

[Translation for reference only]

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Translation



October 30, 2018

Consolidated Financial Results for the Fiscal Year Ended September 30, 2018 <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 of annual general meeting of shareholders: December 20, 2018
Scheduled date to commence dividend payments: December 21, 2018
Scheduled date to submit Annual Securities Report: December 20, 2018
Preparation of supplementary material on financial results: Yes
Holding of financial results presentation meeting: Yes (for institutional investors and analysts)

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

1. Consolidated performance for the fiscal year ended September 30, 2018 (from October 1, 2017 to September 30, 2018)

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

Fiscal year ended	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
September 30, 2018	90,250	0.9	4,963	(13.4)	5,364	(14.3)	3,402	(11.2)
September 30, 2017	89,466	2.9	5,731	4.3	6,258	6.5	3,833	11.9

Note: Comprehensive income

For the fiscal year ended September 30, 2018: 4,401 million yen [(18.6)%]
For the fiscal year ended September 30, 2017: 5,410 million yen [41.5%]

Fiscal year ended	Basic earnings per share	Diluted earnings per share	Return on equity	Ordinary profit/total assets	Operating profit/net sales
September 30, 2018	Yen 209.46	Yen –	% 7.5	% 7.0	% 5.5
September 30, 2017	Yen 235.08	Yen –	% 9.1	% 8.5	% 6.4

Reference: Share of profit (loss) of entities accounted for using equity method

For the fiscal year ended September 30, 2018: 203 million yen
For the fiscal year ended September 30, 2017: 255 million yen

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
As of	Millions of yen	Millions of yen	%	Yen
September 30, 2018	78,600	53,284	59.1	2,859.70
September 30, 2017	75,654	50,395	57.8	2,692.31

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

As of September 30, 2018: 46,458 million yen

As of September 30, 2017: 43,738 million yen

(3) Consolidated cash flows

	Net cash provided by (used in) operating activities	Net cash provided by (used in) investing activities	Net cash provided by (used in) financing activities	Cash and cash equivalents at end of period
Fiscal year ended	Millions of yen	Millions of yen	Millions of yen	Millions of yen
September 30, 2018	7,013	(3,129)	(1,826)	22,062
September 30, 2017	6,582	(5,368)	(2,164)	20,004

2. Cash dividends

	Annual cash dividends per share					Total cash dividends	Dividend payout ratio (Consolidated)	Ratio of dividends to net assets (Consolidated)
	First quarter- end	Second quarter- end	Third quarter- end	Fiscal year- end	Total			
Fiscal year ended September 30, 2017	Yen –	Yen 35.00	Yen –	Yen 40.00	Yen 75.00	Millions of yen 1,231	% 31.9	% 2.9
Fiscal year ended September 30, 2018	–	40.00	–	45.00	85.00	1,396	40.6	3.1
Fiscal year ending September 30, 2019 (Forecast)	–	45.00	–	45.00	90.00		37.5	

**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	%	
Fiscal year ending September 30, 2019	94,000	4.2	6,000	20.9	6,400	19.3	3,900	14.6	Yen 240.06

***Notes**

- (1) Changes in significant subsidiaries during the period (changes in specified subsidiaries resulting in the change in scope of consolidation): None
- (2) 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

- (3) Number of issued shares (common shares)

- a. Total number of issued shares at the end of the period (including treasury shares)

As of September 30, 2018	16,424,080 shares
As of September 30, 2017	16,424,080 shares

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

As of September 30, 2018	178,156 shares
As of September 30, 2017	178,156 shares

- c. Average number of outstanding shares during the period

Fiscal year ended September 30, 2018	16,245,924 shares
Fiscal year ended September 30, 2017	16,309,327 shares

Note: For the number of shares as basis for calculating basic earnings per share (consolidated), please refer to “4. Consolidated financial statements and significant notes thereto, (7) Per share information” on page 19 of the attached materials.

* Financial results reports are exempt from audit 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.

Please refer to pages 3 and 4 “1. Overview of operating results and others, (4) Outlook for the next fiscal year” for information on assumptions underlying the business forecasts and other related information.

(Availability of supplementary material on financial results)

Supplementary material on financial results is made available on our website (only in Japanese).

(Attached materials)**1. Overview of operating results and others****(1) Overview of operating results for the fiscal year under review**

During the fiscal year under review (from October 1, 2017 to September 30, 2018), the Japanese economy continued its modest recovery. Consumer activity picked up, supported by factors such as an improvement in the employment and income environment and the wealth effect due to rising share prices. Capital expenditure remained firm amid a recovery in production activity, improving corporate earnings, rising investment in automation and labor-saving processes to counter labor shortages, and growth in IT investment. Exports to China and other markets in Asia increased, supported by an upturn in global demand for IT products and parts, while exports to Europe and the US were firm, centered on transportation machinery and general machinery.

