[Translation for reference only]
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Translation

October 31, 2016

Consolidated Financial Results for the Fiscal Year Ended September 30, 2016 <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: Kyota Omori, President
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Scheduled date of annual general meeting of shareholders: December 19, 2016
Scheduled date to commence dividend payments: December 20, 2016
Scheduled date to submit Annual Securities Report: December 19, 2016
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, 2016 (from October 1, 2015 to September 30, 2016)

(1) Consolidated operating results

(Percentages indicate year-on-year changes.)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent	
Fiscal year ended	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
September 30, 2016	86,904	1.8	5,495	(1.0)	5,877	1.1	3,425	(7.2)
September 30, 2015	85,354	(2.3)	5,552	(8.7)	5,813	(9.8)	3,692	8.4

Note: Comprehensive income
For the fiscal year ended September 30, 2016: 3,822 million yen [(7.8)%]
For the fiscal year ended September 30, 2015: 4,147 million yen [(0.4)%]

	Basic earnings per share	Diluted earnings per share	Return on equity	Ordinary income/ total assets	Operating income/ net sales
Fiscal year ended	Yen	Yen	%	%	%
September 30, 2016	208.55	–	8.6	8.5	6.3
September 30, 2015	224.83	–	9.9	8.8	6.5

Reference: Share of profit (loss) of entities accounted for using equity method
For the fiscal year ended September 30, 2016: 204 million yen
For the fiscal year ended September 30, 2015: 95 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, 2016	71,777	46,910	56.9	2,488.48
September 30, 2015	67,094	44,134	57.3	2,340.10

Reference: Equity (Net assets – Minority interests)
As of September 30, 2016: 40,870 million yen
As of September 30, 2015: 38,433 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, 2016	5,052	(996)	(1,335)	20,948
September 30, 2015	7,778	(1,608)	(1,319)	18,255

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, 2015	–	25.00	–	30.00	55.00	903	24.5	2.4
Fiscal year ended September 30, 2016	–	30.00	–	35.00	65.00	1,067	31.2	2.7
Fiscal year ending September 30, 2017 (Forecast)	–	35.00	–	35.00	70.00		29.5	

3. Consolidated earnings forecasts for the fiscal year ending September 30, 2017 (from October 1, 2016 to September 30, 2017)

(Percentages indicate year-on-year changes.)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent		Basic earnings per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Six months ending March 31, 2017	43,000	1.9	3,720	1.7	3,900	1.4	2,300	2.4	140.04
Fiscal year ending September 30, 2017	90,000	3.6	6,300	14.6	6,700	14.0	3,900	13.9	237.46

***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

a. Changes in accounting policies due to revisions to accounting standards and other regulations: Yes

b. Changes in accounting policies due to other reasons: None

c. Changes in accounting estimates: None

d. Restatement of prior period financial statements after error corrections: None

Note: For the details, please refer to "4. Consolidated financial statements, (6) Changes in accounting policies" on page 21 of the attached materials.

(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, 2016	16,424,080 shares
As of September 30, 2015	16,424,080 shares

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

As of September 30, 2016	212 shares
As of September 30, 2015	212 shares

c. Average number of outstanding shares during the period

Fiscal year ended September 30, 2016	16,423,868 shares
Fiscal year ended September 30, 2015	16,423,872 shares

Note: For the number of shares as basis for calculating basic earnings per share (consolidated), please refer to "4. Consolidated financial statements, (10) Per share information" on page 25 of the attached materials.

* Indication regarding execution of audit procedures

At the time of disclosure of this financial results report, audit procedures for the financial statements pursuant to the Financial Instruments and Exchange Act are in progress.

* 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 2 "1. Analysis of operating results and financial position, (1) Analysis of operating results, B. 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. Analysis of operating results and financial position

(1) Analysis of operating results

A. Operating results for the fiscal year under review

During the fiscal year under review (from October 1, 2015 to September 30, 2016), the Japanese economy continued to struggle to achieve recovery. Consumer activity also remained weak, reflecting poor performance in share markets and concerns about the future, particularly among middle-aged and elderly consumers. Capital expenditure has slowed to a gentle increase, affected by deterioration in corporate earnings owing to the appreciating yen and an uncertain outlook for the overseas economies. Exports also turned soft amid languishing economic performance in Asia.

Overseas economies lacked strength overall. Among the emerging countries, the Chinese economic slowdown continued to put downward pressure on economic growth. European economy remained stuck in an ongoing slump, although consumer activity continued to recover. In the U.S. economy, exports and capital expenditure were sluggish largely as a consequence of the strong dollar, but consumer activity was firm amid a robust employment environment.

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 making maximum use of its comprehensive functions and services which include as the scientific methods it has accumulated as a think tank. In particular, the MRI Group promoted the management innovation support business for the private sector, which combines consulting with ICT* and big data, and the construction of systems for financial institutions and credit card companies. The MRI Group has also been working to develop business that encompasses both the public and private sector using systems and government policies in the public sector as a starting point. This approach is aimed at responding to new needs in society, such as those involving deregulation of Japan’s electric power industry, reforms involving its social security system, and regional revitalization.

As a result, during the fiscal year under review, the MRI Group recorded net sales of 86,904 million yen, up 1.8% year on year, operating income of 5,495 million yen, down 1.0%, ordinary income of 5,877 million yen, up 1.1%, and profit attributable to owners of parent of 3,425 million yen, down 7.2%. Results include a gain on transfer of business of 97 million yen recorded under extraordinary income. The gain is due to the fact that consolidated subsidiary MD Business Partner Co., Ltd., sold its temporary staffing business after reviewing its business configuration due to amendments to the Worker Dispatching Act.

* ICT stands for “information and communications technology.”

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, this included various types of research services and system development administration projects for the public sector, in areas such as the environment and energy, social security, social infrastructure and disaster prevention. For clients in the private sector, this included risk management and cost reduction consulting projects for financial institutions, and customer data analysis projects for railway companies. Although projects in the public and private sectors contributed to sales, they were insufficient to offset the reactionary decline in business as a result of the conclusion of large demonstration projects. As a result, the segment reported net sales (outside sales) of 33,014 million yen, a decrease of 5.8% year on year. Also, ordinary income was 2,875 million yen, a decrease of 18.9% year on year, due to lower sales, higher personnel expenses and an increase in investment.

<IT services>

In the fiscal year under review, the MRI Group engaged in various IT services projects that contributed to sales. This included system development and individual risk management for a mega-bank, computer hardware upgrades and large system integration for a credit card company, and system development for an electric power company corresponding to deregulation of Japan's electric power industry. As a result, the segment reported net sales (outside sales) of 53,889 million yen, an increase of 7.1% year on year, and ordinary income of 2,931 million yen, an increase of 31.4% year on year.

