

[Translation for reference only]

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Translation



July 26, 2019

Consolidated Financial Results for the Nine 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
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Scheduled date to submit Quarterly Securities Report: August 2, 2019
Scheduled date to commence dividend payments: -
Preparation of supplementary material on quarterly financial results: Yes
Holding of quarterly financial results presentation meeting: No

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

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

(1) Consolidated operating results (cumulative) (Percentages indicate year-on-year changes.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Nine months ended June 30, 2019	69,102	(1.7)	4,135	(22.3)	4,764	(16.3)	3,235	(11.8)
June 30, 2018	70,266	3.9	5,321	28.0	5,695	23.7	3,668	30.3

Note: Comprehensive income

For the nine months ended June 30, 2019: 2,185 million yen [(43.5)%]
For the nine months ended June 30, 2018: 3,867 million yen [(2.1)%]

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Nine months ended June 30, 2019	199.17	-
June 30, 2018	225.83	-

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
As of June 30, 2019	81,727	53,863	57.7
September 30, 2018	78,600	53,284	59.1

Reference: Equity (Net assets – Non-controlling interests)

As of June 30, 2019: 47,153 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	–	45.00	–		
Fiscal year ending September 30, 2019 (Forecast)				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	91,000	0.8	5,000	0.7	5,400	0.7	3,500	2.9	215.44

Note: Revisions to the earnings forecasts most recently announced: No

***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
- Changes in accounting policies due to revisions to accounting standards and other regulations: None
 - Changes in accounting policies due to other reasons: None
 - Changes in accounting estimates: None
 - 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 June 30, 2019	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 June 30, 2019	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)

Nine months ended June 30, 2019	16,245,885 shares
Nine months ended June 30, 2018	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.

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(Attached materials)**1. Qualitative information regarding settlement of accounts for the nine months****(1) Explanation regarding operating results**

During the nine months under review (from October 1, 2018 to June 30, 2019), the Japanese economy made a modest recovery, mainly in domestic demand, despite signs of weak exports and production. Consumer activity slightly increased, supported by factors such as an improvement in the employment and income environment. As for capital expenditure, companies took a slightly cautious approach to investment as economic outlook became increasingly uncertain, reflecting US-China trade friction and growing tensions in the Middle East due to the hardline approach of the US, in addition to decreases in exports and production. Meanwhile, capital expenditure remained firm amid 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, reflecting the international situation stated above and a slowdown in overseas economies such as China and the correction of semiconductor-related demand.

Overseas economies slowed down moderately. The US economy witnessed sluggish growth in consumer activity and capital expenditure as the effects of previous tax cuts wore off and uncertainty about trade policies grew. Amid the turmoil surrounding the UK's withdrawal from the European Union, the European economy grew at a slower pace primarily as a result of deteriorating external demand, 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 steady progress was made on the business front as described above, the ongoing response to a project, the quality issues of which arose in the IT services segment in the previous fiscal year, was the primary factor behind the decrease in profits.

As a result, during the nine months under review, the MRI Group recorded net sales of 69,102 million yen, a year-on-year decrease of 1.7%, operating profit of 4,135 million yen, a year-on-year decrease of 22.3%, and ordinary profit of 4,764 million yen, a year-on-year decrease of 16.3%. Profit attributable to owners of parent was 3,235 million yen, a year-on-year decrease of 11.8%.

*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 nine months under review, the MRI Group saw sales increase for a wide range of projects for general private-sector companies including support for information security and system construction, consulting on new business development, overseas transport infrastructure-related projects, and new services (subscription-based model) but also witnessed a recoil decline accompanying the completion of large financial projects and a delay in the completion of large projects. As a result, the segment reported net sales (outside sales) of 28,215 million yen, an increase of 0.3% year on year, and ordinary profit of 3,634 million yen, a decrease of 2.0% year on year, figures that remained almost unchanged year on year.