Overseas economies continued to expand overall. In the US economy, consumer activity was firm against the backdrop of a favorable employment environment and strengthening consumer sentiment. In Europe, economic growth accelerated, supported by an improving employment environment and a recovery in business sentiment. The Chinese economy remained stable, while other emerging economies continued to recover at a moderate pace.

Against this backdrop, Mitsubishi Research Institute, Inc. and its consolidated subsidiaries (the MRI Group) continued to 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 capabilities it has accumulated as a comprehensive think tank. The distribution and services sector, etc., as well as the manufacturing sector, are investing heavily to improve the competitiveness of their products and services. As part of that trend, there is a growing need for consulting and IT services that utilize AI (artificial intelligence), IoT* and cloud computing.

Beginning with the fiscal year under review, the MRI Group has been working under the new three-year Medium-term Management Plan. We have positioned the public sector and the financial and credit card sector as core business areas that leverage our traditional strengths and solidly support MRI's business. In addition, as growth businesses, the MRI Group is also engaging in businesses utilizing AI and other technologies to provide new services to private-sector companies, as well as providing 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. Moreover, the Group has put in place a sales structure to implement these businesses quickly, and has been focusing in particular on areas including 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.

Meanwhile, we recorded provision for loss on order received due to the fact that a large system development project we undertook required quality improvement measures.

As a result, during the fiscal year under review, the MRI Group recorded net sales of 90,250 million yen, up 0.9% year on year, operating profit of 4,963 million yen, down 13.4%, ordinary profit of 5,364 million yen, down 14.3%, and profit attributable to owners of parent of 3,402 million yen, down 11.2%.

*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 fiscal year under review, sales were buoyed by large research studies for government and public offices, as well as by services for the private sector, including those in the energy sector and the healthcare and wellness sector, for which the MRI Group has been working to strengthen its sales structure. In addition, there was growth in new services such as the AI diagnostic service for hiring activities that MRI developed and brought to the market, as well as an energy market prediction model, and growth in these services also contributed to profits. As a result, the segment reported net sales (outside sales) of 33,489 million yen, an increase of 2.3% year on year, and ordinary profit of 3,233 million yen, an increase of 59.3% year on year.

<IT services>

In the fiscal year under review, sales for system construction for megabanks and other services were solid, and the segment reported net sales (outside sales) of 56,760 million yen, an increase of 0.0% year on year. Ordinary profit was 2,050 million yen, a decrease of 50.3% year on year, due to recording of provision for loss on order received.

(2) Overview of financial position for the fiscal year under review

At the end of the fiscal year under review, total assets stood at 78,600 million yen, an increase of 2,945 million yen, or 3.9%, compared with the end of the previous fiscal year. Broken down, current assets decreased 1.6% to 46,710 million yen, while non-current assets increased 13.2% to 31,889 million yen. In current assets, there were rises of 6,058 million yen in cash and deposits and 614 million yen in inventories, and decreases of 6,999 million yen in securities, which were held for short-term investment and 287 million yen in notes and accounts receivable - trade. In non-current assets, investment securities increased by 4,781 million yen due to new investment and a rise in the value of shareholdings.

Liabilities increased 57 million yen, or 0.2%, compared with the end of the previous fiscal year to 25,315 million yen. This reflected decreases of 628 million yen in accounts payable - trade, 545 million yen in provision for bonuses and 363 million yen in advances received, despite an increase of 1,702 million yen in provision for loss on order received.

Net assets increased 2,888 million yen, or 5.7%, compared with the end of the previous fiscal year to 53,284 million yen due to increases of 2,089 million yen in retained earnings and 542 million yen in valuation difference on available-for-sale securities. The equity ratio stood at 59.1%.

(3) Overview of cash flow position for the fiscal year under review

At the end of the fiscal year under review, cash and cash equivalents increased 2,058 million yen compared with the end of the previous fiscal year to 22,062 million yen. The respective cash flow positions and the factors thereof are as follows.

Cash provided by operating activities was 7,013 million yen, compared with 6,582 million yen provided in the previous fiscal year. The main reasons were 5,257 million yen in profit before income taxes, 3,207 million yen in depreciation, and 1,702 million yen in increase in provision for loss on order received.

