[Translation for reference only]
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Translation

FASF MEMBERSHIP

February 5, 2019

Consolidated Financial Results for the Three Months of the Fiscal Year Ending September 30, 2019 <under Japanese GAAP>

Company name: **Mitsubishi Research Institute, Inc.**
Listing: First Section of the Tokyo Stock Exchange
Stock code: 3636
URL: https://www.mri.co.jp/
Representative: Takashi Morisaki, President
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Scheduled date to submit Quarterly Securities Report: February 7, 2019
Scheduled date to commence dividend payments: –
Preparation of supplementary material on quarterly financial results: Yes
Holding of quarterly financial results presentation meeting: None

(Millions of yen with fractional amounts discarded, unless otherwise noted)

1. Consolidated performance for the three months of the fiscal year ending September 30, 2019 (from October 1, 2018 to December 31, 2018)

(1) Consolidated operating results (cumulative)

(Percentages indicate year-on-year changes.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
Three months ended	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
December 31, 2018	15,232	2.5	(1,365)	–	(1,155)	–	(1,016)	–
December 31, 2017	14,865	1.8	(599)	–	(546)	–	(645)	–

Note: Comprehensive income
For the three months ended December 31, 2018: (2,049) million yen [–%]
For the three months ended December 31, 2017: (196) million yen [–%]

	Basic earnings per share	Diluted earnings per share
Three months ended	Yen	Yen
December 31, 2018	(62.55)	–
December 31, 2017	(39.72)	–

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
As of	Millions of yen	Millions of yen	%
December 31, 2018	76,831	50,426	57.1
September 30, 2018	78,600	53,284	59.1

Reference: Equity (Net assets – Non-controlling interests)
As of December 31, 2018: 43,857 million yen
As of September 30, 2018: 46,458 million yen

2. Cash dividends

	Annual cash dividends per share				
	First quarter-end	Second quarter-end	Third quarter-end	Fiscal year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended September 30, 2018	–	40.00	–	45.00	85.00
Fiscal year ending September 30, 2019	–				
Fiscal year ending September 30, 2019 (Forecast)		45.00	–	45.00	90.00

Note: Revisions to the forecasts of cash dividends most recently announced: None

3. Consolidated earnings forecasts for the fiscal year ending September 30, 2019 (from October 1, 2018 to September 30, 2019)

(Percentages indicate year-on-year changes.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Basic earnings per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Fiscal year ending September 30, 2019	94,000	4.2	6,000	20.9	6,400	19.3	3,900	14.6	240.06

Note: Revisions to the earnings forecasts most recently announced: None

***Notes**

(1) Changes in significant subsidiaries during the three months under review (changes in specified subsidiaries resulting in the change in scope of consolidation): None

(2) Application of special accounting in preparing consolidated quarterly financial statements: Yes
Note: For details, please refer to "2. Consolidated financial statements and significant notes thereto (3) Notes to Consolidated Financial Statements (Application of special accounting in preparing consolidated quarterly financial statements)" on page 8 of the Attached materials.

(3) Changes in accounting policies, changes in accounting estimates, and restatement of prior period financial statements after error corrections
  a. Changes in accounting policies due to revisions to accounting standards and other regulations: None
  b. Changes in accounting policies due to other reasons: None
  c. Changes in accounting estimates: None
  d. Restatement of prior period financial statements after error corrections: None

(4) Number of issued shares (common shares)
  a. Total number of issued shares at the end of the period (including treasury shares)

As of December 31, 2018	16,424,080 shares
As of September 30, 2018	16,424,080 shares

  b. Number of treasury shares at the end of the period

As of December 31, 2018	178,196 shares
As of September 30, 2018	178,156 shares

  c. Average number of outstanding shares during the period (cumulative from the beginning of the fiscal year)

Three months ended December 31, 2018	16,245,888 shares
Three months ended December 31, 2017	16,245,924 shares

* Quarterly financial results reports are exempt from quarterly reviews conducted by certified public accountants or an audit corporation.

* Appropriate use of business forecasts; other special items

(Caution regarding forward-looking statements, etc.)
In this document, statements other than historical facts are forward-looking statements that are based on information available at this moment. Therefore, they do not constitute a guarantee that they will be realized. These forward-looking statements involve uncertainties, future changes in our business climate and other factors that may cause our actual results and achievements to differ from those anticipated in these statements.