B. Outlook for the next fiscal year

The Japanese economy driven mainly by internal demand is projected to continue its gradual recovery through to the end of March 2017, supported by an improving environment for employment and personal incomes. Also, from April 2017, the pace of growth is expected to accelerate as the impact of economic stimulus measures gradually lifts demand.

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 political uncertainty in the U.S. and Europe and a further slowdown 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 corporate and household sentiment.

For the fiscal year ending September 30, 2017, the MRI Group forecasts consolidated net sales of 90,000 million yen, up 3.6% compared with the fiscal year under review, operating income of 6,300 million yen, up 14.6%, ordinary income of 6,700 million yen, up 14.0%, and profit attributable to owners of parent of 3,900 million yen, up 13.9%.

In think tank and consulting services, we forecast net sales (outside sales) of 34,000 million yen, up 3.0% year on year, and ordinary income of 2,900 million yen, up 0.8% year on year, with sales and profits both rising compared with the fiscal year under review. For government and public offices, we expect to receive orders in strategic policy fields, such as energy, social security, 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.

In IT services, we forecast net sales (outside sales) of 56,000 million yen, up 3.9% year on year, and ordinary income of 3,800 million yen, up 29.6% year on year, with sales and profits both rising compared with the fiscal year under review. We forecast expanded construction of settlement and global systems, risk management systems and credit card-related systems for financial institutions, as well as development in fields such as securities, insurance and infrastructure.

Consolidated earnings forecasts for the fiscal year ending September 30, 2017

	Fiscal year ended September 30, 2016 (Actual result) (Millions of yen)	Fiscal year ending September 30, 2017 (Forecast) (Millions of yen)	Change	
			Amount (Millions of yen)	Rate (%)
Net sales	86,904	90,000	3,095	3.6
Think tank and consulting services	33,014	34,000	985	3.0
IT services	53,889	56,000	2,110	3.9
Operating income	5,495	6,300	804	14.6
Ordinary income	5,877	6,700	822	14.0
Think tank and consulting services	2,875	2,900	24	0.8
IT services	2,931	3,800	868	29.6
Profit attributable to owners of parent	3,425	3,900	474	13.9
Basic earnings per share	(Yen) 208.55	(Yen) 237.46	(Yen) 28.91	13.9

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, 2016: 16,423 thousand shares
Fiscal year ending September 30, 2017: 16,423 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.

(2) Analysis of financial position

A. Financial position

At the end of the fiscal year under review, total assets stood at 71,777 million yen, an increase of 4,682 million yen, or 7.0%, compared with the end of the previous fiscal year. Broken down, current assets increased 10.2% to 44,075 million yen, while non-current assets increased 2.2% to 27,701 million yen. In current assets, there were rises of 3,492 million yen in cash and deposits and 3,250 million yen in accounts receivable - trade, despite a fall of 2,499 million yen in securities, which were held for short-term investment. In non-current assets, intangible assets increased 305 million yen due to an increase in investment in those assets.

Liabilities increased 1,906 million yen, or 8.3%, compared with the end of the previous fiscal year to 24,866 million yen. This reflected increases of 1,032 million yen in income taxes payable and 695 million yen in net defined benefit liability.

Net assets increased 2,776 million yen, or 6.3%, compared with the end of the previous fiscal year to 46,910 million yen. This mainly reflected an increase of 2,439 million yen in retained earnings. The equity ratio stood at 56.9%.

B. Cash flow position

At the end of the fiscal year under review, cash and cash equivalents increased 2,692 million yen compared with the end of the previous fiscal year to 20,948 million yen. The respective cash flow positions and the factors thereof are as follows.

Cash provided by operating activities was 5,052 million yen, compared with 7,778 million yen provided in the previous fiscal year. The main reasons were 6,029 million yen in profit before income taxes, 2,956 million yen in depreciation, and 3,254 million yen in increase in notes and accounts receivable - trade.

Cash used in investing activities was 996 million yen, compared with 1,608 million yen used in the previous fiscal year. The main reason was 1,813 million yen in purchase of intangible assets.

Cash used in financing activities was 1,335 million yen, compared with 1,319 million yen used in the previous fiscal year. The main reasons were 985 million yen in cash dividends paid and 321 million yen in repayments of lease obligations.

(Reference) Trends in cash flow indicators are as shown below.

	Fiscal year ended September 30, 2012	Fiscal year ended September 30, 2013	Fiscal year ended September 30, 2014	Fiscal year ended September 30, 2015	Fiscal year ended September 30, 2016
Equity ratio (%)	55.1	55.7	55.9	57.3	56.9
Market value equity ratio (%)	48.6	57.5	68.9	71.9	72.5
Interest-bearing debt to cash flow ratio (%)	18.0	11.8	19.8	12.0	16.8
Interest coverage ratio (factor)	350.2	498.1	307.9	551.2	477.6

Equity ratio: Equity (Net assets – Minority interests) / Total assets

Market value equity ratio: Market capitalization / Total assets

Interest-bearing debt to cash flow ratio: Interest-bearing debt / Cash flow

Interest coverage ratio: Cash flow / Paid interest

* All indicators are calculated using consolidated-based financial figures.
* Market capitalization is calculated by multiplying the closing stock price at the end of the period by the number of issued shares at the end of the period (excluding treasury shares).
* The figure used for "Cash flow" is "Net cash provided by operating activities" on the consolidated statement of cash flows.
* Regarding the paid interest, we use "Interest expenses paid" on the consolidated statement of cash flows.

(3) 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 65 yen per share as the annual dividend distribution for the fiscal year under review. MRI has already paid an interim cash dividend of 30 yen per share, and accordingly plans to pay a year-end dividend of 35 yen per share.

With regard to dividend distribution in the next fiscal year, MRI plans to pay 35 yen per share for both interim and year-end cash dividends to make an annual dividend distribution of 70 yen per share.

(4) Business risk factors

Among matters relating to the status of business operations, financial conditions and other related affairs of the MRI Group, those matters considered as a potential risk factor are mentioned below. Recognizing the possibility that the named risks could occur, the MRI Group works to avoid their occurrence and to respond appropriately when a risk occurs. Some of the matters mentioned here are not necessarily considered as a business related risk factors, but are considered important for the investment decisions of investors or for understanding the business activities of the MRI Group and therefore presented from a perspective of proactive information disclosure to investors.

Matters in this text that relate to the future are judgments by the MRI Group that were valid as of the end of the fiscal year under review.