Cash used in investing activities was 3,129 million yen, compared with 5,368 million yen used in the previous fiscal year. The main reasons were 2,999 million yen in proceeds from redemption of securities, which were held for short-term investment, 3,804 million yen in purchase of investment securities, 1,470 million yen in purchase of intangible assets, and 837 million yen in purchase of property and equipment.

Cash used in financing activities was 1,826 million yen, compared with 2,164 million yen used in the previous fiscal year. The main reasons were 1,313 million yen in cash dividends paid and 313 million yen in repayments of lease obligations.

(4) Outlook for the next fiscal year

Prior to and after the October 2019 consumption tax rate hike, the Japanese economy is expected to experience a rush in demand followed by recoil decline, especially in consumer activity and housing. However, the moderate recovery is predicted to continue through the 2019 fiscal year, supported by rising exports, consumer activity and capital expenditure amid a firm global economy and an improving employment and income environment.

However, the situation overseas is highly uncertain and presents a downside risk to this forecast for the Japanese economy. The greatest risk is financial market instability caused by the shift to protectionism stemming from US trade policy and a downturn in the Chinese economy, among other factors. These trends could exert strong downward pressure on the Japanese economy through a negative impact on exports, corporate earnings and business and household sentiment.

For the fiscal year ending September 30, 2019, the MRI Group forecasts consolidated net sales of 94,000 million yen, up 4.2% compared with the fiscal year under review, operating profit of 6,000 million yen, up 20.9%, ordinary profit of 6,400 million yen, up 19.3%, and profit attributable to owners of parent of 3,900 million yen, up 14.6%.

In think tank and consulting services, we forecast net sales (outside sales) of 35,000 million yen, up 4.5% year on year, and ordinary profit of 3,100 million yen, down 4.1% year on year. Under the Medium-term Management Plan, for government and public offices, we continuously expect to receive orders in strategic policy fields, such as energy, social security, next-generation infrastructure, societal use of ICT, and food and agriculture. We also forecast general private-sector corporate demand related mainly to business operation and business innovation consulting, and ICT consulting utilizing package solutions. Meanwhile, we will prioritize up-front investments targeting future growth, and are therefore forecasting a small decline in profit.

In IT services, we forecast net sales (outside sales) of 59,000 million yen, up 3.9% year on year, and ordinary profit of 3,300 million yen, up 60.9% year on year. In addition to the drop-out of the negative impact from the recording of provision for loss on order received in the fiscal year ended September 30, 2018, we are forecasting an increase in profit based on our expectations for expansion in areas including measures to address regulations to prevent money laundering, systems such as big data utilization platforms, and credit card-related system operations for financial institutions, services for junior and senior high schools as well as universities, and ICT-related BPO.

Consolidated earnings forecasts for the fiscal year ending September 30, 2019

	Fiscal year ended September 30, 2018 (Actual result) (Millions of yen)	Fiscal year ending September 30, 2019 (Forecast) (Millions of yen)	Change	
			Amount (Millions of yen)	Rate (%)
Net sales	90,250	94,000	3,750	4.2
Think tank and consulting services	33,489	35,000	1,511	4.5
IT services	56,760	59,000	2,239	3.9
Operating profit	4,963	6,000	1,037	20.9
Ordinary profit	5,364	6,400	1,036	19.3
Think tank and consulting services	3,233	3,100	(133)	(4.1)
IT services	2,050	3,300	1,249	60.9
Profit attributable to owners of parent	3,402	3,900	497	14.6
Basic earnings per share	(Yen) 209.46	(Yen) 240.06	(Yen) 30.60	14.6

Note: Basic earnings per share is calculated using the average number of outstanding shares during the period.

Average number of outstanding shares during the period

Fiscal year ended September 30, 2018: 16,245 thousand shares

Fiscal year ending September 30, 2019: 16,245 thousand shares

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.

(5) Basic policy on profit distribution and dividends for the fiscal year under review and next fiscal year

MRI aims to increase corporate value by achieving sustained growth through contributing to its customers and the development of society and creating value. MRI's policy on shareholder returns is to maintain a stable dividend, while also working to raise the level of dividends after taking into account a comprehensive range of factors, such as earnings performance and the financial soundness. MRI uses internal reserves to reinforce its financial structure in preparation for any changes in the operating environment, and to make investments to support future business development and carry out capital investment.

Based on the fact that progress on the Medium-term Management Plan is on schedule, excluding a decline in profit due to the recording of provision for loss on order received, MRI plans to pay 85 yen per share as the annual dividend distribution for the fiscal year under review. MRI has already paid an interim cash dividend of 40 yen per share, and accordingly plans to pay a year-end dividend of 45 yen per share.

