

[Translation for reference only]

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Translation



October 31, 2017

Consolidated Financial Results for the Fiscal Year Ended September 30, 2017 <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
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Scheduled date of annual general meeting of shareholders: December 19, 2017
Scheduled date to commence dividend payments: December 20, 2017
Scheduled date to submit Annual Securities Report: December 19, 2017
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, 2017 (from October 1, 2016 to September 30, 2017)

(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, 2017	89,466	2.9	5,731	4.3	6,258	6.5	3,833	11.9
September 30, 2016	86,904	1.8	5,495	(1.0)	5,877	1.1	3,425	(7.2)

Note: Comprehensive income

For the fiscal year ended September 30, 2017: 5,410 million yen [41.5%]
For the fiscal year ended September 30, 2016: 3,822 million yen [(7.8)%]

Fiscal year ended	Basic earnings per share	Diluted earnings per share	Return on equity	Ordinary profit/total assets	Operating profit/net sales
September 30, 2017	Yen 235.08	Yen —	% 9.1	% 8.5	% 6.4
September 30, 2016	Yen 208.55	Yen —	% 8.6	% 8.5	% 6.3

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

For the fiscal year ended September 30, 2017: 255 million yen
For the fiscal year ended September 30, 2016: 204 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, 2017	75,654	50,395	57.8	2,692.31
September 30, 2016	71,777	46,910	56.9	2,488.48

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

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

As of September 30, 2016: 40,870 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, 2017	6,582	(5,368)	(2,164)	20,004
September 30, 2016	5,052	(996)	(1,335)	20,948

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			
	Yen	Yen	Yen	Yen	Yen	Millions of yen	%	%
Fiscal year ended September 30, 2016	–	30.00	–	35.00	65.00	1,067	31.2	2.7
Fiscal year ended September 30, 2017	–	35.00	–	40.00	75.00	1,231	31.9	2.9
Fiscal year ending September 30, 2018 (Forecast)	–	40.00	–	40.00	80.00		33.3	

**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

***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, 2017	16,424,080 shares
As of September 30, 2016	16,424,080 shares

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

As of September 30, 2017	178,156 shares
As of September 30, 2016	212 shares

- c. Average number of outstanding shares during the period

Fiscal year ended September 30, 2017	16,309,327 shares
Fiscal year ended September 30, 2016	16,423,868 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 not required to be audited.

* 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 page 3 “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, 2016 to September 30, 2017), 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. Leveraging its deep understanding of advanced technologies and their application settings, the MRI Group deployed its services to support innovation in frontline manufacturing and management.

The MRI Group is also developing its business in the public and utilities sector and the social infrastructure sector to respond to economic and societal needs, which are undergoing a major structural transformation. Specifically, the MRI Group conducted 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 also provided 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.

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.

As a result, during the fiscal year under review, the MRI Group recorded net sales of 89,466 million yen, up 2.9% year on year, operating profit of 5,731 million yen, up 4.3%, ordinary profit of 6,258 million yen, up 6.5%, and profit attributable to owners of parent of 3,833 million yen, up 11.9%.

*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, the MRI Group engaged in various think tank and consulting services projects that contributed to sales. For government and public offices, projects included support for the utilization of health data and the development of medical devices, and research studies into promoting regional tourism, establishing regional industries and realizing a low-carbon

society. In the private sector, business consulting and marketing data analysis projects for financial institutions contributed to sales. However, these projects were insufficient to cover a drop in sales due to the completion of major ICT consulting projects for general private-sector companies and the transfer of services for financial institutions to the IT services segment. As a result, the segment reported net sales (outside sales) of 32,730 million yen, a decrease of 0.9% year on year. Ordinary profit declined 29.4% year on year, to 2,029 million yen, reflecting higher costs associated with demonstration projects for government and public offices and increases in selling, general and administrative expenses and personnel expenses due to efforts to augment the sales structure, among other factors.

<IT services>

In the fiscal year under review, the MRI Group engaged in various IT services projects that contributed to sales. This included system construction, credit data analysis and risk measurement projects for megabanks, system integration projects for a credit card company, and charge calculation system development for an electric power company. As a result, the segment reported net sales (outside sales) of 56,736 million yen, an increase of 5.3% year on year, and ordinary profit of 4,125 million yen, an increase of 40.7% year on year.