A. Risks related to the information services industry

a. Business environment of the information services industry

In the information services industry, to which the MRI Group belongs, price competition and fierce technological development competition amongst the industry are further escalating, as companies from different sectors move into fields where companies are projected to invest more in IT in order to boost their competiveness, and as it becomes easier to access low-cost IT resources.

Moreover, the MRI Group has developed a system to provide a seamless array of services including consulting, system development and operation and BPO* and also devotes much effort to further improve planning proposal capabilities, quality and productivity. However, it is possible that earnings will be affected in the event that the MRI Group is slow to respond to intensification of price competition or technological innovation within the industry.

* Business Process Outsourcing: Outsourcing part of the business processes related to matters such as human resources, accounting, payroll and other tasks to external specialist companies

b. System development

Although system development in the IT services segment is mainly based on contract agreements, it is possible that profitability will not be securable in the event that a project, even if it were deemed profitable at the time of order, requires additional man hours due to occurrences of system problems after delivery, requests to alter the client's system midway through development, or occurrences of additional specifications.

To avoid unprofitable projects, the MRI Group gets third parties to conduct project management reviews to review administration at the onset of a large SI project and administration for the execution of such a project. However, it is possible that earnings will be affected in the event that unexpected events occur and the profitability of the project worsens.

c. Data processing services

The data processing services provided by the MRI Group require upgrade investment and new investment for equipment in operation, systems, and other elements essential for data center operations. The investment amount is recouped over multiple years from the proceeds of data processing service contracts. The investment is decided based on comprehensive examination of customer needs, business forecasts, investment profitability and other factors. However, it is possible that earnings will be affected in the event of a greater-than-expected change in the business environment or changes to the business situation of major clients where it becomes no longer possible to recoup the investment amount.

In addition, an important element in data processing services is the stable operation of systems. It is possible that earnings will be affected in the event of natural disaster, accident, human error, or any other factor leading to system problem or failure.

B. Risks related to transactions with government and public offices

In the fiscal year under review, sales from work for government and public offices made up 24.1% of consolidated net sales.

In the government and public offices, MRI forecasts aggressive public spending, in line with the government's growth strategy. Public sector projects are also likely to become more complicated and advanced.

The shift in priority policy fields to regional revitalization, earthquake-related restoration, strengthening national resilience, medical and nursing care services, the environment and energy, and social ICT has been positive for the MRI Group, as these are all areas where MRI has a wealth of proven experience and strengths. However, it is possible that earnings will be affected in the event that the MRI Group is slow to respond to increasingly complex and advanced projects, or if competition for orders becomes more intense.

Also, in business with the government and public offices, there is growing demand for the prohibition of anticompetitive behavior and for transparency in accounting procedures. The MRI Group is taking steps to develop its internal control systems, including systems related to ensuring compliance and risk management. However, it is possible that earnings will be affected in the event that the MRI Group's response is inappropriate or for other reasons, leading to temporary bans on bidding for work for government and public offices, a loss of trust in the MRI Group or other negative outcomes.

C. Risks related to transactions with the financial sector

In the fiscal year under review, sales from work for the financial sector made up 43.5% of consolidated net sales.

In the work for the financial sector, in addition to a burgeoning of new investment in digitalization investment and information security investment related to response to legal regulations and systems, the MRI Group continues to receive orders for product development through analysis of internal data and for consulting services related to risk management and other aspects of business. Looking forward, the MRI Group expects transactions with the financial sector to continue steadily. However, it is possible that earnings will be affected in the event of sudden change in the business environment, changes to the business situation of major clients and changes to information system investment policy.

D. Risks related to outsourcing

The MRI Group outsources part of its work to utilize the knowledge and knowhow of outside specialists or to boost productivity.

In addition to the outsourcing of software programming work for system development in the IT services segment, we outsource part of other work such as various studies and data entry work in the think tank and consulting services segment.

The MRI Group strives to maintain stable ties with outsourcing partners such as by routinely examining the level of quality and management structure of outsourcing partners and by providing guidance for improvement when necessary. However, it is possible that earnings will be affected in the event that unexpected circumstances occur on the contracting partners' side, leading to an increase in cost to maintain quality or compensation for damages paid to clients due to late delivery.

E. Risks related to securing and training personnel

The MRI Group provides services to solve a wide range of customer needs. We therefore recognize the immense importance to secure and train personnel who possess advanced specialist skills, originality and creativity in order for us to maintain or expand our business size.

With this goal in mind, the MRI Group strives to ensure that its work environments and employment conditions are conducive to flexible and vigorous performance by enhancement of new-graduate and mid-career recruitment, implementation of human resource development programs, and enhancement of welfare benefits such as a child-rearing support system. However, it is possible that earnings will be affected in the event that personnel possessing high specialist skills cannot be adequately secured as a result of recruitment difficulty arising from the declining birthrate or an outflow of personnel due to high fluidity in the overall labor market.

In addition, there have been a rising number of cases in recent years in which employees have been required to stay overseas to conduct business, particularly in emerging countries. As a result, personnel of the MRI Group may be affected by outbreaks of infectious diseases, terrorist incidents or other events. The MRI Group is therefore taking a number of steps, including reinforcing safety measures, gathering information from multiple sources and providing warnings to personnel who travel overseas.

F. Risks related to information security

As part of business operations, the MRI Group handles a large amount of personal information, confidential information of clients and other such information. The information management and security management that this requires is a matter of utmost importance. Accordingly, the MRI Group strengthens information management and ensures its strict practice through measures such as management of people's entry/exit of office, security measures for information and network equipment, and regular training for employees. Nevertheless, it is possible that earnings will be affected in the event of information being leaked, lost, or destroyed due to an infection by a computer virus, unauthorized external access such as a cyber-attack, or the occurrence of a natural disaster, if such an event leads to a claim of compensation for damages from a client, etc. or a loss of trust in the MRI Group.

G. Risks related to intellectual property

The MRI Group recognizes intellectual property as an important management resource from the perspective of ensuring competitive business strength. Accordingly we make proactive efforts to protect intellectual property. At the same time, we respect and do not infringe the intellectual property rights of third parties.

However, it is possible that earnings will be affected in the event that infringement of a third party's intellectual property rights or other rights occurs, resulting in a claim of compensation for damages or the loss of trust in the MRI Group.

H. Risks related to retirement benefit obligations

The retirement benefit expenses and the retirement benefit obligations of the MRI Group are calculated based on actuarial assumptions such as discount rates and expected rate of return on plan assets. However, it is possible that earnings will be affected in the event that retirement benefit expenses increase due to a fall in the fair value of plan assets, changes to the interest environment or other factors.

