

[Translation for reference only]

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Translation



July 27, 2018

Consolidated Financial Results for the Nine Months of the Fiscal Year Ending 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 to submit Quarterly Securities Report: August 1, 2018
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 nine months of the fiscal year ending September 30, 2018 (from October 1, 2017 to June 30, 2018)

(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, 2018	70,266	3.9	5,321	28.0	5,695	23.7	3,668	30.3
June 30, 2017	67,646	1.2	4,158	(19.3)	4,603	(16.8)	2,816	(14.0)

Note: Comprehensive income

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

For the nine months ended June 30, 2017: 3,951 million yen [15.3%]

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Nine months ended		
June 30, 2018	225.83	–
June 30, 2017	172.46	–

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
As of			
June 30, 2018	77,308	52,750	59.5
September 30, 2017	75,654	50,395	57.8

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

As of June 30, 2018: 46,020 million yen

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

2. Cash dividends

	Annual dividends				
	First quarter-end	Second quarter-end	Third quarter-end	Fiscal year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended September 30, 2017	–	35.00	–	40.00	75.00
Fiscal year ending September 30, 2018	–	40.00	–		
Fiscal year ending September 30, 2018 (Forecast)				40.00	80.00

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

3. Consolidated earnings forecasts for the fiscal year ending September 30, 2018 (from October 1, 2017 to September 30, 2018)

(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, 2018	93,000	3.9	5,900	2.9	6,400	2.3	3,900	1.7	240.06

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

***Notes**

- (1) Changes in significant subsidiaries during the nine 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
- (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, 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 June 30, 2018	178,156 shares
As of September 30, 2017	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, 2018	16,245,924 shares
Nine months ended June 30, 2017	16,330,693 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 (only in Japanese).

(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, 2017 to June 30, 2018), the Japanese economy continued its modest recovery. Consumer activity has been increasing, albeit at a moderate pace, supported by factors such as an improvement in the employment and income environment. Capital expenditure remained firm amid investment in automation and labor-saving processes to counter labor shortages and a growing lack of facilities. Exports to Asia increased, supported by an upturn in global demand for ICT products and parts, while exports to Europe and the US were also firm, centered on transportation machinery.

Overseas, the real economy was largely firm, despite increasing uncertainty caused by the shift to protectionism in the US and other factors. In the US economy, consumer activity remained firm, supported by a favorable employment environment and continued improvement in consumer sentiment. The European economy continued to recover at a modest pace, supported by an improving employment environment and a pickup in private-sector capital expenditure. The Chinese economy was firm and other emerging economies continued on a trend toward recovery.

Against this backdrop, Mitsubishi Research Institute, Inc. and its consolidated subsidiaries (the MRI Group) continue to place the highest priority on quality and customer satisfaction, while developing businesses by utilizing the scientific methods, cutting-edge technological insight and the provision of integrated solutions it has accumulated as a comprehensive think tank. Based on its deep understanding of advanced technologies including AI (artificial intelligence), IoT* and cloud computing, and their application settings, the MRI Group deployed its services to support innovation in frontline manufacturing and business management. Also, in the financial sector, the MRI Group is developing systems for megabanks and credit card companies and targeting new business from trust banks, regional banks and other customers.

The MRI Group also developed its business in the public and utilities sector and the social infrastructure sector 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.

As a result, during the nine months under review, the MRI Group recorded net sales of 70,266 million yen, a year-on-year increase of 3.9%, operating profit was 5,321 million yen, a year-on-year increase of 28.0%, ordinary profit was 5,695 million yen, a year-on-year increase of 23.7%, and profit attributable to owners of parent was 3,668 million yen, a year-on-year increase of 30.3%.