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

At the end of the fiscal year under review, total assets stood at 75,654 million yen, an increase of 3,877 million yen, or 5.4%, compared with the end of the previous fiscal year. Broken down, current assets increased 7.8% to 47,493 million yen, while non-current assets increased 1.7% to 28,161 million yen. In current assets, there were rises of 1,756 million yen in cash and deposits and 1,064 million yen in accounts receivable - trade. In non-current assets, investment securities increased by 1,667 million yen due to a rise in the value of shareholdings.

Liabilities increased 392 million yen, or 1.6%, compared with the end of the previous fiscal year to 25,258 million yen. This reflected increases of 445 million yen in accounts payable - trade, 335 million yen in advances received and 312 million yen in accounts payable - other, despite a decrease of 968 million yen in income taxes payable.

Net assets increased 3,485 million yen, or 7.4%, compared with the end of the previous fiscal year to 50,395 million yen. Treasury shares increased (net assets decreased) by 578 million yen due to the introduction of a share-based compensation system linked to operating performance, but there were rises of 2,684 million yen in retained earnings and 783 million yen in valuation difference on available-for-sale securities. The equity ratio stood at 57.8%.

(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 decreased 943 million yen compared with the end of the previous fiscal year to 20,004 million yen. The respective cash flow positions and the factors thereof are as follows.

Cash provided by operating activities was 6,582 million yen, compared with 5,052 million yen provided in the previous fiscal year. The main reasons were 6,269 million yen in profit before income taxes, 3,194 million yen in depreciation, and 1,062 million yen in increase in notes and accounts receivable - trade.

Cash used in investing activities was 5,368 million yen, compared with 996 million yen used in the previous fiscal year. The main reasons were 2,999 million yen in purchase of securities, which were held for short-term investment, 1,268 million yen in purchase of intangible assets and 1,075 million yen in purchase of property and equipment.

Cash used in financing activities was 2,164 million yen, compared with 1,335 million yen used in the previous fiscal year. The main reasons were 1,149 million yen in cash dividends paid and 578 million yen in purchase of treasury shares due to the introduction of a share-based compensation system linked to operating performance.

(4) Outlook for the next fiscal year

Although the Japanese economy's growth is projected to slow due to factors such as a fading boost to demand from economic stimulus measures, its recovery is expected to continue through to April 2018, supported by rising exports, consumer activity and capital expenditure amid a firm global economy and an improving employment and income environment.

However, the situation in the global economy is highly uncertain and presents a downside risk to this forecast for the Japanese economy. The greatest risk is financial market instability caused by political turmoil in the US and Europe and a correction 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. In East Asia, there is also the risk of rising military tension or a regional crisis.

For the fiscal year ending September 30, 2018, the MRI Group forecasts consolidated net sales of 93,000 million yen, up 3.9% compared with the fiscal year under review, operating profit of 5,900 million yen, up 2.9%, ordinary profit of 6,400 million yen, up 2.3%, and profit attributable to owners of parent of 3,900 million yen, up 1.7%.

In think tank and consulting services, we forecast net sales (outside sales) of 34,000 million yen, up 3.9% year on year, and ordinary profit of 2,500 million yen, up 23.2% year on year. For government and public offices, we expect to receive orders in strategic policy fields, such as energy, social security, next-generation infrastructure and societal use of ICT. We also forecast general private-sector corporate demand related to business operation and business innovation consulting, ICT consulting utilizing package solutions and others, as well as improvements in marketing efficiency based on a stronger sales structure.

In IT services, we forecast net sales (outside sales) of 59,000 million yen, up 4.0% year on year, and ordinary profit of 3,900 million yen, down 5.5% year on year. Amid firm corporate IT capital expenditure, we forecast expanded construction of settlement and deposit systems, risk management systems and credit card-related systems for financial institutions, as well as development in fields such as securities, insurance, infrastructure and public utilities, and capital expenditure to reinforce ICT infrastructure.

Consolidated earnings forecasts for the fiscal year ending September 30, 2018

	Fiscal year ended September 30, 2017 (Actual result) (Millions of yen)	Fiscal year ending September 30, 2018 (Forecast) (Millions of yen)	Change	
			Amount (Millions of yen)	Rate (%)
Net sales	89,466	93,000	3,533	3.9
Think tank and consulting services	32,730	34,000	1,269	3.9
IT services	56,736	59,000	2,263	4.0
Operating profit	5,731	5,900	168	2.9
Ordinary profit	6,258	6,400	141	2.3
Think tank and consulting services	2,029	2,500	470	23.2
IT services	4,125	3,900	(225)	(5.5)
Profit attributable to owners of parent	3,833	3,900	66	1.7
Basic earnings per share	(Yen) 235.08	(Yen) 240.06	(Yen) 4.98	2.1

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, 2017: 16,309 thousand shares

Fiscal year ending September 30, 2018: 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.