I. Relationship between subsidiary Mitsubishi Research Institute DCS Co., Ltd. and its minority-interest shareholder (Mitsubishi UFJ Financial Group, Inc.)

At the end of the fiscal year under review, the composition of shareholders of Mitsubishi Research Institute DCS Co., Ltd. (hereinafter in this section "DCS"), which plays a leading role in the MRI Group's IT services segment, is MRI holding 80.0% and the Mitsubishi UFJ Financial Group holding 20.0%. Currently, the Bank of Tokyo-Mitsubishi UFJ, Ltd. (hereinafter in this section "BTMU"), a subsidiary of the Mitsubishi UFJ Financial Group, is a major and important client of DCS as described below, and there is bilateral agreement for both shareholders to maintain the current ownership ratios.

In the fiscal year under review, 29.2% of DCS's net sales were from transactions with BTMU. Although there are multiple system development companies in which BTMU invests, DCS has a proven track record, spanning many years, of receiving contracts for work related to development, operation and maintenance for BTMU's core systems and in the future, MRI expects the favorable work transaction relationship with BTMU to continue satisfactorily.

At the end of the fiscal year under review, of the 10 corporate officers who are either directors or auditors of DCS, 3 hold concurrent positions as officer or employee of MRI and 1 officer is from MRI. There is currently 1 DCS officer holding a concurrent position as officer or employee at BTMU and 4 are from BTMU. A management structure has been constructed to ensure governance of DCS functions in a way that is appropriate for a consolidated subsidiary of MRI. Moreover, in the future, MRI will continue to ensure the appointment of competent and appropriate personnel with specialist business knowledge and management experience from inside and outside DCS.

J. Seasonal variation in earnings

Because most projects of the MRI Group are completed around March or April of each year due to the fiscal year of major clients, including government and public offices and corporations, earnings of the second and third quarters are higher compared with the other quarters, and in the second quarter in particular operational efficiency is also high, resulting in the likelihood of operating income being higher than at any other time of the fiscal year.

In addition, in the first and fourth quarters, where net sales are lower, operating losses may occur due to evenness throughout the four quarters of expenses such as selling, general and administrative expenses.

The table below shows the MRI Group's operating results for the last two fiscal years on a quarterly basis.

(Millions of yen)

	Fiscal year ended September 30, 2015				
	First quarter	Second quarter	Third quarter	Fourth quarter	Total
Net sales	13,967	25,481	26,858	19,046	85,354
Operating income (loss)	(318)	3,524	1,560	786	5,552

(Millions of yen)

	Fiscal year ended September 30, 2016				
	First quarter	Second quarter	Third quarter	Fourth quarter	Total
Net sales	13,432	28,763	24,650	20,058	86,904
Operating income (loss)	(752)	4,411	1,491	344	5,495

Note: Consumption taxes are not included in net sales.

2. Management policy

(1) Basic management policy

The MRI Group's basic policy on corporate activities 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 its customers and society.

The MRI Group's corporate mission is as follows.

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 provides services to help customers and society solve the wide-ranging issues they face and to contribute to the creation of an ideal future society. This will underpin our efforts in "co-creating a brighter future" to build a prosperous future in partnership with our customers.

(2) Management targets

The MRI Group manages its business through policies designed to enable sustainable business growth and increased earnings power from a medium- to long-term perspective.

Based on this thinking, we use growth potential in net sales and profit and profitability in terms of ROE and other measures as key management indicators. Delivering sustained improvement in these indicators is one of our medium- to long-term management targets.

(3) Medium- to long-term management strategy

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, improving the international competitiveness of Japanese industry and companies, and utilizing advanced ITC. As a comprehensive think tank, the MRI Group's efforts to envisage a prosperous future through analyzing and organizing such issues, and mobilizing all manner of knowledge and experience are both its social mission and a business opportunity.

The MRI Group has re-acknowledged its original function as a think tank and will promote medium- to long-term business development with a six-year plan looking ahead to 2020, aiming to achieve "sustainable growth for individuals and the organization."

For the near future, the MRI Group will work to extend its business steadily in its areas of strength—the public and financial sectors; while accelerating its business expansion by adding new strengths in fields such as private-sector business, overseas business, and pioneering new business.

Furthermore, the MRI Group promoting enhancement and improvement of its management platform, for example by proactively developing its human resources, which are an important asset, while pursuing more sophisticated business and risk management and promoting cooperation between group companies.

Based on the above policy, the MRI Group will promote the following two strategies.

A. Business strategy

The MRI Group will promote business strategy based on the following four key themes.

a. Strengthen conceptual capability + proposal capability (strengthen and demonstrate imaginative and creative capability as the original function of a think tank)
   Promote proposals and disseminations with a wide perspective that will contribute to "co-creating a brighter future" and increase brand power
b. Extend current strengths
   Expand business for the public sector (think tank) and strengthen business for financial institutions (solutions)
c. Add new strengths
   Develop and strengthen business for private sector, expand overseas business, and develop new business utilizing new technology and innovation
d. Take active initiatives in the area of strategic capital and business alliances
   Discover opportunities and projects for business expansion and diversification, as well as synergies

B. Management improvement strategy

The MRI Group will promote management improvement strategy based on the following three key themes.

a. Promote group management and collaboration
   Increase the sophistication of consolidated group management in both business and management aspects
   Develop and utilize subsidiaries, and cooperate with group companies
b. Develop and reinforcement of human assets
   Undertake comprehensive human asset development, and promote diversity
c. Improve quality and productivity and strengthen risk management and governance
   Increase the sophistication of management and productivity through use of the renewed internal information system
   Strengthen risk management and governance at the group level

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

(1) Consolidated balance sheets

(Millions of yen)

	As of September 30, 2015	As of September 30, 2016
Assets		
Current assets		
Cash and deposits	11,055	14,548
Accounts receivable - trade	10,747	13,998
Securities	9,499	6,999
Inventories	5,595	5,395
Prepaid expenses	1,106	1,332
Deferred tax assets	1,389	1,608
Other	605	205
Allowance for doubtful accounts	(11)	(12)
Total current assets	39,987	44,075
Non-current assets		
Property and equipment		
Buildings and structures	13,998	14,676
Accumulated depreciation	(8,036)	(8,283)
Buildings and structures, net	5,962	6,392
Machinery, equipment and vehicles	102	15
Accumulated depreciation	(101)	(15)
Machinery, equipment and vehicles, net	0	0
Tools, furniture and fixtures	5,497	5,557
Accumulated depreciation	(4,006)	(4,087)
Tools, furniture and fixtures, net	1,490	1,470
Land	720	720
Leased assets	1,956	1,937
Accumulated depreciation	(824)	(1,012)
Leased assets, net	1,131	925
Construction in progress	515	125
Total property and equipment	9,820	9,635
Intangible assets		
Software	4,472	5,008
Software in progress	545	322
Goodwill	130	67
Other	22	77
Total intangible assets	5,170	5,475
Investments and other assets		
Investment securities	6,355	6,526
Long-term loans receivable	5	4
Lease and guarantee deposits	2,586	2,556
Deferred tax assets	2,458	2,579
Other	714	974
Allowance for doubtful accounts	(5)	(50)
Total investments and other assets	12,115	12,590
Total non-current assets	27,106	27,701
Total assets	67,094	71,777

