internet banking systems
 - Marketing automation
- **Corporate business solutions**
Support for financial institutions' corporate customers
 - Corporate loan business support systems
 - Cash management systems
- **Treasury solutions**
Support for financial institutions' treasury transactions
 - Treasury transaction support systems
 - Derivatives transaction support systems
 - Asset liquidity support systems
 - Risk management systems
- **Core processing solutions**
Support for financial institutions' back-office operations and settlement businesses
 - Core banking solutions for overseas branches
 - Securities order routing and accounting management systems
 - Liquidity management systems for Bank of Japan real-time gross settlement
 - Settlement agency management systems
 - Straight-through processing systems

Manufacturing

We provide IT support to heighten the development strength and support the business success of Japanese manufacturers.

- **Product development process innovation support**
Operational analysis of product development processes and support for their innovation
 - Formulation of quantitative productivity indicators for product development operations
 - Provision of product development process visibility and analysis methodologies
 - Support for software development process improvement through CMMI
- **Three-dimensional product development Support and software provision for 3D design implementation**
Three-dimensional product development Support and software provision for 3D design
 - CAD platforms
 - Data conversion support systems
- **CAE simulation**
Support for virtual prototyping
 - CAE consulting services
 - Integrated CAE frameworks
 - Analysis software, including mechanical and structural analysis software
- **Product life cycle management**
Support for the sharing of product-related data on a companywide level
 - Integrated information management systems spanning the entire product life cycle
 - Management of product structures, 3D CAD data and development processes
 - Visual collaboration
- **Software development**
Assistance in implementing software development support systems
 - Integrated development environments with embedded GUI software
 - Software configuration management systems
- **Technical support for manufacturing**
Support for automation of the product development and manufacturing stages
 - 3D tolerancing software
 - Process design tools and process databases
 - Simulation software with advanced functionality

Dentsu Group

We contribute to the addition of business value throughout the Dentsu group by providing IT support for group companies.

- **Group company operational accounting systems**
Employing integrated management software packages that meet global standards, we created the backbone system that helps strengthen the development of Dentsu group management. We provide total solutions ranging from system development to maintenance and operation.
- **Information sharing and communication systems**
Providing the IT foundation that supports collaboration within the Dentsu group, we develop information sharing and communication systems and provide maintenance and operation services.
- **Television commercial production support systems**
For the television spot commercial business, we offer overall management ranging from inquiries and estimates to information about commercial slots, develop allocation systems and provide operation and maintenance services.
- **Database shifts**
By creating databases of various consumer research and viewership data, we support communications with Dentsu clients in a host of fields. We also optimize media distribution, develop advertisement planning systems and provide maintenance and operation services.
- **e-Marketing business initiatives**
Through our experience and expertise in outsourcing, we support such activities for the Dentsu group. Particularly in the field of e-marketing, which is poised for expansion, we offer CRM and EMM solutions that employ cutting-edge marketing methods.

Consulting

Maximizing the advantages of our neutrality, we provide IT solutions that help address management issues, and offer services to initiate and strengthen IT governance.

● Internal control solutions

ISID provides consulting and operational support services to help corporate groups create internal control systems. Our services cover the entire spectrum of internal control systems, ranging from overall development of plans to documentation and supporting improvements.

- Internal control system support services

● Project management solutions

We provide project management office services that employ recent project management methods, such as the Project Management Body of Knowledge and Earned Value Management.

- Project Management Professional (PMP) services
- Earned Value Management services

● Solutions for public-sector operational and system optimization planning

Using Enterprise Architecture methodology for overall optimization, we provide consulting services and solutions to support operational and system optimization planning.

- Enterprise Architecture consulting
ISID also provides a variety of other services.
- IT investment planning
- Information security
- Operations standardization
- Quality control

Business Applications

We provide solutions for specific customer businesses.

● Marketing solutions

To improve the efficiency and visibility of increasingly complex marketing operations, we provide integrated enterprise marketing management solutions for customer-centered businesses.

● Group management solutions

We offer system frameworks that cover both nonconsolidated financial accounting and group management, consolidated accounting software packages that comply with J-SOX methods, and human resource management solutions that combine personnel, compensation, human resource with career opportunity and employee web services.