MRI plans to pay 75 yen per share as the annual dividend distribution for the fiscal year under review. MRI has already paid an interim cash dividend of 35 yen per share, and accordingly plans to pay a year-end dividend of 40 yen per share.

With regard to dividend distribution in the next fiscal year, MRI plans to pay 40 yen per share for both interim and year-end cash dividends to make an annual dividend distribution of 80 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 21st century 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 the three-year Medium-term Management Plan 2020, which covers the period from the fiscal year ending September 30, 2018 to the fiscal year ending September 30, 2020. Under the plan, our policy is to accelerate 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.

- A. Business portfolio reforms
We will redefine the MRI Group's growth businesses and core businesses and clearly 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 cut across public and private sectors, or 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 and channeling resources 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.

*Blockchains: Distributed ledger technology that can be used to jointly manage and share financial settlement information and other transaction data via multiple networked computers. Blockchains have the potential to realize innovative financial services by reducing system investment costs while ensuring security.

B. Business model reforms

The MRI Group will further 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 its operations through a scale-up strategy aimed at major business development that links 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 technologies 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 also present 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, 2016	As of September 30, 2017
Assets		
Current assets		
Cash and deposits	14,548	16,304
Accounts receivable - trade	13,998	15,062
Securities	6,999	6,999
Inventories	5,395	5,502
Prepaid expenses	1,332	1,445
Deferred tax assets	1,608	1,636
Other	205	558
Allowance for doubtful accounts	(12)	(14)
Total current assets	44,075	47,493
Non-current assets		
Property and equipment		
Buildings and structures	14,676	14,903
Accumulated depreciation	(8,283)	(8,718)
Buildings and structures, net	6,392	6,185
Machinery, equipment and vehicles	15	15
Accumulated depreciation	(15)	(15)
Machinery, equipment and vehicles, net	0	0
Tools, furniture and fixtures	5,557	5,856
Accumulated depreciation	(4,087)	(4,346)
Tools, furniture and fixtures, net	1,470	1,510
Land	720	720
Leased assets	1,937	1,757
Accumulated depreciation	(1,012)	(1,077)
Leased assets, net	925	679
Construction in progress	125	142
Total property and equipment	9,635	9,237
Intangible assets		
Software	5,008	4,282
Software in progress	322	678
Goodwill	67	37
Other	77	60
Total intangible assets	5,475	5,059
Investments and other assets		
Investment securities	6,526	8,193
Long-term loans receivable	4	4
Lease and guarantee deposits	2,556	2,783
Net defined benefit asset	-	16
Deferred tax assets	2,579	2,180
Other	974	688
Allowance for doubtful accounts	(50)	(4)
Total investments and other assets	12,590	13,863
Total non-current assets	27,701	28,161
Total assets	71,777	75,654

(Millions of yen)

	As of September 30, 2016	As of September 30, 2017
Liabilities		
Current liabilities		
Accounts payable - trade	3,584	4,030
Accounts payable - other	1,059	1,371
Accrued expenses	1,150	1,141
Income taxes payable	1,910	941
Accrued consumption taxes	1,224	1,364
Advances received	253	589
Provision for bonuses	3,484	3,732
Provision for loss on order received	54	3
Other	1,051	1,123
Total current liabilities	13,772	14,299
Non-current liabilities		
Lease obligations	574	349
Provision for share-based compensation	–	91
Net defined benefit liability	10,485	10,427
Asset retirement obligations	–	51
Other	34	38
Total non-current liabilities	11,093	10,959
Total liabilities	24,866	25,258
Net assets		
Shareholders' equity		
Capital stock	6,336	6,336
Capital surplus	4,859	4,774
Retained earnings	28,690	31,374
Treasury shares	(0)	(579)
Total shareholders' equity	39,885	41,906
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1,416	2,199
Deferred gains or losses on hedges	(1)	(0)
Foreign currency translation adjustment	6	14
Remeasurements of defined benefit plans	(436)	(382)
Total accumulated other comprehensive income	984	1,832
Non-controlling interests	6,040	6,656
Total net assets	46,910	50,395
Total liabilities and net assets	71,777	75,654