(Millions of yen)

	As of September 30, 2015	As of September 30, 2016
Liabilities		
Current liabilities		
Accounts payable - trade	3,467	3,584
Accounts payable - other	1,191	1,059
Accrued expenses	1,055	1,150
Income taxes payable	877	1,910
Accrued consumption taxes	1,698	1,224
Advances received	303	253
Provision for bonuses	3,080	3,484
Provision for loss on order received	1	54
Other	834	1,051
Total current liabilities	12,510	13,772
Non-current liabilities		
Lease obligations	624	574
Net defined benefit liability	9,790	10,485
Other	34	34
Total non-current liabilities	10,449	11,093
Total liabilities	22,960	24,866
Net assets		
Shareholders' equity		
Capital stock	6,336	6,336
Capital surplus	4,851	4,859
Retained earnings	26,250	28,690
Treasury shares	(0)	(0)
Total shareholders' equity	37,437	39,885
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1,451	1,416
Deferred gains or losses on hedges	(5)	(1)
Foreign currency translation adjustment	36	6
Remeasurements of defined benefit plans	(486)	(436)
Total accumulated other comprehensive income	995	984
Non-controlling interests	5,700	6,040
Total net assets	44,134	46,910
Total liabilities and net assets	67,094	71,777

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

(Millions of yen)

	Fiscal year ended September 30, 2015	Fiscal year ended September 30, 2016
Net sales	85,354	86,904
Cost of sales	66,478	67,917
Gross profit	18,876	18,987
Selling, general and administrative expenses	13,323	13,492
Operating income	5,552	5,495
Non-operating income		
Interest income	7	3
Dividend income	112	115
Share of profit of entities accounted for using equity method	95	204
Other	71	72
Total non-operating income	286	396
Non-operating expenses		
Interest expenses	14	10
Foreign exchange losses	10	–
Other	1	3
Total non-operating expenses	25	13
Ordinary income	5,813	5,877
Extraordinary income		
Gain on sales of investment securities	475	141
Gain on transfer of business	–	97
Total extraordinary income	475	239
Extraordinary losses		
Loss on retirement of non-current assets	41	72
Early extra retirement payments	–	12
Loss on cancellation of leases	16	2
Other	1	0
Total extraordinary losses	59	87
Profit before income taxes	6,230	6,029
Income taxes - current	1,437	2,511
Income taxes - deferred	686	(305)
Total income taxes	2,124	2,205
Profit	4,106	3,823
Profit attributable to non-controlling interests	413	398
Profit attributable to owners of parent	3,692	3,425

Consolidated statements of comprehensive income

(Millions of yen)

	Fiscal year ended September 30, 2015	Fiscal year ended September 30, 2016
Profit	4,106	3,823
Other comprehensive income		
Valuation difference on available-for-sale securities	(52)	18
Deferred gains or losses on hedges	(2)	3
Foreign currency translation adjustment	29	(30)
Remeasurements of defined benefit plans	44	36
Share of other comprehensive income of entities accounted for using equity method	23	(28)
Total other comprehensive income	41	(0)
Comprehensive income	4,147	3,822
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	3,802	3,454
Comprehensive income attributable to non-controlling interests	345	368

(3) Consolidated statements of changes in net assets

Fiscal year ended September 30, 2015

(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	24,453	(0)	35,640
Cumulative effects of changes in accounting policies			(1,073)		(1,073)
Restated balance	6,336	4,851	23,379	(0)	34,566
Changes of items during period					
Dividends of surplus			(821)		(821)
Profit attributable to owners of parent			3,692		3,692
Purchase of treasury shares				(0)	(0)
Change in treasury shares of parent arising from transactions with non-controlling shareholders					
Net changes of items other than shareholders' equity					
Total changes of items during period	–	–	2,871	(0)	2,871
Balance at end of current period	6,336	4,851	26,250	(0)	37,437

	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	Remeasure-ments of defined benefit plans	Total accumulated other comprehensive income		
Balance at beginning of current period	1,398	(2)	9	(537)	868	5,646	42,155
Cumulative effects of changes in accounting policies							(1,073)
Restated balance	1,398	(2)	9	(537)	868	5,646	41,081
Changes of items during period							
Dividends of surplus							(821)
Profit attributable to owners of parent							3,692
Purchase of treasury shares							(0)
Change in treasury shares of parent arising from transactions with non-controlling shareholders							
Net changes of items other than shareholders' equity	52	(2)	26	51	126	54	181
Total changes of items during period	52	(2)	26	51	126	54	3,052
Balance at end of current period	1,451	(5)	36	(486)	995	5,700	44,134

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
Cumulative effects of changes in accounting policies					–
Restated balance	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 treasury shares of parent arising from transactions with non-controlling shareholders		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	Remeasure-ments 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
Cumulative effects of changes in accounting policies							–
Restated balance	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 treasury shares of parent arising from transactions with non-controlling shareholders							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

(4) Consolidated statements of cash flows

(Millions of yen)

	Fiscal year ended September 30, 2015	Fiscal year ended September 30, 2016
Cash flows from operating activities		
Profit before income taxes	6,230	6,029
Depreciation	2,844	2,956
Amortization of goodwill	100	63
Increase (decrease) in provision for bonuses	447	403
Decrease (increase) in net defined benefit asset	654	–
Increase (decrease) in net defined benefit liability	1,394	764
Increase (decrease) in allowance for doubtful accounts	2	46
Increase (decrease) in provision for loss on order received	1	53
Interest and dividend income	(119)	(119)
Interest expenses	14	10
Share of (profit) loss of entities accounted for using equity method	(95)	(204)
Loss on retirement of non-current assets	41	72
Loss (gain) on sales of investment securities	(475)	(141)
Decrease (increase) in notes and accounts receivable - trade	1,356	(3,254)
Decrease (increase) in inventories	569	199
Increase (decrease) in notes and accounts payable - trade	(855)	120
Increase (decrease) in accrued consumption taxes	544	(454)
Increase (decrease) in advances received	107	(49)
Other, net	(3,302)	24
Subtotal	9,460	6,520
Interest and dividend income received	152	167
Interest expenses paid	(14)	(10)
Income taxes paid	(1,820)	(1,625)
Net cash provided by (used in) operating activities	7,778	5,052
Cash flows from investing activities		
Payments into time deposits	(300)	–
Purchase of securities	(3,998)	–
Proceeds from redemption of securities	3,998	1,998
Purchase of property and equipment	(870)	(1,157)
Purchase of intangible assets	(1,358)	(1,813)
Purchase of investment securities	(48)	(269)
Proceeds from sales of investment securities	1,068	271
Payments of loans receivable	(4)	(3)
Collection of loans receivable	4	4
Payments for lease and guarantee deposits	(128)	(50)
Proceeds from collection of lease and guarantee deposits	36	16
Other, net	(7)	7
Net cash provided by (used in) investing activities	(1,608)	(996)