With regard to dividend distribution in the next fiscal year, MRI expects to pay 45 yen per share for both interim and year-end cash dividends to make an annual dividend distribution of 90 yen per share.

2. Management policy

(1) Management policy

The MRI Group's basic policy is to utilize its strength in having the three main functions of think tank, consulting, and IT solutions to contribute to the creation of value for customers and the development of society through corporate activities based on creative insights.

The MRI Group's corporate mission is as follows.

<Corporate Mission>

- A. Use wisdom and information to contribute to society
We constantly strive to be a knowledge-creating company, contributing to the prosperity of our customers as well as society.
- B. Maintain integrity and fairness in business activities
We maintain the utmost social trust and faith from our customers by pursuing integrity and fairness in business activities.
- C. Apply integrated strengths by combining the ability of diverse individuals
We demonstrate comprehensive competence as an organization by encouraging each employee to fulfill their individual goals using advanced, specialist skills and by combining the ability of diverse individuals.

Based on this corporate mission, the MRI Group will provide pioneering services to help customers and society solve the wide-ranging issues they face and contribute to the creation of an ideal future society. This will underpin our efforts to promote the "co-creation of a brighter future" with our customers to build a prosperous future and create ways for societies, communities and companies to develop sustainably.

<Business Mission>

- A. Explore and predict the future
Use our think tank function to map out concepts for customers
- B. Develop concrete policies for the future
Use our consulting function to show customers the way ahead
- C. Realize the future
Use our IT solution function to make the future a reality for customers

(2) Management strategy

Japan faces a number of societal challenges, such as system reforms to address a projected decline in the birth rate and an aging society, effective use of resources and energy, and regional revitalization. The MRI Group, which is primarily a comprehensive think tank, operates a "Think & Act business." This involves scientifically and constructively analyzing issues faced by society and customers based on a broad overview of social, economic and technological trends, and working with partners in industry, the public sector and academia to address those issues by providing support for solution development through to implementation.

As an action plan supporting that approach, we have formulated and been implementing the three-year Medium-term Management Plan 2020, which covers the period from the fiscal year ended September 30, 2018 to the fiscal year ending September 30, 2020. Under the plan, our policy is to achieve sustainable growth by leveraging the MRI Group's strengths as a comprehensive think tank, using social issues as a starting point to co-create business opportunities and drive forward three areas of reform.

Having completed the first year of the Medium-term Management Plan, we feel that steady progress is being made on business growth and new business development based on the three areas of reform. We therefore plan to further accelerate our initiatives to ensure that we achieve the plan's objectives.

A. Business portfolio reforms

We will define the MRI Group's growth businesses and core businesses and allocate staff, research & development funds and other resources in line with this business portfolio.

One of the Group's growth businesses is the "government-private co-creation solution business." "Government-private co-creation" refers to the provision of services that link public and private sectors, leveraging the MRI Group's strengths. Backed up by expertise in public policy accumulated in the government and public offices business, we will grow our business in the private-sector consulting and IT solutions fields by narrowing our focus into the provision of unique services and added value.

Another growth business is the "private sector corporate business (including overseas markets)," which is focused on new technologies. The MRI Group has a broad understanding of technological trends and how they are applied in society. The Group also has an extensive consulting track record related to new business development that harnesses new technologies. Services that use technologies such as AI and blockchains can deliver business innovation, cost reduction and other improvements. We have identified these services as having real potential to drive market growth and we intend to focus on them to accelerate business expansion.

B. Business model reforms

The MRI Group will advance its "Think & Act business," which provides support to customers for solution development through to implementation, based on cooperation between internal teams and functions and with external partners. Through internal and external partnerships, we will dramatically expand the visionary scope of the business and grow operations through a scale-up of major business development linking business activities from consulting to IT solutions.

C. Work style reforms

Targeting "sustainable growth for individuals and the organization," the MRI Group will continue to implement comprehensive human assets development initiatives and reform business models and work styles in order to create highly productive, pleasant and motivating workplaces. Cultivating highly skilled professional human resources and harnessing the capabilities of all employees are particularly important issues that have a direct impact on corporate competitiveness. The MRI Group will therefore strategically implement initiatives to achieve those goals, including investing in human assets. In addition, the MRI Group will push ahead with various other work style reforms to tackle similarly important issues, such as making use of ICT and information/knowledge sharing to boost productivity, improving working conditions such as work hours, and promoting diversity.

