

[Translation for reference only]

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Translation



February 2, 2018

Consolidated Financial Results for the Three 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: <http://www.mri.co.jp/>
Representative: Takashi Morisaki, President
Inquiries: Junichi Egawa, General Manager, Management Accounting and Finance Division
E-mail: ir-info@ml.mri.co.jp

Scheduled date to submit Quarterly Securities Report: February 6, 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 three months of the fiscal year ending September 30, 2018 (from October 1, 2017 to December 31, 2017)

(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	%
Three months ended								
December 31, 2017	14,865	1.8	(599)	–	(546)	–	(645)	–
December 31, 2016	14,606	8.7	(605)	–	(469)	–	(558)	–

Note: Comprehensive income

For the three months ended December 31, 2017: (196) million yen [–%]

For the three months ended December 31, 2016: (60) million yen [–%]

	Basic earnings per share	Diluted earnings per share
Three months ended	Yen	Yen
December 31, 2017	(39.72)	–
December 31, 2016	(33.98)	–

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
As of	Millions of yen	Millions of yen	%
December 31, 2017	73,285	49,428	58.4
September 30, 2017	75,654	50,395	57.8

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

As of December 31, 2017: 42,774 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	–				
Fiscal year ending September 30, 2018 (Forecast)		40.00	–	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 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
- (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 December 31, 2017	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 December 31, 2017	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)

Three months ended December 31, 2017	16,245,924 shares
Three months ended December 31, 2016	16,423,868 shares

* Quarterly financial results reports are not required to be subjected to quarterly reviews.

* 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 three months****(1) Explanation regarding operating results**

During the three months under review (from October 1, 2017 to December 31, 2017), the Japanese economy continued its modest recovery. Consumer activity continued to gain strength, 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, rising investment in automation and labor-saving processes to counter labor shortages, and growth in IT investment. Exports primarily to markets in Asia, such as China, continued to increase, supported by an upturn in global demand for ICT products and parts.

Overseas economies continued to expand overall. The Chinese economy was firm, while other emerging economies continued to recover at a moderate pace. In the US economy, consumer activity was firm against the backdrop of a favorable employment environment and strengthening consumer sentiment. Also, in December 2017, the US Congress passed a major tax cut bill. The European economy continued to expand at an annualized rate of around 2%, supported by an improving employment environment and a recovery in business sentiment.

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. The distribution and services sector, etc., as well as the manufacturing sector, are investing heavily to improve the competitiveness of their products and services, and to develop new business. As part of that trend, there is a growing need for consulting and ICT-related services that utilize AI (artificial intelligence), IoT* and cloud computing. Based on its deep understanding of advanced technologies and their application settings, the MRI Group is deploying its services to support innovation in frontline manufacturing and business management. Also, in the financial sector, the MRI Group developed systems for megabanks and credit card companies and targeted 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 three months under review, the MRI Group recorded net sales of 14,865 million yen, a year-on-year increase of 1.8%, operating loss was 599 million yen (compared with operating loss of 605 million yen in the same period of the previous fiscal year), ordinary loss was 546 million yen (compared with ordinary loss of 469 million yen in the same period of the previous fiscal year), and loss attributable to owners of parent was 645 million yen (compared with loss attributable to owners of parent of 558 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 engaged in various projects that contributed to sales, including projects to support system procurement and process management for government and public offices and projects to investigate next-generation systems for financial institutions. However, only a small number of projects were completed in the period under review. As a result, the segment reported net sales (outside sales) of 1,827 million yen, a decrease of 15.0% year on year, and ordinary loss of 1,007 million yen (compared with ordinary loss of 1,025 million yen in the same period of the previous fiscal year).

<IT services>

In the three months under review, the MRI Group engaged in various IT services projects that contributed to sales. This included system construction for megabanks, system integration projects for a credit card company, and charge-related system development for an electric power company. As a result, the segment reported net sales (outside sales) of 13,037 million yen, an increase of 4.7% year on year, and ordinary profit of 445 million yen, a decrease of 17.0% year on year.

(2) Explanation regarding financial position

As of the end of the first quarter under review, total assets stood at 73,285 million yen, a decrease of 2,369 million yen, or 3.1%, compared with the end of the previous fiscal year. Broken down, current assets decreased 6.2% to 44,556 million yen, and non-current assets increased 2.0% to 28,729 million yen. The decrease in current assets mainly reflected decreases of 4,389 million yen in notes and accounts receivable - trade and 3,499 million yen in securities, which were held for short-term investment, due to redemption, despite a rise of 5,044 million yen in inventories owing to seasonal variation.

Liabilities decreased 1,402 million yen, or 5.6%, compared with the end of the previous fiscal year to 23,856 million yen, mainly due to decreases in income taxes payable and provision for bonuses. Net assets decreased 967 million yen, or 1.9%, compared with the end of the previous fiscal year to 49,428 million yen, mainly due to a decrease 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.