(Millions of yen)

	Fiscal year ended September 30, 2015	Fiscal year ended September 30, 2016
Cash flows from financing activities		
Repayments of lease obligations	(346)	(321)
Proceeds from share issuance to non-controlling shareholders	–	95
Cash dividends paid	(821)	(985)
Dividends paid to non-controlling interests	(150)	(123)
Other, net	(0)	–
Net cash provided by (used in) financing activities	(1,319)	(1,335)
Effect of exchange rate change on cash and cash equivalents	25	(27)
Net increase (decrease) in cash and cash equivalents	4,875	2,692
Cash and cash equivalents at beginning of period	13,380	18,255
Cash and cash equivalents at end of period	18,255	20,948

(5) Significant matters forming the basis of preparing the consolidated financial statements

1. Scope of consolidation
   (1) Number of consolidated subsidiaries: 12
   Names of principal companies:
   MRI Business, Inc.
   MRI Research Associates, Inc.
   Mitsubishi Research Institute DCS Co., Ltd.
   MRI Value Consulting & Solutions Co., Ltd.
   MD Business Partner Co., Ltd.
   Touhoku Diamond Computer Service Co., Ltd.
   OPT JAPAN Co., Ltd.
   UBS Co., Ltd.
   IT-ONE Co., Ltd.
   DCS Information Technology (Shanghai) Co., Ltd.
   MRIDCS Americas, Inc.
   HR Solution DCS Co., Ltd.

   Changes in the fiscal year under review are as follows:
   On January 15, 2016, consolidated subsidiary Mitsubishi Research Institute DCS Co., Ltd. newly established HR Solution DCS Co., Ltd. As a result, the new company has been included in the scope of consolidation.
   (2) Names of principal unconsolidated subsidiaries
   Not applicable because there is no unconsolidated subsidiary.

2. Application of the equity method
   (1) Number of affiliates accounted for by the equity method: 3
   Names of principal companies:
   Minori Solutions Co., Ltd.
   Japan Business Systems, Inc.
   Nippon Care Communications Co., Ltd.
   (2) The affiliate that is not accounted for by the equity method (Kyocera TCL Solar LLC) is excluded from the scope of equity method companies since such exclusion has immaterial effect on MRI's consolidated financial statements in terms of profit or loss (amount corresponding to MRI's equity position), retained earnings (amount corresponding to MRI's equity position) and others, and it is not material as a whole.
   (3) For the equity method companies etc. for which balance sheet dates are different from the consolidated balance sheet date, financial statements based on provisional settlement of accounts as of June 30 were used.

3. Fiscal year-end dates of consolidated subsidiaries
   The balance sheet date of consolidated subsidiary MRIDCS Americas, Inc. is June 30. Financial statements as of that date were used. In addition, the balance sheet date of consolidated subsidiary DCS Information Technology (Shanghai) Co., Ltd. is December 31. Financial statements based on provisional settlement of accounts as of June 30 were used. Appropriate adjustments have been made for significant transactions that occurred between the consolidated balance sheet date and the balance sheet date of June 30.
   The balance sheet dates of consolidated subsidiaries other than MRIDCS Americas, Inc. and DCS Information Technology (Shanghai) Co., Ltd. coincide with the consolidated balance sheet date.

4. Accounting policies
   (1) Valuation bases and methods of significant assets
   A. Securities
   (i) Bonds held to maturity
   Stated at amortized cost (straight-line method).
   (ii) Other securities (available-for-sale securities)
   Securities with available fair market values:
   Stated at fair value based on the market price or the like on the consolidated balance sheet date (unrealized gains and losses are included in a separate component of net assets, and cost of sales is determined based upon the moving-average method).
   Securities without available fair market values:
   Stated at cost using the moving-average method.

   B. Derivatives
   Valued at fair value.

   C. Inventories
   Stated mainly using the identified cost method (figures on the balance sheet are determined based on the method of writing down the book value in accordance with the declining in profitability of assets).

   (2) Depreciation and amortization methods of significant depreciable and amortizable assets

A. Property and equipment (except for leased assets)
Mainly depreciated using the declining-balance method for MRI and its domestic consolidated subsidiaries.
However, the straight-line method is used for buildings (excluding building attachments) acquired on or after April 1, 1998 and for building attachments and structures acquired on or after April 1, 2016.
In addition, the buildings and structures of Mitsubishi Research Institute DCS Co., Ltd.'s Chiba Business Center are depreciated using the straight-line method.
The straight-method is used for overseas consolidated subsidiaries.
The estimated useful lives of major items are as follows:

Buildings and structures:	3 to 50 years
Machinery, equipment and vehicles:	5 to 10 years
Tools, furniture and fixtures:	2 to 20 years

B. Intangible assets (except for leased assets)
Amortized using the straight-line method.
However, capitalized software for internal use is amortized using the straight-line method over their estimated useful lives as internally determined (3 to 5 years).

C. Leased assets
Leased assets in finance lease transactions that do not transfer ownership are depreciated using the straight-line method assuming that lease periods are useful lives and salvage values are zero.

(3) Significant reserves
A. Allowance for doubtful accounts
To prepare for losses from bad debt, an estimated uncollectible amount is provided at the amount estimated by either using the historical rate of credit loss in the case of general receivables, or based on individual consideration of collectibility in the case of specific receivables such as highly doubtful receivables.

B. Provision for bonuses
To prepare for payment of bonuses to employees, an amount to be borne during the fiscal year under review, among the estimated future bonus payment, is provided at MRI and certain consolidated subsidiaries.

C. Provision for loss on order received
To prepare for future loss on orders received, an estimated loss amount in or after the following fiscal year is provided for orders received outstanding as of the end of the fiscal year under review whose future loss is expected and whose loss amount is reasonably estimable.