● Business backbone solutions

- ERP solutions
From upstream business consulting to system implementation, we provide overall support services that employ core integration software packages to foster corporate business innovation.
- System development services
We develop application systems to match company-specific business models.

IT Infrastructure and Operations

We provide the IT solutions that form the platforms of our customers' businesses.

● IT backbone solutions

<Collaborative enterprises>
We provide software packages for Internet videoconferencing and high-resolution video transmission.
<IT governance>

We provide solutions that protect files and content by employing database control and supervision and next-generation file management systems, as well as services to meet various security needs.

<Open-Source Software Support>

We have commenced Japan's first commercial support service for the open-source Seasar2 software to deliver advanced technologies easily. We also provide the open-source community with a variety of support options.

● IT infrastructure design and configuration services ISID provides infrastructure design and configuration services to ensure business continuity and availability by employing high-end and leading-edge information technologies.

● Outsourcing services

We provide outsourced IT operational services from a data center.

Group Companies

Subsidiaries

Brainyworks, Ltd.

<http://www.brainyworks.com>
2-17-1 Konan, Minato-ku, Tokyo 108-0075, Japan
TEL 03-6713-9000 FAX 03-6713-9190

ISID InterTechnologies, Ltd.

<http://www.isid-intertech.co.jp>
2-17-1 Konan, Minato-ku, Tokyo 108-0075, Japan
TEL 03-6713-5111 FAX 03-6713-5099

ISID TechnoSolutions, Ltd.

<http://www.isid-ts.co.jp>
2-17-1 Konan, Minato-ku, Tokyo 108-0075, Japan
TEL 03-6713-5500 FAX 03-6713-5540

iTiD Consulting, Ltd.

<http://www.itid.co.jp>
2-17-1 Konan, Minato-ku, Tokyo 108-0075, Japan
TEL 03-6713-5700 FAX 03-6713-5899

ESTECH Corporation

<http://www.estech.co.jp>
89-1 Yamashita-cho, Naka-ku, Yokohama, Kanagawa 231-0023, Japan
TEL 045-661-1661 FAX 045-661-1664

ISID Hokkaido Co., Ltd.

<http://www.isid-hokkaido.co.jp/>
16F, Sapporo Center Bldg., 6-2-2 Kita Gojo Nishi, Chuo-ku, Sapporo 060-0005, Japan
TEL 011-218-9911 FAX 011-218-9912

ISID Fairness, Ltd.

<http://www.fairness.co.jp>
Nittobo Bldg., 2-8-1, Yaesu, Chuo-ku, Tokyo 104-0028, Japan
TEL 03-5202-1010 FAX 03-5201-7774

ISI-Dentsu of America, Inc.

<http://www.isidentsu.com>
32 Avenue of Americas, 16th floor, NY, NY, 10009
TEL 1-646-282-2000 FAX 1-646-282-2039

ISI-Dentsu of Europe, Ltd.

<http://www.iside.co.uk>
Fifth Floor Epworth House 25 City Road London EC1Y 1AA U.K.
TEL 44-20-7374-5870 FAX 44-20-7374-5871

ISI-Dentsu of Hong Kong, Ltd.

<http://www.isid.hk>
· Hong Kong Head Office
Suite 1505, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong
TEL 852-2829-0829 FAX 852-2802-8477

· Shenzhen Representative Office

Room 1719, Shenzhen Kerry Centre,
Renmin Road (South), Shenzhen 518005, P.R.China
TEL 86-755-82213499 or 86-755-82350322
FAX 86-755-82214091

ISI-Dentsu Shanghai Co., Ltd.

<http://www.isid.com.cn/jp/>
Suite 2003, Novel Plaza, 128 Nan Jing Road (West)
Shanghai 200003, P. R. China
TEL 86-21-63600216 FAX 86-21-63600217

ISI-Dentsu South East Asia Pte. Ltd.

<http://www.isidsea.com>
600 North Bridge Road, #06-01/02 Parkview Square, Singapore 188778
TEL 65-6511-7088 FAX 65-6392-0616

ISI-Dentsu South East Asia (Malaysia) Sdn. Bhd.