<IT services>

In the nine months under review, sales decreased due to factors such as a recoil decline accompanying the completion of multiple system development projects. As a result, the segment reported net sales (outside sales) of 40,886 million yen, a decrease of 2.9% year on year. Also, the segment reported ordinary profit of 1,101 million yen, a decrease of 42.8% year on year, due to the recording of additional loss in connection with the project including quality issues, in addition to the impact of a decrease in net sales.

(2) Explanation regarding financial position**A. Financial position**

As of the end of the third quarter under review, total assets stood at 81,727 million yen, an increase of 3,127 million yen, or 4.0%, compared with the end of the previous fiscal year. Broken down, current assets increased 4.9% to 47,066 million yen, and non-current assets increased 2.8% to 34,661 million yen.

Liabilities increased 2,547 million yen, or 10.1%, compared with the end of the previous fiscal year to 27,863 million yen mainly due to an increase of 2,321 million yen in lease obligations under non-current liabilities, owing to acquisition of software through leasing.

Net assets increased 579 million yen, or 1.1%, compared with the end of the previous fiscal year to 53,863 million yen mainly due to an increase of 1,757 million yen in retained earnings.

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

There is no change to the consolidated earnings forecasts announced on April 26, 2019.

2. Consolidated financial statements and significant notes thereto

(1) Consolidated quarterly balance sheets

(Millions of yen)

	As of September 30, 2018	As of June 30, 2019
Assets		
Current assets		
Cash and deposits	22,362	29,671
Notes and accounts receivable - trade	14,774	8,645
Inventories	6,116	6,567
Other	1,645	2,186
Allowance for doubtful accounts	(14)	(4)
Total current assets	44,884	47,066
Non-current assets		
Property and equipment		
Buildings and structures, net	5,993	5,977
Machinery, equipment and vehicles, net	15	12
Tools, furniture and fixtures, net	1,466	1,406
Land	720	720
Leased assets, net	550	487
Construction in progress	44	37
Total property and equipment	8,790	8,642
Intangible assets		
Software	4,285	3,493
Leased assets	42	2,792
Other	341	116
Total intangible assets	4,669	6,402
Investments and other assets		
Investment securities	12,975	12,026
Deferred tax assets	3,768	4,154
Other	3,516	3,442
Allowance for doubtful accounts	(4)	(6)
Total investments and other assets	20,255	19,616
Total non-current assets	33,715	34,661
Total assets	78,600	81,727

(Millions of yen)

	As of September 30, 2018	As of June 30, 2019
Liabilities		
Current liabilities		
Accounts payable - trade	3,402	3,099
Accounts payable - other	1,334	1,392
Accrued expenses	1,023	968
Income taxes payable	1,140	815
Provision for bonuses	3,186	1,991
Provision for loss on order received	1,705	1,379
Other	2,546	4,706
Total current liabilities	14,340	14,353
Non-current liabilities		
Lease obligations	317	2,638
Provision for share-based compensation	198	276
Net defined benefit liability	10,396	10,518
Asset retirement obligations	51	51
Other	12	24
Total non-current liabilities	10,975	13,509
Total liabilities	25,315	27,863
Net assets		
Shareholders' equity		
Capital stock	6,336	6,336
Capital surplus	4,765	4,765
Retained earnings	33,463	35,221
Treasury shares	(579)	(579)
Total shareholders' equity	43,985	45,743
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	2,742	1,761
Deferred gains or losses on hedges	-	(132)
Foreign currency translation adjustment	14	14
Remeasurements of defined benefit plans	(284)	(233)
Total accumulated other comprehensive income	2,472	1,410
Non-controlling interests	6,825	6,710
Total net assets	53,284	53,863
Total liabilities and net assets	78,600	81,727

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

Consolidated quarterly statements of income

(Millions of yen)