(3) Objective indicators to assess performance versus management targets, etc.

The MRI Group manages its business through policies designed to enable sustainable business growth and increased earnings power and capital efficiency from a medium- to long-term perspective. Based on this thinking, we use net sales, ordinary profit and ROE as key management indicators. Delivering sustained improvement in these indicators is one of our medium- to long-term management targets. We will strive to continuously enhance the shareholder value.

(Targets for the final year of the Medium-term Management Plan – fiscal year ending September 30, 2020)

- Consolidated net sales: 100.0 billion yen
- Consolidated ordinary profit: 8.0 billion yen
- ROE: 10%

(4) Operating environment

Since it was founded roughly 50 years ago, the MRI Group has expanded its business by providing services to government and public offices, financial institutions, private-sector companies and other customers by combining its think tank, consulting and IT solutions functions.

Japan continues to face a large number of issues that need to be overcome, such as resolving long-term structural issues, breaking free from economic deflation and improving the international competitiveness of Japanese industry and companies. Issues faced by customers and society are also becoming increasingly diverse and complex. In addition, ICT, AI and other new technologies are emerging all the time, which are likely to result in drastic, and sometimes destructive, change for society and companies.

The MRI Group is committed to helping society and companies transform themselves to address these far-reaching changes, which is its social mission and presents a major business opportunity for the MRI Group.

The MRI Group's mission is to stay ahead of changing trends in society and cutting-edge technologies, ascertain their impact on society and help customers strategically and preemptively address those changes. We will implement the Medium-term Management Plan in line with this mission.

3. Basic approach to adoption of accounting standard

The MRI Group applies the Japanese GAAP.

We intend to respond appropriately to the adoption of IFRS giving consideration to the situation in Japan and overseas.

4. Consolidated financial statements and significant notes thereto

(1) Consolidated balance sheets

(Millions of yen)

	As of September 30, 2017	As of September 30, 2018
Assets		
Current assets		
Cash and deposits	16,304	22,362
Notes and accounts receivable - trade	15,062	14,774
Securities	6,999	–
Inventories	5,502	6,116
Prepaid expenses	1,445	1,461
Deferred tax assets	1,636	1,826
Other	558	184
Allowance for doubtful accounts	(14)	(14)
Total current assets	47,493	46,710
Non-current assets		
Property and equipment		
Buildings and structures	14,903	15,196
Accumulated depreciation	(8,718)	(9,203)
Buildings and structures, net	6,185	5,993
Machinery, equipment and vehicles	15	33
Accumulated depreciation	(15)	(17)
Machinery, equipment and vehicles, net	0	15
Tools, furniture and fixtures	5,856	6,058
Accumulated depreciation	(4,346)	(4,591)
Tools, furniture and fixtures, net	1,510	1,466
Land	720	720
Leased assets	1,757	1,919
Accumulated depreciation	(1,077)	(1,368)
Leased assets, net	679	550
Construction in progress	142	44
Total property and equipment	9,237	8,790
Intangible assets		
Software	4,282	4,285
Software in progress	678	332
Goodwill	37	7
Other	60	44
Total intangible assets	5,059	4,669
Investments and other assets		
Investment securities	8,193	12,975
Long-term loans receivable	4	5
Lease and guarantee deposits	2,783	2,842
Net defined benefit asset	16	15
Deferred tax assets	2,180	1,942
Other	688	653
Allowance for doubtful accounts	(4)	(4)
Total investments and other assets	13,863	18,429
Total non-current assets	28,161	31,889
Total assets	75,654	78,600

(Millions of yen)

	As of September 30, 2017	As of September 30, 2018
Liabilities		
Current liabilities		
Accounts payable - trade	4,030	3,402
Accounts payable - other	1,371	1,334
Accrued expenses	1,141	1,023
Income taxes payable	941	1,140
Accrued consumption taxes	1,364	1,222
Advances received	589	225
Provision for bonuses	3,732	3,186
Provision for loss on order received	3	1,705
Other	1,123	1,098
Total current liabilities	14,299	14,340
Non-current liabilities		
Lease obligations	349	317
Provision for share-based compensation	91	198
Net defined benefit liability	10,427	10,396
Asset retirement obligations	51	51
Other	38	12
Total non-current liabilities	10,959	10,975
Total liabilities	25,258	25,315
Net assets		
Shareholders' equity		
Capital stock	6,336	6,336
Capital surplus	4,774	4,765
Retained earnings	31,374	33,463
Treasury shares	(579)	(579)
Total shareholders' equity	41,906	43,985
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	2,199	2,742
Deferred gains or losses on hedges	(0)	-
Foreign currency translation adjustment	14	14
Remeasurements of defined benefit plans	(382)	(284)
Total accumulated other comprehensive income	1,832	2,472
Non-controlling interests	6,656	6,825
Total net assets	50,395	53,284
Total liabilities and net assets	75,654	78,600