<http://www.isidsea.com>
Suite 9.07, Level 9 Centrepoint South, The Boulevard, Mid Valley City
Lingkaran Syed Putra, 59200, Kuala Lumpur.
Malaysia
TEL 603-2284-0113 FAX 603-2284-0115

ISID South East Asia (Thailand) Co., Ltd.

<http://www.isidsea.com>
Level 25th, 999/9, Unit ML2508, The Offices at Central World, Rama 1 Road,
Kwaeng Pathumwan, Khet Pathumwan,
Bangkok 10330, Thailand
TEL 66-2646-1338 FAX 66-2646-1339

Sanki Inc.

6-17-15 Shimorenjaku, Mitaka-shi,
Tokyo 181-0013, Japan
TEL 0422-72-4890 FAX 0422-76-7361

Affiliated Companies

Dentsu eMarketing One Inc.

<http://www.dentsu-em1.co.jp>
Hamirikyuu Kensetsu Plaza, 5-5-12 Tsukiji, Chuo-ku, Tokyo 104-0045, Japan
TEL 03-5551-1030 FAX 03-5551-1035

Shanghai Huazhong Computer Software Development Co., Ltd.

<http://www.hz-soft.com>
6th Floor New Concept Building No. 39 Wu Zhong Road, Xuhui District Shanghai
200235, P.R. China
TEL 86-21-54893636 FAX 86-21-54894955

Executives

Directors and Corporate Auditors

Chairman	Hideaki Furukawa
President	Koichi Mizuno
Senior Executive Director	Haruo Iwata
Senior Executive Director	Akihiro Fukuyama
Executive Director	Kenji Ryu
Executive Director	Nobuo Uehara
Executive Director	Hitoshi Sakurai
Executive Director	Kenji Ichikawa
Executive Director	Shoichi Nakamoto
Standing Corporate Auditor	Michio Mori
Corporate Auditor	Kazuo Ichijo
Corporate Auditor	Yutaka Abe
Corporate Auditor	Yasuaki Tsuchiya

Executive Officers

Chief Executive Officer	Hideaki Furukawa
Chief Operating Officer	Koichi Mizuno
Senior Executive Officer	Hiroto Suzuki
Executive Officer	Kimitsugu Abe
Executive Officer	Akira Kobayashi
Executive Officer	Nobuhiko Watanabe
Executive Officer	Shigehiro Kotani
Executive Officer	Shigeyuki Suganuma
Executive Officer	Satoshi Sadakata
Executive Officer	Shinichi Umino
Executive Officer	Satoru Ota
Executive Officer	Kounosuke Umezawa
Executive Officer	Atsushi Yoshimoto
Executive Officer	Kazuhiko Kaneyuki

Company Profile

Official name	Information Services International-Dentsu, Ltd.
Headquarters	2-17-1 Konan, Minato-ku, Tokyo 108-0075, Japan TEL 03-6713-6111
Established	December 11, 1975
Capitalization	¥8,180.5 million
Employees	2,106 (consolidated basis, as of March 31, 2007)
Shares	Listed on First Section of Tokyo Stock Exchange (November 2000)
Securities Code	4812
URL	http://www.isid.co.jp

Offices

Osaka Office
Dojima Axis Bldg., 2-2-28 Dojimahama, Kita-ku, Osaka-shi, Osaka 530-0004, Japan
TEL 06-6346-2011 FAX 06-6346-2910

Nagoya Office
Fushimi Daiichi Bldg., 2-9-3 Sakae, Naka-ku, Nagoya-shi, Aichi 460-0008, Japan
TEL 052-205-0131 FAX 052-205-1400

Mitaka Office
6-17-15 Shimo-Renjaku, Mitaka-shi, Tokyo 181-0013, Japan
TEL 0422-72-4880 FAX 0422-72-4900

Hiroshima Office
Hiroshima East Bldg., 1-3-53 Danbara-Minami, Minami-ku, Hiroshima-shi, Hiroshima 732-0814, Japan
TEL 082-262-7705 FAX 082-262-9905

Business Activities

- Consulting services
- Software product sales and support
 - Sales and support of software developed in-house
 - Sales and support of software provided by domestic and overseas vendors
- System integration services
 - Application system design and development
 - Hardware selection and procurement
 - System and infrastructure configuration services
- Outsourcing services