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

(Millions of yen)

	Fiscal year ended September 30, 2016	Fiscal year ended September 30, 2017
Net sales	86,904	89,466
Cost of sales	67,917	69,496
Gross profit	18,987	19,970
Selling, general and administrative expenses	13,492	14,238
Operating profit	5,495	5,731
Non-operating income		
Interest income	3	1
Dividend income	115	129
Share of profit of entities accounted for using equity method	204	255
Compensation income	–	70
Other	72	82
Total non-operating income	396	539
Non-operating expenses		
Interest expenses	10	9
Other	3	3
Total non-operating expenses	13	12
Ordinary profit	5,877	6,258
Extraordinary income		
Gain on sales of investment securities	141	46
Gain on transfer of business	97	–
Total extraordinary income	239	46
Extraordinary losses		
Loss on sales of non-current assets	–	0
Loss on retirement of non-current assets	72	22
Early extra retirement payments	12	–
Office transfer expenses	–	6
Other	3	5
Total extraordinary losses	87	34
Profit before income taxes	6,029	6,269
Income taxes - current	2,511	1,889
Income taxes - deferred	(305)	(54)
Total income taxes	2,205	1,835
Profit	3,823	4,434
Profit attributable to non-controlling interests	398	600
Profit attributable to owners of parent	3,425	3,833

Consolidated statements of comprehensive income

(Millions of yen)

	Fiscal year ended September 30, 2016	Fiscal year ended September 30, 2017
Profit	3,823	4,434
Other comprehensive income		
Valuation difference on available-for-sale securities	18	910
Deferred gains or losses on hedges	3	1
Foreign currency translation adjustment	(30)	7
Remeasurements of defined benefit plans	36	52
Share of other comprehensive income of entities accounted for using equity method	(28)	4
Total other comprehensive income	(0)	975
Comprehensive income	3,822	5,410
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	3,454	4,681
Comprehensive income attributable to non- controlling interests	368	728

(3) Consolidated statements of changes in net assets

Fiscal year ended September 30, 2016

(Millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	6,336	4,851	26,250	(0)	37,437
Changes of items during period					
Dividends of surplus			(985)		(985)
Profit attributable to owners of parent			3,425		3,425
Purchase of treasury shares					
Change in ownership interest of parent due to transactions with non-controlling interests		8			8
Net changes of items other than shareholders' equity					
Total changes of items during period	–	8	2,439	–	2,447
Balance at end of current period	6,336	4,859	28,690	(0)	39,885

	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	1,451	(5)	36	(486)	995	5,700	44,134
Changes of items during period							
Dividends of surplus							(985)
Profit attributable to owners of parent							3,425
Purchase of treasury shares							
Change in ownership interest of parent due to transactions with non-controlling interests							8
Net changes of items other than shareholders' equity	(34)	3	(29)	49	(10)	339	328
Total changes of items during period	(34)	3	(29)	49	(10)	339	2,776
Balance at end of current period	1,416	(1)	6	(436)	984	6,040	46,910

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

(4) Consolidated statements of cash flows

(Millions of yen)

	Fiscal year ended September 30, 2016	Fiscal year ended September 30, 2017
Cash flows from operating activities		
Profit before income taxes	6,029	6,269
Depreciation	2,956	3,194
Amortization of goodwill	63	29
Increase (decrease) in provision for bonuses	403	248
Decrease (increase) in net defined benefit asset	–	(16)
Increase (decrease) in net defined benefit liability	764	17
Increase (decrease) in allowance for doubtful accounts	46	(44)
Increase (decrease) in provision for share-based compensation	–	91
Increase (decrease) in provision for loss on order received	53	(51)
Interest and dividend income	(119)	(131)
Interest expenses	10	9
Share of (profit) loss of entities accounted for using equity method	(204)	(255)
Loss (gain) on sales of non-current assets	–	0
Loss on retirement of non-current assets	72	22
Loss (gain) on sales of investment securities	(141)	(43)
Decrease (increase) in notes and accounts receivable - trade	(3,254)	(1,062)
Decrease (increase) in inventories	199	(106)
Increase (decrease) in notes and accounts payable - trade	120	444
Increase (decrease) in accrued consumption taxes	(454)	75
Increase (decrease) in advances received	(49)	335
Other, net	24	425
Subtotal	6,520	9,451
Interest and dividend income received	167	181
Interest expenses paid	(10)	(9)
Income taxes paid	(1,625)	(3,040)
Net cash provided by (used in) operating activities	5,052	6,582
Cash flows from investing activities		
Proceeds from withdrawal of time deposits	–	300
Purchase of securities	–	(2,999)
Proceeds from redemption of securities	1,998	–
Purchase of property and equipment	(1,157)	(1,075)
Proceeds from sales of property and equipment	–	0
Purchase of intangible assets	(1,813)	(1,268)
Purchase of investment securities	(269)	(173)
Proceeds from sales of investment securities	271	69
Payments of loans receivable	(3)	(8)
Collection of loans receivable	4	7
Payments for lease and guarantee deposits	(50)	(274)
Proceeds from collection of lease and guarantee deposits	16	73
Other, net	7	(19)
Net cash provided by (used in) investing activities	(996)	(5,368)