(Availability of supplementary material on financial results)
Supplementary material on quarterly financial results is made available on our website.

Table of Contents of the Attached Materials

(Attached materials)

1. Qualitative information regarding settlement of accounts for the three months

(1) Explanation regarding operating results

During the three months under review (from October 1, 2018 to December 31, 2018), the Japanese economy made a modest recovery, despite the strong yen and declining stock prices amid unstable conditions in the financial markets towards the end of December. Consumer activity slightly increased, supported by factors such as an improvement in the employment and income environment. Capital expenditure remained firm amid a continued strong needs for investment in automation and labor-saving processes to counter labor shortages as well as IT investment. Exports primarily to Asia were weak as the adverse effects of the US-China trade friction surfaced.

Overseas economies slowed down moderately. While the US economy continued to show firm consumer activity supported by a favorable employment environment and continued improvement in consumer sentiment, the European economy grew at a slower pace primarily as a result of deteriorating external demand. Chinese economy decelerated slightly mainly due to the US-China trade friction, and other emerging economies further slowed down as well.

Against this backdrop, Mitsubishi Research Institute, Inc. and its consolidated subsidiaries (the MRI Group) place the highest priority on quality and customer satisfaction, while developing businesses by utilizing the scientific methods, cutting-edge technological insight and integrated solution proposal it has accumulated as a comprehensive think tank. The fiscal year under review is the second year of the Medium-term Management Plan 2020, and we are steadily moving ahead with initiatives based on the plan.

In businesses utilizing new technologies positioned as growth businesses, the MRI Group has engaged in businesses supporting innovation and sophistication of corporate management and administrative services through consulting and ICT-related services that utilize AI (artificial intelligence), IoT* and cloud computing.

Meanwhile, the MRI Group also developed its business in the public and utilities sector and social infrastructure sector, which are positioned as the core business areas, to respond to economic and societal needs, which are in a major structural transformation. Specifically, the MRI Group is conducting research and studies in the energy sector, the healthcare and wellness sector and the transport and traffic sector based on policy innovation, such as electricity system reforms, health and nursing care insurance reforms and regional revitalization. The MRI Group is also working to provide consulting and IT solutions that cut across the public and private sectors using systems and government policies in the public sector as a starting point.

While progress was made on the business front as described above, additional loss was recorded after the customer indicated its intention to cancel development of the main part of a project the quality issues of which arose in the IT services segment in the previous fiscal year.

As a result, during the three months under review, the MRI Group recorded net sales of 15,232 million yen, a year-on-year increase of 2.5%, operating loss was 1,365 million yen (compared with operating loss of 599 million yen in the same period of the previous fiscal year), ordinary loss was 1,155 million yen (compared with ordinary loss of 546 million yen in the same period of the previous fiscal year), and loss attributable to owners of parent was 1,016 million yen (compared with loss attributable to owners of parent of 645 million yen in the same period of the previous fiscal year).

The MRI Group, particularly in its think tank and consulting services, tends to book a large proportion of sales in the March to April period, as the fiscal year of major clients such as government and public offices and corporations ends in March and begins in April. Consequently, earnings of the first quarter tend to be substantially lower than in the other quarters.

*Internet of Things: A term referring to the creation of an Internet of things, the state of products and processes, etc. connected to the Internet, and the aggregation, analysis, and utilization of digital information data obtainable as a result of such state.

The results by segment are as follows.

<Think tank and consulting services>

In the three months under review, the MRI Group saw sales increase for various projects for general private-sector companies, in addition to projects to support system procurement and process management for government and public offices. As a result, the segment reported net sales (outside sales) of 2,621 million yen, an increase of 43.4% year on year, and ordinary loss of 747 million yen (compared with ordinary loss of 1,007 million yen in the same period of the previous fiscal year).

<IT services>

In the three months under review, the segment reported net sales (outside sales) of 12,611 million yen, a decrease of 3.3% year on year, due to a decline in sales mainly attributable to loss of opportunities resulting from responses to the project where quality issues arose in the previous fiscal year. In addition, with regard to such project including quality issues, the customer indicated its intention to cancel development of the main part of the project. Accordingly, we concluded an agreement to cancel such part of the project and discussed the response to such agreement and review of the contract for other parts. In connection with this, an additional loss of 812 million yen was recorded. As a result, ordinary loss amounted to 392 million yen (compared with ordinary profit of 445 million yen in the same period of the previous fiscal year).