2. Consolidated financial statements and significant notes thereto

(1) Consolidated quarterly balance sheets

(Millions of yen)

	As of September 30, 2017	As of December 31, 2017
Assets		
Current assets		
Cash and deposits	16,304	15,769
Notes and accounts receivable - trade	15,062	10,672
Securities	6,999	3,499
Inventories	5,502	10,547
Deferred tax assets	1,636	1,769
Other	2,003	2,304
Allowance for doubtful accounts	(14)	(7)
Total current assets	47,493	44,556
Non-current assets		
Property and equipment		
Buildings and structures, net	6,185	6,064
Machinery, equipment and vehicles, net	0	0
Tools, furniture and fixtures, net	1,510	1,596
Land	720	720
Leased assets, net	679	600
Construction in progress	142	169
Total property and equipment	9,237	9,152
Intangible assets		
Software	4,282	4,133
Other	776	892
Total intangible assets	5,059	5,026
Investments and other assets		
Investment securities	8,193	9,026
Other	5,674	5,528
Allowance for doubtful accounts	(4)	(4)
Total investments and other assets	13,863	14,550
Total non-current assets	28,161	28,729
Total assets	75,654	73,285

(Millions of yen)

	As of September 30, 2017	As of December 31, 2017
Liabilities		
Current liabilities		
Accounts payable - trade	4,030	3,990
Accounts payable - other	1,371	1,806
Accrued expenses	1,141	1,513
Income taxes payable	941	325
Provision for bonuses	3,732	1,177
Provision for loss on order received	3	123
Other	3,078	3,920
Total current liabilities	14,299	12,856
Non-current liabilities		
Provision for share-based compensation	91	119
Net defined benefit liability	10,427	10,495
Asset retirement obligations	51	51
Other	388	333
Total non-current liabilities	10,959	11,000
Total liabilities	25,258	23,856
Net assets		
Shareholders' equity		
Capital stock	6,336	6,336
Capital surplus	4,774	4,774
Retained earnings	31,374	30,072
Treasury shares	(579)	(579)
Total shareholders' equity	41,906	40,604
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	2,199	2,506
Deferred gains or losses on hedges	(0)	(0)
Foreign currency translation adjustment	14	16
Remeasurements of defined benefit plans	(382)	(352)
Total accumulated other comprehensive income	1,832	2,170
Non-controlling interests	6,656	6,653
Total net assets	50,395	49,428
Total liabilities and net assets	75,654	73,285

(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, 2016	Three months ended December 31, 2017
Net sales	14,606	14,865
Cost of sales	11,807	11,894
Gross profit	2,799	2,970
Selling, general and administrative expenses	3,405	3,570
Operating loss	(605)	(599)
Non-operating income		
Interest income	0	0
Dividend income	28	32
Share of profit of entities accounted for using equity method	85	17
Other	23	5
Total non-operating income	139	55
Non-operating expenses		
Interest expenses	2	1
Compensation for damage	–	1
Other	0	0
Total non-operating expenses	2	3
Ordinary loss	(469)	(546)
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	2	1
Loss on sales of investment securities	2	–
Loss on cancellation of leases	1	0
Loss on withdrawal from membership	–	1
Total extraordinary losses	7	3
Loss before income taxes	(430)	(550)
Income taxes	68	50
Loss	(498)	(601)
Profit attributable to non-controlling interests	59	43
Loss attributable to owners of parent	(558)	(645)

Consolidated quarterly statements of comprehensive income

(Millions of yen)

	Three months ended December 31, 2016	Three months ended December 31, 2017
Loss	(498)	(601)
Other comprehensive income		
Valuation difference on available-for-sale securities	421	368
Deferred gains or losses on hedges	0	0
Foreign currency translation adjustment	(1)	1
Remeasurements of defined benefit plans	15	29
Share of other comprehensive income of entities accounted for using equity method	2	6
Total other comprehensive income	437	405
Comprehensive income	(60)	(196)
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	(167)	(307)
Comprehensive income attributable to non- controlling interests	106	111

(3) Segment information, etc.**I Three months ended December 31, 2016****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	2,150	12,455	14,606	–	14,606
Inter-segment sales and transfers	38	201	240	(240)	–
Total	2,188	12,657	14,846	(240)	14,606
Segment profit (loss)	(1,025)	536	(489)	19	(469)

Notes: 1. The adjustment of 19 million yen on segment profit (loss) includes 8 million yen as inter-segment transaction eliminations, negative 9 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, 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.

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, 2017			
	Orders received	Year-on-year change (%)	Balance	Year-on-year change (%)
Think tank and consulting services	6,435	2.8	27,641	(2.2)
IT services	13,756	3.3	36,984	(1.7)
System development	8,695	2.3	18,919	(1.8)
Outsourcing services	5,060	5.0	18,065	(1.5)
Total	20,191	3.1	64,626	(1.9)

- 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, 2017 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, 2017	Year-on-year change (%)
Think tank and consulting services	1,827	(15.0)
IT solutions services	13,037	4.7
System development	8,062	8.8
Outsourcing services	4,975	(1.4)
Total	14,865	1.8

- 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.