(Millions of yen)

	Fiscal year ended September 30, 2016	Fiscal year ended September 30, 2017
Cash flows from financing activities		
Repayments of lease obligations	(321)	(296)
Proceeds from share issuance to non-controlling shareholders	95	–
Cash dividends paid	(985)	(1,149)
Dividends paid to non-controlling interests	(123)	(140)
Purchase of treasury shares	–	(578)
Net cash provided by (used in) financing activities	(1,335)	(2,164)
Effect of exchange rate change on cash and cash equivalents	(27)	6
Net increase (decrease) in cash and cash equivalents	2,692	(943)
Cash and cash equivalents at beginning of period	18,255	20,948
Cash and cash equivalents at end of period	20,948	20,004

(5) Additional information

(Application of Guidance on Recoverability of Deferred Tax Assets)

Effective from the beginning of the fiscal year under review, MRI has applied the “Guidance on Recoverability of Deferred Tax Assets” (ASBJ Guidance No. 26, March 28, 2016).

(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 Scheme 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 at the end of the fiscal year under review comprise 578 million yen and 177,900 shares.

(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, 2016 (from October 1, 2015 to September 30, 2016)

(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	33,014	53,889	86,904	–	86,904
Inter-segment sales and transfers	159	1,616	1,776	(1,776)	–
Total	33,174	55,506	88,681	(1,776)	86,904
Segment profit	2,875	2,931	5,807	70	5,877
Segment assets	28,002	44,357	72,360	(582)	71,777
Other items					
Depreciation	905	2,131	3,037	(80)	2,956
Amortization of goodwill	–	63	63	–	63
Interest income	1	2	4	(0)	3
Interest expenses	1	9	11	(0)	10
Share of profit of entities accounted for using equity method	95	93	189	15	204
Investment in equity method affiliates	971	1,011	1,983	–	1,983
Increase in property and equipment, and intangible assets	354	2,882	3,236	(25)	3,211

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, 2017 (from October 1, 2016 to September 30, 2017)

(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	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.

(7) Per share information

	Fiscal year ended September 30, 2016	Fiscal year ended September 30, 2017
Net assets per share	2,488.48 yen	2,692.31 yen
Basic earnings per share	208.55 yen	235.08 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 0 thousand. 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. (This note is inapplicable for the previous fiscal year.)

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, 2016	Fiscal year ended September 30, 2017
Profit attributable to owners of parent (millions of yen)	3,425	3,833
Profit not attributable to common shareholders (millions of yen)	–	–
Profit attributable to owners of parent related to common shares (millions of yen)	3,425	3,833
Average number of outstanding common shares during the fiscal year (thousand shares)	16,423	16,309

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 0 thousand. During the fiscal year under review, the average number of treasury shares was 114 thousand, which included an average 114 thousand shares of MRI held by the BIP Trust. (This note is inapplicable for the previous fiscal year.)

(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, 2017			
	Orders received	Year-on-year change (%)	Balance	Year-on-year change (%)
Think tank and consulting services	31,618	(7.5)	23,033	(4.6)
IT services	56,260	4.0	36,266	(1.3)
System development	36,982	9.9	18,286	0.6
Outsourcing services	19,278	(5.8)	17,980	(3.1)
Total	87,879	(0.5)	59,300	(2.6)

- 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 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, 2017	Year-on-year change (%)
Think tank and consulting services	32,730	(0.9)
IT services	56,736	5.3
System development	36,874	9.0
Outsourcing services	19,861	(0.9)
Total	89,466	2.9

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