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

(Millions of yen)

	Fiscal year ended September 30, 2017	Fiscal year ended September 30, 2018
Net sales	89,466	90,250
Cost of sales	69,496	70,975
Gross profit	19,970	19,274
Selling, general and administrative expenses	14,238	14,311
Operating profit	5,731	4,963
Non-operating income		
Interest income	1	0
Dividend income	129	169
Share of profit of entities accounted for using equity method	255	203
Compensation income	70	–
Other	82	54
Total non-operating income	539	428
Non-operating expenses		
Interest expenses	9	7
Loss on investments in silent partnership	–	16
Other	3	3
Total non-operating expenses	12	27
Ordinary profit	6,258	5,364
Extraordinary income		
Gain on sales of investment securities	46	0
Total extraordinary income	46	0
Extraordinary losses		
Loss on sales of non-current assets	0	–
Loss on retirement of non-current assets	22	27
Impairment loss	–	33
Office transfer expenses	6	–
Loss on cancellation of leases	3	32
Other	2	12
Total extraordinary losses	34	106
Profit before income taxes	6,269	5,257
Income taxes - current	1,889	1,832
Income taxes - deferred	(54)	(263)
Total income taxes	1,835	1,569
Profit	4,434	3,688
Profit attributable to non-controlling interests	600	285
Profit attributable to owners of parent	3,833	3,402

Consolidated statements of comprehensive income

(Millions of yen)

	Fiscal year ended September 30, 2017	Fiscal year ended September 30, 2018
Profit	4,434	3,688
Other comprehensive income		
Valuation difference on available-for-sale securities	910	610
Deferred gains or losses on hedges	1	0
Foreign currency translation adjustment	7	0
Remeasurements of defined benefit plans	52	96
Share of other comprehensive income of entities accounted for using equity method	4	4
Total other comprehensive income	975	712
Comprehensive income	5,410	4,401
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	4,681	4,043
Comprehensive income attributable to non- controlling interests	728	358

(3) Consolidated statements of changes in net assets

Fiscal year ended September 30, 2017

(Millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	6,336	4,859	28,690	(0)	39,885
Changes of items during period					
Dividends of surplus			(1,149)		(1,149)
Profit attributable to owners of parent			3,833		3,833
Purchase of treasury shares				(578)	(578)
Change in ownership interest of parent due to transactions with non-controlling interests		(84)			(84)
Net changes of items other than shareholders' equity					
Total changes of items during period	—	(84)	2,684	(578)	2,021
Balance at end of current period	6,336	4,774	31,374	(579)	41,906

	Accumulated other comprehensive income					Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at beginning of current period	1,416	(1)	6	(436)	984	6,040	46,910
Changes of items during period							
Dividends of surplus							(1,149)
Profit attributable to owners of parent							3,833
Purchase of treasury shares							(578)
Change in ownership interest of parent due to transactions with non-controlling interests							(84)
Net changes of items other than shareholders' equity	783	1	8	54	847	616	1,464
Total changes of items during period	783	1	8	54	847	616	3,485
Balance at end of current period	2,199	(0)	14	(382)	1,832	6,656	50,395

Fiscal year ended September 30, 2018

(Millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	6,336	4,774	31,374	(579)	41,906
Changes of items during period					
Dividends of surplus			(1,313)		(1,313)
Profit attributable to owners of parent			3,402		3,402
Purchase of treasury shares					
Change in ownership interest of parent due to transactions with non-controlling interests		(9)			(9)
Net changes of items other than shareholders' equity					
Total changes of items during period	–	(9)	2,089	–	2,079
Balance at end of current period	6,336	4,765	33,463	(579)	43,985

	Accumulated other comprehensive income					Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at beginning of current period	2,199	(0)	14	(382)	1,832	6,656	50,395
Changes of items during period							
Dividends of surplus							(1,313)
Profit attributable to owners of parent							3,402
Purchase of treasury shares							
Change in ownership interest of parent due to transactions with non-controlling interests							(9)
Net changes of items other than shareholders' equity	542	0	(0)	97	640	168	809
Total changes of items during period	542	0	(0)	97	640	168	2,888
Balance at end of current period	2,742	–	14	(284)	2,472	6,825	53,284