(2) Explanation regarding financial position

As of the end of the first quarter under review, total assets stood at 76,831 million yen, a decrease of 1,768 million yen, or 2.2%, compared with the end of the previous fiscal year. Broken down, current assets decreased 8.8% to 40,951 million yen, and non-current assets increased 6.4% to 35,880 million yen. The decrease in current assets mainly reflected decreases of 5,304 million yen in notes and accounts receivable - trade and 3,136 million yen in cash and deposits, despite a rise of 4,254 million yen in inventories owing to seasonal variation. The increase in non-current assets mainly reflected an increase of 2,942 million yen in intangible assets primarily due to the acquisition of software through leasing.

Liabilities increased 4.3%, compared with the end of the previous fiscal year to 26,405 million yen due to a decrease of 2,281 million yen in current liabilities mainly as a result of decreases in income taxes payable and provision for bonuses, and an increase of 3,370 million yen in non-current liabilities mainly reflecting an increase in lease obligations.

Net assets decreased 2,857 million yen, or 5.4%, compared with the end of the previous fiscal year to 50,426 million yen mainly due to a decrease in retained earnings.

The MRI Group has applied the “Partial Amendments to Accounting Standard for Tax Effect Accounting” (ASBJ Statement No. 28, February 16, 2018) and relevant guidance since the beginning of the first quarter under review, and comparison and analysis of the financial position with the previous fiscal year are conducted based on figures obtained through retrospective application of such accounting standards and other relevant guidance.

(3) Explanation regarding consolidated earnings forecasts and other forward-looking statements

There is no change to the consolidated earnings forecasts announced on October 30, 2018.

2. Consolidated financial statements and significant notes thereto

(1) Consolidated quarterly balance sheets

(Millions of yen)

	As of September 30, 2018	As of December 31, 2018
Assets		
Current assets		
Cash and deposits	22,362	19,225
Notes and accounts receivable - trade	14,774	9,470
Inventories	6,116	10,371
Other	1,645	1,893
Allowance for doubtful accounts	(14)	(9)
Total current assets	44,884	40,951
Non-current assets		
Property and equipment		
Buildings and structures, net	5,993	5,881
Machinery, equipment and vehicles, net	15	14
Tools, furniture and fixtures, net	1,466	1,442
Land	720	720
Leased assets, net	550	586
Construction in progress	44	99
Total property and equipment	8,790	8,745
Intangible assets		
Software	4,285	4,084
Leased assets	42	3,112
Other	341	414
Total intangible assets	4,669	7,611
Investments and other assets		
Investment securities	12,975	11,694
Deferred tax assets	3,768	4,339
Other	3,516	3,493
Allowance for doubtful accounts	(4)	(4)
Total investments and other assets	20,255	19,522
Total non-current assets	33,715	35,880
Total assets	78,600	76,831

(Millions of yen)

	As of September 30, 2018	As of December 31, 2018
Liabilities		
Current liabilities		
Accounts payable - trade	3,402	3,547
Accounts payable - other	1,334	1,441
Accrued expenses	1,023	1,603
Income taxes payable	1,140	188
Provision for bonuses	3,186	1,218
Provision for loss on order received	1,705	1,304
Other	2,546	2,756
Total current liabilities	14,340	12,059
Non-current liabilities		
Lease obligations	317	3,634
Provision for share-based compensation	198	221
Net defined benefit liability	10,396	10,426
Asset retirement obligations	51	51
Other	12	12
Total non-current liabilities	10,975	14,345
Total liabilities	25,315	26,405
Net assets		
Shareholders’ equity		
Capital stock	6,336	6,336
Capital surplus	4,765	4,765
Retained earnings	33,463	31,708
Treasury shares	(579)	(579)
Total shareholders’ equity	43,985	42,230
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	2,742	1,878
Deferred gains or losses on hedges	–	(0)
Foreign currency translation adjustment	14	16
Remeasurements of defined benefit plans	(284)	(267)
Total accumulated other comprehensive income	2,472	1,627
Non-controlling interests	6,825	6,568
Total net assets	53,284	50,426
Total liabilities and net assets	78,600	76,831

(2) Consolidated quarterly statements of income and consolidated quarterly statements of comprehensive income

Consolidated quarterly statements of income

(Millions of yen)