(4) Accounting method for retirement benefits
A. Method for attributing expected retirement benefits to accounting periods
In the calculation of retirement benefit obligations, expected retirement benefits are attributed to accounting periods up to the end of the fiscal year under review using the benefit formula basis.
B. Method for recognizing actuarial gains and losses and prior service cost
MRI amortizes unrecognized actuarial gains and losses at an amount equally allocated over a fixed number of years (10 years) set within the average remaining service period of employees as occurred, starting in the respective following fiscal years.
Mitsubishi Research Institute DCS Co., Ltd. charges to income full amounts of unrecognized actuarial gains and losses in the year when occurred. Prior service cost is amortized using the straight-line method over a fixed number of years (10 years) set within the average remaining service period of employees as occurred.
Certain consolidated subsidiaries adopt the simplified method to determine a provision for retirement benefits.

(5) Recognition of significant revenues and expenses
Recognition of net sales and cost of sales regarding made-to-order software
A. Construction activity whose outcome is deemed to be definite during the course of the activity by the end of the fiscal year under review
The percentage-of-completion method (the cost to cost method is used to estimate the percentage of completion)
B. Other construction activities
The completed-contract method

(6) Translation of important assets or liabilities denominated in foreign currencies into Japanese yen
Monetary receivables and payables denominated in foreign currencies are translated into yen at the spot exchange rates as of the consolidated balance sheet date and the translation differences are treated as profit or loss. Assets and liabilities of overseas subsidiaries and the like are translated into yen at the spot exchange rates as of the consolidated balance sheet date, while their revenues and expenses are translated into yen at the average exchange rates during the period. The translation differences are recorded within foreign currency translation adjustment and non-controlling interests under net assets.

(7) Method of significant hedge accounting
A. Method of hedge accounting
In principle, hedging activities are accounted for with deferred hedge accounting. Those that satisfy the requirements

for an accounting method in which monetary claims and liabilities denominated in foreign currencies are translated at a predetermined rate to hedge against exchange rate fluctuation risk are accounted for under this method.

B. Hedging instruments and hedged items
   (i) Hedging instruments: Forward foreign exchange contracts
   (ii) Hedged items: Mainly exchange rate fluctuation risk from monetary receivables and payables denominated in foreign currencies.

C. Hedging policy
   Hedging is mainly conducted as a measure against exchange rate fluctuation risk based on MRI's internal regulations.

D. Method of assessing hedge effectiveness
   MRI compares the cumulative amounts of fluctuations in the rates or in the cash flows of the hedged items with the cumulative amounts of fluctuations in the rates or in the cash flows of the hedging instruments, and assesses the effectiveness of hedging transactions based on the ratio between the two amounts.
   In the case of forward foreign exchange contracts, an assessment of hedge effectiveness is not provided because significant terms of the hedged items and the hedging instruments are almost the same, and hedge effectiveness is deemed to be high.

(8) Amortization and amortization period of goodwill
Goodwill is equally amortized over the period of the future economic benefits for each investment.
However, goodwill is amortized in lump-sum in the fiscal year when incurred if the amount is minimal.

(9) Definition of cash and cash equivalents in the consolidated statements of cash flows
Cash and cash equivalents in the consolidated statements of cash flows consist of cash on hands, at-call deposits with banks, and short-term investments having maturities within three months from acquisition which are readily convertible to cash and involve only an insignificant risk in their value.

(10) Other significant matters forming the basis of preparing the consolidated financial statements
Accounting for consumption taxes
Transactions subject to consumption taxes are recorded at amounts exclusive of consumption taxes.

(6) Changes in accounting policies

(Application of Accounting Standard for Business Combinations, etc.)
Effective from the fiscal year under review, MRI has applied the "Accounting Standard for Business Combinations" (ASBJ Statement No. 21, September 13, 2013), the "Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No. 22, September 13, 2013), the "Accounting Standard for Business Divestitures" (ASBJ Statement No. 7, September 13, 2013), etc. As a result, the method of recording the amount of difference caused by changes in MRI's ownership interests in subsidiaries in the case of subsidiaries under ongoing control of MRI was changed to one in which it is recorded as capital surplus, and the method of recording acquisition-related costs was changed to one in which they are recognized as expenses for the fiscal year in which they are incurred. Furthermore, for business combinations carried out on or after the beginning of the fiscal year under review, the accounting method was changed to one in which the reviewed acquisition cost allocation resulting from the finalization of the provisional accounting treatment is reflected in the consolidated financial statements for the period to which the date of business combination belongs. In addition, the presentation method for "net income" and other related items was changed, and the presentation of "minority interests" was changed to "non-controlling interests." To reflect these changes, MRI has reclassified its full-year consolidated financial statements for the previous fiscal year.
Application of the Accounting Standard for Business Combinations, etc. is in line with the transitional measures provided for in paragraph 58-2 (4) of the Accounting Standard for Business Combinations, paragraph 44-5 (4) of the Accounting Standard for Consolidated Financial Statements and paragraph 57-4 (4) of the Accounting Standard for Business Divestitures. MRI is applying the said standard, etc. prospectively from the beginning of the fiscal year under review.
As a result, profit before income taxes for fiscal year under review decreased 8 million yen. Furthermore, capital surplus as of the end of the fiscal year under review increased 8 million yen.
In the consolidated statements of cash flows for the fiscal year under review, cash flows related to the purchase or sale of shares of subsidiaries not resulting in change in scope of consolidation have been classified under "Cash flows from financing activities," and cash flows related to costs associated with the purchase of shares of subsidiaries resulting in change in scope of consolidation or costs arising from the purchase or sale of shares of subsidiaries not resulting in change in scope of consolidation have been classified under "Cash flows from operating activities."
In the consolidated statements of changes in net assets for the fiscal year under review, the balance of capital surplus at the end of the current period has been increased by 8 million yen.
Also, basic earnings per share for the fiscal year under review has been reduced by 0.49 yen.

(Application of Practical Solution on a Change in Depreciation Method Due to Tax Reform 2016)
Following the revision to the Corporation Tax Act, MRI has applied the "Practical Solution on a Change in Depreciation Method Due to Tax Reform 2016" (ASBJ PITF No. 32, June 17, 2016) from the fiscal year under review, and changed the depreciation method for building attachments and structures acquired on or after April 1, 2016 from the declining-balance method to the straight-line method.
The effect of this application on the consolidated financial statements for the fiscal year under review is immaterial.