(4) Consolidated statements of cash flows

(Millions of yen)

	Fiscal year ended September 30, 2017	Fiscal year ended September 30, 2018
Cash flows from operating activities		
Profit before income taxes	6,269	5,257
Depreciation	3,194	3,207
Impairment loss	–	33
Amortization of goodwill	29	29
Increase (decrease) in provision for bonuses	248	(545)
Decrease (increase) in net defined benefit asset	(16)	1
Increase (decrease) in net defined benefit liability	17	108
Increase (decrease) in allowance for doubtful accounts	(44)	(0)
Increase (decrease) in provision for share-based compensation	91	106
Increase (decrease) in provision for loss on order received	(51)	1,702
Interest and dividend income	(131)	(170)
Interest expenses	9	7
Share of loss (profit) of entities accounted for using equity method	(255)	(203)
Loss (gain) on investments in silent partnership	–	16
Loss (gain) on sales of non-current assets	0	–
Loss on retirement of non-current assets	22	27
Loss (gain) on sales of investment securities	(43)	9
Decrease (increase) in notes and accounts receivable - trade	(1,062)	287
Decrease (increase) in inventories	(106)	(614)
Increase (decrease) in notes and accounts payable - trade	444	(628)
Increase (decrease) in accrued consumption taxes	75	(50)
Increase (decrease) in advances received	335	(363)
Other, net	425	107
Subtotal	9,451	8,327
Interest and dividend income received	181	224
Interest expenses paid	(9)	(6)
Income taxes paid	(3,040)	(1,531)
Net cash provided by (used in) operating activities	6,582	7,013
Cash flows from investing activities		
Proceeds from withdrawal of time deposits	300	–
Purchase of securities	(2,999)	–
Proceeds from redemption of securities	–	2,999
Purchase of property and equipment	(1,075)	(837)
Proceeds from sales of property and equipment	0	–
Purchase of intangible assets	(1,268)	(1,470)
Purchase of investment securities	(173)	(3,804)
Proceeds from sales of investment securities	69	28
Payments of loans receivable	(8)	(3)
Collection of loans receivable	7	3
Payments for lease and guarantee deposits	(274)	(70)
Proceeds from collection of lease and guarantee deposits	73	49
Other, net	(19)	(24)
Net cash provided by (used in) investing activities	(5,368)	(3,129)

(Millions of yen)

	Fiscal year ended September 30, 2017	Fiscal year ended September 30, 2018
Cash flows from financing activities		
Repayments of lease obligations	(296)	(313)
Cash dividends paid	(1,149)	(1,313)
Dividends paid to non-controlling interests	(140)	(190)
Purchase of treasury shares	(578)	–
Other, net	–	(8)
Net cash provided by (used in) financing activities	(2,164)	(1,826)
Effect of exchange rate change on cash and cash equivalents	6	(0)
Net increase (decrease) in cash and cash equivalents	(943)	2,058
Cash and cash equivalents at beginning of period	20,948	20,004
Cash and cash equivalents at end of period	20,004	22,062

(5) Additional information

(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 at the end of the previous fiscal year, and 578 million yen and 177 thousand shares at the end of the fiscal year under review.

(6) Segment information**A. Overview of reportable segments**

The reportable segments of MRI are constituent units of the MRI Group about which separate financial information is available. These segments are regularly reviewed by the Board of Directors in deciding the allocation of business resources and in assessing performance.

When classifying its businesses into segments, the MRI Group considers the type and nature of service, the similarities of business formats and other factors. We develop our business activities by proposing comprehensive strategies for the products and services handled.

<Think tank and consulting services>

The segment businesses provide research and study, and consulting services regarding public policies and general businesses; management consulting services; IT consulting and solutions services; etc.

<IT services>

The segment businesses provide software development, operation and maintenance; data processing services; outsourcing services; sales of system equipment; etc.

B. Information regarding amounts of net sales, profit or loss, assets, liabilities, and other items by reportable segment

Fiscal year ended September 30, 2017 (from October 1, 2016 to September 30, 2017)

	Reportable segments		Total	Adjustment (Note 1)	Amount recorded in the consolidated financial statements (Note 2)
	Think tank and consulting services	IT services			
Net sales					
Outside customers	32,730	56,736	89,466	–	89,466
Inter-segment sales and transfers	138	816	955	(955)	–
Total	32,868	57,552	90,421	(955)	89,466
Segment profit	2,029	4,125	6,154	103	6,258
Segment assets	29,081	47,023	76,105	(450)	75,654
Other items					
Depreciation	926	2,350	3,277	(83)	3,194
Amortization of goodwill	–	29	29	–	29
Interest income	0	0	1	–	1
Interest expenses	1	8	9	–	9
Share of profit of entities accounted for using equity method	101	126	228	27	255
Investment in equity method affiliates	1,097	1,095	2,193	–	2,193
Increase in property and equipment, and intangible assets	350	2,026	2,376	(6)	2,370

Notes: 1. Adjustment amounts for segment profit, segment assets and other items are all inter-segment transaction eliminations.