	Three months ended December 31, 2017	Three months ended December 31, 2018
Net sales	14,865	15,232
Cost of sales	11,894	13,134
Gross profit	2,970	2,097
Selling, general and administrative expenses	3,570	3,463
Operating loss	(599)	(1,365)
Non-operating income		
Interest income	0	0
Dividend income	32	62
Share of profit of entities accounted for using equity method	17	163
Other	5	4
Total non-operating income	55	230
Non-operating expenses		
Interest expenses	1	1
Foreign exchange losses	–	5
Loss on investments in silent partnership	–	12
Compensation for damage	1	–
Other	0	0
Total non-operating expenses	3	20
Ordinary loss	(546)	(1,155)
Extraordinary income		
Gain on sales of investment securities	0	–
Total extraordinary income	0	–
Extraordinary losses		
Loss on retirement of non-current assets	1	1
Loss on revaluation of investment securities	–	30
Loss on cancellation of leases	0	1
Loss on withdrawal from membership	1	–
Total extraordinary losses	3	32
Loss before income taxes	(550)	(1,188)
Income taxes	50	(89)
Loss	(601)	(1,099)
Profit (loss) attributable to non-controlling interests	43	(83)
Loss attributable to owners of parent	(645)	(1,016)

Consolidated quarterly statements of comprehensive income

(Millions of yen)

	Three months ended December 31, 2017	Three months ended December 31, 2018
Loss	(601)	(1,099)
Other comprehensive income		
Valuation difference on available-for-sale securities	368	(970)
Deferred gains or losses on hedges	0	(0)
Foreign currency translation adjustment	1	1
Remeasurements of defined benefit plans	29	16
Share of other comprehensive income of entities accounted for using equity method	6	2
Total other comprehensive income	405	(949)
Comprehensive income	(196)	(2,049)
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	(307)	(1,861)
Comprehensive income attributable to non-controlling interests	111	(187)

(3) Notes to Consolidated Financial Statements

(Notes on going concern assumption)

Not applicable

(Notes in the case of material changes in shareholders' equity)

Not applicable

(Application of special accounting in preparing consolidated quarterly financial statements)

(Calculation of tax expenses)

Tax expenses are calculated by multiplying profit before income taxes by the reasonably estimated effective tax rate subsequent to the application of the tax effect accounting to profit before income taxes for the fiscal year including the first quarter under review.

(Additional information)

(Application of the "Partial Amendments to Accounting Standard for Tax Effect Accounting")

The MRI Group has applied the "Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Statement No. 28, February 16, 2018) and relevant guidance since the beginning of the first quarter under review, and deferred tax assets have been presented under investments and other assets.

(Share-based compensation system linked to operating performance for directors, executives and research fellows)

At the Annual General Meeting of Shareholders held on December 19, 2016, MRI passed a resolution approving the introduction of a share-based compensation system linked to operating performance (hereinafter, "the plan") for MRI's directors (excluding outside directors, non-executive directors and directors living outside Japan) and for executives and research fellows contractually bound to MRI (excluding individuals living outside Japan; hereinafter, collectively with directors, "directors, etc."). The plan is designed to raise awareness of contributing to improving the MRI Group's earnings performance and corporate value over the medium to long term. The plan is closely linked to the MRI Group's earnings performance and will be a highly transparent, objective compensation system for MRI's directors, etc.

Accounting treatment of the plan is based on the "Practical Solution on Transactions of Delivering the Company's Own Stock to Employees etc. through Trusts" (ASBJ PITF No. 30, March 26, 2015).

1) Overview of transaction

The plan adopted the structure used for the Board Incentive Plan Trust (hereinafter, the "BIP Trust"). Following the resignation of a director, etc. (or following their death if the director, etc. has passed away), MRI will grant shares of MRI held in the BIP Trust, or provide funds equivalent to the liquidation value of the shares, corresponding to the achievement of the earnings performance targets.

2) MRI's shares remaining in the trust

MRI's shares remaining in the trust are recorded at the book value (excluding associated expenses) of the trust and are reflected as treasury shares incorporated in net assets. The book value of the said treasury shares and the number of shares comprise 578 million yen and 177 thousand shares for the previous fiscal year and 578 million yen and 177 thousand shares for the first quarter under review.