*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 steadily completed investigation, research and demonstration projects for government and public offices related to the 2017 fiscal year, which contributed to sales. In addition to services for financial institutions, other contributions to sales came from growth in services (renewable energy-related consulting services, AI-enabled entry sheet diagnostic services, big data marketing, etc.) for other private-sector companies in line with strategies in their medium-term management plans. As a result, the segment reported net sales

(outside sales) of 28,139 million yen, an increase of 5.0% year on year. Ordinary profit was 3,707 million yen, an increase of 90.2% year on year, reflecting the increase in sales and an improvement in the profitability of projects.

<IT services>

In the nine months under review, the MRI Group engaged in various IT services projects that continued to contribute to sales. This included credit data analysis, risk measurement and other projects for financial institutions and system integration projects for a credit card company. As a result, the segment reported net sales (outside sales) of 42,127 million yen, an increase of 3.1% year on year. Meanwhile, ordinary profit was 1,924 million yen, a decrease of 24.9% year on year, due to upfront investments for new business development and recording of provision for loss on order received.

(2) Explanation regarding financial position

As of the end of the third quarter under review, total assets stood at 77,308 million yen, an increase of 1,653 million yen, or 2.2%, compared with the end of the previous fiscal year. Broken down, current assets decreased 3.5% to 45,852 million yen, and non-current assets increased 11.7% to 31,455 million yen. The increase in non-current assets reflected an increase of 3,810 million yen in investments and other assets mainly due to purchase of investment securities.

Liabilities decreased 700 million yen, or 2.8%, compared with the end of the previous fiscal year to 24,558 million yen, mainly due to a decrease of 1,722 million yen in provision for bonuses and an increase of 1,044 million yen in other under current liabilities.

Net assets increased 2,354 million yen, or 4.7%, compared with the end of the previous fiscal year to 52,750 million yen due to an increase of 2,354 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 October 31, 2017.

In the think tank and consulting services segment, sales are trending largely in line with forecasts, but we expect ordinary profit to exceed our initial forecast due to an improvement in profit margins on the back of strong orders from general private-sector companies.

Meanwhile, in the IT services segment, we now expect ordinary profit to fall short of our initial forecast due to provision for losses and upfront investment, both of which were not projected at the start of the fiscal year.

As a result, the MRI Group has revised its earnings forecasts by segment for the fiscal year ending September 30, 2018. Details are as follows.

Revised figures of the earnings forecasts by segment for the fiscal year ending September 30, 2018 (from October 1, 2017 to September 30, 2018)

	Think tank and consulting services		IT services	
	Net sales	Ordinary profit	Net sales	Ordinary profit
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
Previous forecast (A)	34,000	2,500	59,000	3,900
Revised forecast (B)	34,000	3,000	59,000	3,400
Amount change (B-A)	–	500	–	(500)
Rate change (%)	–	20.0	–	(12.8)
(Reference) Actual results of the fiscal year ended September 30, 2017	32,730	2,029	56,736	4,125

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.

2. Consolidated financial statements and significant notes thereto**(1) Consolidated quarterly balance sheets**

(Millions of yen)

	As of September 30, 2017	As of June 30, 2018
Assets		
Current assets		
Cash and deposits	16,304	26,355
Notes and accounts receivable - trade	15,062	10,093
Securities	6,999	–
Inventories	5,502	5,726
Deferred tax assets	1,636	1,646
Other	2,003	2,037
Allowance for doubtful accounts	(14)	(6)
Total current assets	47,493	45,852
Non-current assets		
Property and equipment		
Buildings and structures, net	6,185	6,101
Machinery, equipment and vehicles, net	0	16
Tools, furniture and fixtures, net	1,510	1,558
Land	720	720
Leased assets, net	679	592
Construction in progress	142	26
Total property and equipment	9,237	9,017
Intangible assets		
Software	4,282	4,480
Other	776	282
Total intangible assets	5,059	4,763
Investments and other assets		
Investment securities	8,193	11,954
Other	5,674	5,724
Allowance for doubtful accounts	(4)	(4)
Total investments and other assets	13,863	17,674
Total non-current assets	28,161	31,455
Total assets	75,654	77,308

(Millions of yen)