(7) Accounting standards and relevant regulations that are not yet adopted

Guidance on Recoverability of Deferred Tax Assets (ASBJ Guidance No. 26, March 28, 2016)

1. Overview
The Guidance on Recoverability of Deferred Tax Assets sets out implementation guidelines for the adoption of the Accounting Standards for Tax Effect Accounting (Business Accounting Council) in relation to the recoverability of deferred tax assets. Upon the transfer of practical guidelines on accounting and auditing (section relating to accounting treatments) related to tax effect accounting provided by the Japanese Institute of Certified Public Accountants (JICPA) from JICPA to the Accounting Standards Board of Japan (ASBJ), ASBJ basically continued to apply the framework for the guideline to assess the recoverability of deferred tax assets mainly used in the JICPA Auditing Committee Report No. 66 "Auditing Treatment Regarding Judgment of Recoverability of Deferred Tax Assets" where entities are classified into five categories and the amount of deferred tax assets is estimated according to each of the relevant categories, and made necessary revisions to certain treatments of requirements for categorizing and the amount of deferred tax assets to be recognized.

(Revisions to category criteria and treatment of amounts for deferred tax assets)

- Accounting treatments for entities that do not meet any of the category criteria for Category 1 through Category 5
- Category criteria for Category 2 and Category 3
- Accounting treatment of unscheduled deductible temporary differences for entities corresponding to Category 2
- Accounting treatment of reasonably estimable periods for taxable income before additions or subtractions (temporary differences, etc.) for entities corresponding to Category 3
- Accounting treatment for entities satisfying the category criteria of Category 4 and also falling into Category 2 or Category 3

2. Scheduled date for adoption
The revised Accounting Standards and relevant regulations are scheduled to be adopted from the beginning of the fiscal year ending September 30, 2017.

3. Effects of adoption of the Accounting Standards and relevant regulations
The impact of the adoption of Implementation Guidance on Recoverability of Deferred Tax Assets on the consolidated financial statements is currently under evaluation.

(8) Additional information

(Revision of deferred tax assets and liabilities relating to changes in the income taxes rates)
The Act for Partial Amendment of the Income Tax Act, etc. (Act No. 15 of 2016) and the Act for Partial Revision of the Local Tax Act, etc. (Act No. 13 of 2016) were promulgated on March 29, 2016. With these revisions, corporation tax rates, etc. will be reduced from the fiscal year beginning on or after April 1, 2016, among other changes. In conjunction with these changes, the statutory effective tax rate used to calculate deferred tax assets and deferred tax liabilities has been changed to 30.9% for temporary differences expected to be reversed in the fiscal year begun on October 1, 2016 and the fiscal year beginning on October 1, 2017 and to 30.6% for temporary differences expected to be reversed in the fiscal year beginning on October 1, 2018, from the previous fiscal year's rate of 32.3%.
These changes in the income tax rate have reduced the amount of deferred tax assets (the amount after deducting the amount of deferred tax liabilities) by 196 million yen, increased the amount of income taxes-deferred by 223 million yen and the amount of valuation difference on available-for-sale securities by 37 million yen, respectively, and decreased the amount of deferred gains or losses on hedges by 0 million yen and the amount of remeasurements of defined benefit plans by 10 million yen, respectively.

(9) 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. Method of calculating net sales, profit or loss, assets, liabilities, and other items by reportable segment

The accounting method for the business segments that are reported is largely the same as the description in “Significant matters forming the basis of preparing the consolidated financial statements.” The profit from reportable segments is the figure based on ordinary income. Inter-segment sales and transfers are based on actual market values.

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

Fiscal year ended September 30, 2015 (from October 1, 2014 to September 30, 2015)

(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	35,030	50,324	85,354	–	85,354
Inter-segment sales and transfers	91	2,084	2,176	(2,176)	–
Total	35,122	52,408	87,530	(2,176)	85,354
Segment profit	3,546	2,231	5,777	35	5,813
Segment assets	27,319	40,444	67,763	(669)	67,094
Other items					
Depreciation	874	2,045	2,920	(76)	2,844
Amortization of goodwill	–	100	100	–	100
Interest income	4	5	9	(2)	7
Interest expenses	5	11	16	(2)	14
Share of profit (loss) of entities accounted for using equity method	10	87	98	(3)	95
Investment in equity method affiliates	874	980	1,854	–	1,854
Increase in property and equipment, and intangible assets	490	2,000	2,491	(37)	2,453

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 income in the consolidated financial statements.

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 (loss) 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 income in the consolidated financial statements.

(10) Per share information

	Fiscal year ended September 30, 2015	Fiscal year ended September 30, 2016
Net assets per share	2,340.10 yen	2,488.48 yen
Basic earnings per share	224.83 yen	208.55 yen

Notes: 1. Diluted earnings per share is not shown because MRI has not issued potential shares.
2. Basis for calculating basic earnings per share is as shown below.

	Fiscal year ended September 30, 2015	Fiscal year ended September 30, 2016
Profit attributable to owners of parent (millions of yen)	3,692	3,425
Profit not attributable to common shareholders (millions of yen)	–	–
Profit attributable to owners of parent related to common shares (millions of yen)	3,692	3,425
Average number of outstanding common shares during the fiscal year (thousand shares)	16,423	16,423

(11) Significant subsequent events

Not applicable

5. Others

(1) Production performance

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

(Millions of yen)

Segment name	Fiscal year ended September 30, 2016	Year-on-year change (%)
Think tank and consulting services	32,287	(7.3)
IT services	41,863	5.1
Total	74,150	(0.7)

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

(2) 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, 2016			
	Orders received	Year-on-year change (%)	Balance	Year-on-year change (%)
Think tank and consulting services	34,185	4.9	24,145	5.1
IT services	54,121	7.4	36,741	0.6
System development	33,645	7.3	18,179	(1.1)
Outsourcing services	20,476	7.5	18,562	2.4
Total	88,306	6.4	60,887	2.4

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.

(3) 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, 2016	Year-on-year change (%)
Think tank and consulting services	33,014	(5.8)
IT services	53,889	7.1
System development	33,841	9.0
Outsourcing services	20,048	4.0
Total	86,904	1.8

Notes: 1. Inter-segment transactions have been eliminated.

2. Consumption taxes are not included in the above amounts.

3. The table below shows sales results by major transaction partner and the ratio to total sales results of those sales results for the last two fiscal years.

(Millions of yen)

Transaction partner	Fiscal year ended September 30, 2015		Fiscal year ended September 30, 2016	
	Amount	Ratio (%)	Amount	Ratio (%)
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	15,462	18.1	15,937	18.3
Mitsubishi UFJ NICOS Co., Ltd.	12,136	14.2	13,279	15.3