(Provision for loss on order received)

At the end of the previous fiscal year, the MRI Group recorded provision for loss on order received of 1,680 million yen following the need for additional renovation work to ensure quality after failure occurred in the test phase for the large system development project undertaken by the Company's consolidated subsidiary.

Regarding this project, after the customer indicated its intention to cancel the development of the main part, we concluded an agreement to cancel such part in January 2019 and discussed the

response to such agreement and review of the contract for other parts with the customer. At the end of the first quarter under review, we estimated the expenses associated with cancellation agreement and review of the contract based on the status of discussions with the customer, and recorded a loss expected to be incurred in the future of 1,236 million yen as provision for loss on order received. The effect on profit and loss during the three months under review is cost of sales (provision for loss on order received) of 812 million yen.
Although we are making estimates reasonable as much as possible at the present time for such expenses, this may change depending on the progress and results of discussions in the future as we are discussing the execution schedule and tasks, among other things, with the customer.

(Segment information, etc.)

I Three months ended December 31, 2017

A. Information regarding amounts of net sales and profit/loss by reportable segment

(Millions of yen)

	Reportable segments		Total	Adjustment (Note 1)	Amount recorded in the consolidated quarterly statement of income (Note 2)
	Think tank and consulting services	IT services			
Net sales					
Outside customers	1,827	13,037	14,865	–	14,865
Inter-segment sales and transfers	18	181	199	(199)	–
Total	1,845	13,219	15,065	(199)	14,865
Segment profit (loss)	(1,007)	445	(562)	15	(546)

Notes: 1. The adjustment of 15 million yen on segment profit (loss) includes negative 5 million yen as inventory adjustments and 20 million yen as non-current asset adjustments.

2. Segment profit (loss) is adjusted with ordinary loss in the consolidated quarterly statement of income.

B. Information regarding impairment loss of non-current assets or regarding goodwill by reportable segment

There are no significant matters for the three months.

II Three months ended December 31, 2018

A. Information regarding amounts of net sales and profit/loss by reportable segment

(Millions of yen)

	Reportable segments		Total	Adjustment (Note 1)	Amount recorded in the consolidated quarterly statement of income (Note 2)
	Think tank and consulting services	IT services			
Net sales					
Outside customers	2,621	12,611	15,232	–	15,232
Inter-segment sales and transfers	18	401	419	(419)	–
Total	2,639	13,012	15,651	(419)	15,232
Segment profit (loss)	(747)	(392)	(1,139)	(16)	(1,155)

Notes: 1. The adjustment of negative 16 million yen on segment profit (loss) includes negative 10 million yen as inventory adjustments and negative 5 million yen as non-current asset adjustments.

2. Segment profit (loss) is adjusted with ordinary loss in the consolidated quarterly statement of income.

B. Information regarding impairment loss of non-current assets or regarding goodwill by reportable segment

There are no significant matters for the three months.

3. Supplementary information

Status of orders received and sales

(1) Status of orders received

Status of orders received by segment is as shown below.

(Millions of yen)

Segment name	Three months ended December 31, 2018			
	Orders received	Year-on-year change (%)	Balance	Year-on-year change (%)
Think tank and consulting services	4,952	(23.0)	27,331	(1.1)
IT services	12,369	(10.1)	36,236	(2.0)
System development	6,816	(21.6)	16,810	(11.1)
Outsourcing services	5,553	9.7	19,425	7.5
Total	17,321	(14.2)	63,567	(1.6)

Notes: 1. Inter-segment transactions have been eliminated.

2. Consumption taxes are not included in the above amounts.

3. For services where services are continually rendered and fees commensurate with performance are received, an estimate of sales for a year after December 31, 2018 is recorded in the balance of orders received.

(2) Sales performance

Sales performance by segment is as shown below.

(Millions of yen)

Segment name	Three months ended December 31, 2018	Year-on-year change (%)
Think tank and consulting services	2,621	43.4
IT services	12,611	(3.3)
System development	7,082	(12.2)
Outsourcing services	5,528	11.1
Total	15,232	2.5

Notes: 1. Inter-segment transactions have been eliminated.

2. The MRI Group, particularly in its think tank and consulting service, completes only a small number of projects during the first three months as the fiscal year of major clients such as government and public offices and corporations ends in March and begins in April. Consequently, sales results for the first three months of the MRI Group's fiscal year tend to be substantially lower than in the other quarters.

3. Consumption taxes are not included in the above amounts.