	Nine months ended June 30, 2018	Nine months ended June 30, 2019
Net sales	70,266	69,102
Cost of sales	54,040	53,903
Gross profit	16,226	15,199
Selling, general and administrative expenses	10,905	11,063
Operating profit	5,321	4,135
Non-operating income		
Interest income	0	0
Dividend income	137	201
Share of profit of entities accounted for using equity method	195	460
Other	51	51
Total non-operating income	385	712
Non-operating expenses		
Interest expenses	5	20
Foreign exchange losses	4	9
Loss on investments in silent partnership	-	53
Other	1	0
Total non-operating expenses	11	83
Ordinary profit	5,695	4,764
Extraordinary income		
Gain on sales of investment securities	0	252
Other	-	41
Total extraordinary income	0	293
Extraordinary losses		
Loss on retirement of non-current assets	15	9
Impairment loss	33	-
Loss on sales of investment securities	9	-
Loss on revaluation of investment securities	1	82
Loss on cancellation of leases	19	1
Other	1	19
Total extraordinary losses	80	113
Profit before income taxes	5,615	4,944
Income taxes	1,703	1,584
Profit	3,911	3,360
Profit attributable to non-controlling interests	243	124
Profit attributable to owners of parent	3,668	3,235

Consolidated quarterly statements of comprehensive income

(Millions of yen)

	Nine months ended June 30, 2018	Nine months ended June 30, 2019
Profit	3,911	3,360
Other comprehensive income		
Valuation difference on available-for-sale securities	(113)	(1,092)
Deferred gains or losses on hedges	0	(132)
Foreign currency translation adjustment	(1)	0
Remeasurements of defined benefit plans	64	50
Share of other comprehensive income of entities accounted for using equity method	5	(0)
Total other comprehensive income	(44)	(1,174)
Comprehensive income	3,867	2,185
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	3,605	2,173
Comprehensive income attributable to non- controlling interests	262	12

(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 third quarter under review.

(Additional information)

(Application of "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, 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 third 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 third 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 1,361 million yen as provision for loss on order received. Inventories related to order contracts and provision for loss on order received that are expected to incur a loss are not offset and presented as is. The amount of inventories at the end of the third quarter under review related to such project was 546 million yen. In addition, the effect on profit and loss during the nine months under review is cost of sales (provision for loss on order received) of 908 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 Nine months ended June 30, 2018

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

	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	28,139	42,127	70,266	-	70,266
Inter-segment sales and transfers	110	888	998	(998)	-
Total	28,249	43,015	71,265	(998)	70,266
Segment profit	3,707	1,924	5,632	63	5,695

Notes: 1. The adjustment of 63 million yen on segment profit includes 4 million yen as inventory adjustments and 59 million yen as non-current asset adjustments.

2. Segment profit is adjusted with ordinary profit 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 nine months.

II Nine months ended June 30, 2019

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

	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	28,215	40,886	69,102	-	69,102
Inter-segment sales and transfers	55	1,011	1,066	(1,066)	-
Total	28,271	41,898	70,169	(1,066)	69,102
Segment profit	3,634	1,101	4,735	28	4,764

Notes: 1. The adjustment of 28 million yen on segment profit includes negative 6 million yen as inventory adjustments and 35 million yen as non-current asset adjustments.

2. Segment profit is adjusted with ordinary profit 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 nine 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	Nine months ended June 30, 2019			
	Orders received	Year-on-year change (%)	Balance	Year-on-year change (%)
Think tank and consulting services	26,077	(4.7)	22,862	2.7
IT services	43,229	4.3	38,820	9.1
System development	26,446	0.7	19,375	10.4
Outsourcing services	16,782	10.5	19,445	7.8
Total	69,307	0.7	61,683	6.6

- 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 June 30, 2019 is recorded in the balance of orders received.

(2) Sales performance

Sales performance by segment is as shown below.

(Millions of yen)

Segment name	Nine months ended June 30, 2019	Year-on-year change (%)
Think tank and consulting services	28,215	0.3
IT services	40,886	(2.9)
System development	24,147	(10.6)
Outsourcing services	16,738	10.7
Total	69,102	(1.7)

- Notes: 1. Inter-segment transactions have been eliminated.
 2. Consumption taxes are not included in the above amounts.