	As of September 30, 2017	As of June 30, 2018
Liabilities		
Current liabilities		
Accounts payable - trade	4,030	3,085
Accounts payable - other	1,371	1,795
Accrued expenses	1,141	1,040
Income taxes payable	941	1,056
Provision for bonuses	3,732	2,009
Provision for loss on order received	3	304
Other	3,078	4,122
Total current liabilities	14,299	13,415
Non-current liabilities		
Provision for share-based compensation	91	169
Net defined benefit liability	10,427	10,563
Asset retirement obligations	51	51
Other	388	357
Total non-current liabilities	10,959	11,142
Total liabilities	25,258	24,558
Net assets		
Shareholders' equity		
Capital stock	6,336	6,336
Capital surplus	4,774	4,765
Retained earnings	31,374	33,729
Treasury shares	(579)	(579)
Total shareholders' equity	41,906	44,251
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	2,199	2,073
Deferred gains or losses on hedges	(0)	–
Foreign currency translation adjustment	14	13
Remeasurements of defined benefit plans	(382)	(317)
Total accumulated other comprehensive income	1,832	1,768
Non-controlling interests	6,656	6,729
Total net assets	50,395	52,750
Total liabilities and net assets	75,654	77,308

(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, 2017	Nine months ended June 30, 2018
Net sales	67,646	70,266
Cost of sales	52,789	54,040
Gross profit	14,857	16,226
Selling, general and administrative expenses	10,699	10,905
Operating profit	4,158	5,321
Non-operating income		
Interest income	0	0
Dividend income	118	137
Share of profit of entities accounted for using equity method	255	195
Other	78	51
Total non-operating income	453	385
Non-operating expenses		
Interest expenses	7	5
Foreign exchange losses	-	4
Other	0	1
Total non-operating expenses	7	11
Ordinary profit	4,603	5,695
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	13	15
Impairment loss	-	33
Loss on sales of investment securities	2	9
Loss on cancellation of leases	3	19
Office transfer expenses	6	-
Other	-	2
Total extraordinary losses	25	80
Profit before income taxes	4,624	5,615
Income taxes	1,447	1,703
Profit	3,176	3,911
Profit attributable to non-controlling interests	360	243
Profit attributable to owners of parent	2,816	3,668

Consolidated quarterly statements of comprehensive income

(Millions of yen)

	Nine months ended June 30, 2017	Nine months ended June 30, 2018
Profit	3,176	3,911
Other comprehensive income		
Valuation difference on available-for-sale securities	719	(113)
Deferred gains or losses on hedges	(0)	0
Foreign currency translation adjustment	6	(1)
Remeasurements of defined benefit plans	47	64
Share of other comprehensive income of entities accounted for using equity method	1	5
Total other comprehensive income	774	(44)
Comprehensive income	3,951	3,867
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	3,495	3,605
Comprehensive income attributable to non- controlling interests	455	262

(3) Segment information, etc.**I** Nine months ended June 30, 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	26,799	40,846	67,646	–	67,646
Inter-segment sales and transfers	108	594	702	(702)	–
Total	26,908	41,441	68,349	(702)	67,646
Segment profit	1,949	2,563	4,512	90	4,603

Notes: 1. The adjustment of 90 million yen on segment profit includes 29 million yen as inter-segment transaction eliminations, 2 million yen as inventory adjustments and 58 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, 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	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.

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, 2018			
	Orders received	Year-on-year change (%)	Balance	Year-on-year change (%)
Think tank and consulting services	27,356	7.1	22,251	(2.8)
IT services	41,453	(8.6)	35,592	(13.7)
System development	26,270	(14.3)	17,549	(24.5)
Outsourcing services	15,182	3.4	18,042	0.2
Total	68,809	(2.9)	57,843	(9.8)

- 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, 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	Nine months ended June 30, 2018	Year-on-year change (%)
Think tank and consulting services	28,139	5.0
IT services	42,127	3.1
System development	27,007	5.5
Outsourcing services	15,120	(0.8)
Total	70,266	3.9

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