2. Segment profit is adjusted with ordinary profit in the consolidated financial statements.

Fiscal year ended September 30, 2018 (from October 1, 2017 to September 30, 2018)

(Millions of yen)

	Reportable segments		Total	Adjustment (Note 1)	Amount recorded in the consolidated financial statements (Note 2)
	Think tank and consulting services	IT services			
Net sales					
Outside customers	33,489	56,760	90,250	–	90,250
Inter-segment sales and transfers	143	1,190	1,333	(1,333)	–
Total	33,632	57,950	91,583	(1,333)	90,250
Segment profit	3,233	2,050	5,284	79	5,364
Segment assets	32,267	46,883	79,150	(550)	78,600
Other items					
Depreciation	940	2,351	3,291	(84)	3,207
Amortization of goodwill	–	29	29	–	29
Interest income	0	0	0	–	0
Interest expenses	1	5	7	–	7
Share of profit of entities accounted for using equity method	62	140	203	–	203
Investment in equity method affiliates	1,169	1,177	2,347	–	2,347
Increase in property and equipment, and intangible assets	579	1,925	2,504	(11)	2,493

Notes: 1. Adjustment amounts for segment profit, segment assets and other items are all inter-segment transaction eliminations.

2. Segment profit is adjusted with ordinary profit in the consolidated financial statements.

(7) Per share information

	Fiscal year ended September 30, 2017	Fiscal year ended September 30, 2018
Net assets per share	2,692.31 yen	2,859.70 yen
Basic earnings per share	235.08 yen	209.46 yen

- Notes: 1. For the purposes of calculating net assets per share, shares of MRI held in the BIP Trust are included in the treasury shares excluded from the total number of issued shares at the end of the fiscal year. The number of treasury shares at the end of the previous fiscal year was 178 thousand, which included 177 thousand shares of MRI held by the BIP Trust. At the end of the fiscal year under review, the number of treasury shares was 178 thousand, which included 177 thousand shares of MRI held by the BIP Trust.
2. Diluted earnings per share is not shown because MRI has not issued potential shares.
3. Basis for calculating basic earnings per share is as shown below.

	Fiscal year ended September 30, 2017	Fiscal year ended September 30, 2018
Profit attributable to owners of parent (millions of yen)	3,833	3,402
Profit not attributable to common shareholders (millions of yen)	–	–
Profit attributable to owners of parent related to common shares (millions of yen)	3,833	3,402
Average number of outstanding common shares during the fiscal year (thousand shares)	16,309	16,245

Note: For the purposes of calculating basic earnings per share, shares of MRI held in the BIP Trust are included in the treasury shares excluded from the average number of outstanding common shares during the fiscal year. The average number of treasury shares during the previous fiscal year was 114 thousand, which included an average 114 thousand shares of MRI held by the BIP Trust. During the fiscal year under review, the average number of treasury shares was 178 thousand, which included an average 177 thousand shares of MRI held by the BIP Trust.

(8) Significant subsequent events

Not applicable

5. Status of orders received and sales

(1) Status of orders received

Status of orders received by segment for the fiscal year under review is as shown below.

(Millions of yen)

Segment name	Fiscal year ended September 30, 2018			
	Orders received	Year-on-year change (%)	Balance	Year-on-year change (%)
Think tank and consulting services	35,455	12.1	25,000	8.5
IT services	56,972	1.3	36,477	0.6
System development	35,739	(3.4)	17,076	(6.6)
Outsourcing services	21,232	10.1	19,400	7.9
Total	92,427	5.2	61,478	3.7

- 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 the next fiscal year is recorded in the balance of orders received.

(2) Sales performance

Sales performance by segment for the fiscal year under review is as shown below.

(Millions of yen)

Segment name	Fiscal year ended September 30, 2018	Year-on-year change (%)
Think tank and consulting services	33,489	2.3
IT services	56,760	0.0
System development	36,949	0.2
Outsourcing services	19,811	(0.3)
Total	90,250	0.9

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