

[Translation for reference only]

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Translation



MEMBERSHIP

August 3, 2020

Consolidated Financial Results for the Nine Months of the Fiscal Year Ending September 30, 2020 <under Japanese GAAP>

Company name: **Mitsubishi Research Institute, Inc.**
 Listing: First Section of the Tokyo Stock Exchange
 Stock code: 3636 URL: <https://www.mri.co.jp/>
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 Scheduled date to submit Quarterly Securities Report: August 4, 2020
 Scheduled date to commence dividend payments: –
 Preparation of supplementary material on quarterly financial results: Yes
 Holding of quarterly financial results presentation meeting: No

(Rounded down to the nearest million yen)

1. Consolidated performance for the nine months of the fiscal year ending September 30, 2020 (from October 1, 2019 to June 30, 2020)

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

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Nine months ended June 30, 2020	70,590	2.2	5,896	42.6	8,043	68.8	7,199	122.5
June 30, 2019	69,102	(1.7)	4,135	(22.3)	4,764	(16.3)	3,235	(11.8)

Note: Comprehensive income

For the nine months ended June 30, 2020: 8,177 million yen [274.1%]
 For the nine months ended June 30, 2019: 2,185 million yen [(43.5%)]

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Nine months ended June 30, 2020	443.01	–
June 30, 2019	199.17	–

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of June 30, 2020	92,863	61,241	57.8
September 30, 2019	84,568	54,843	56.7

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

As of June 30, 2020: 53,706 million yen
 As of September 30, 2019: 47,940 million yen

2. Cash dividends

	Annual cash dividends per share				
	First quarter-end	Second quarter-end	Third quarter-end	Fiscal year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended September 30, 2019	–	45.00	–	50.00	95.00
Fiscal year ending September 30, 2020	–	50.00	–		
Fiscal year ending September 30, 2020 (Forecast)			–	50.00	100.00

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

3. Consolidated earnings forecasts for the fiscal year ending September 30, 2020 (from October 1, 2019 to September 30, 2020)

(Percentages indicate year-on-year changes.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Basic earnings per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Fiscal year ending September 30, 2020	92,500	2.7	5,500	7.2	7,500	31.1	6,600	83.3	406.11

Note: Revisions to the earnings forecasts most recently announced: Yes

***Notes**

- (1) Changes in significant subsidiaries during the nine months under review (changes in specified subsidiaries resulting in the change in scope of consolidation): None
- (2) Application of special accounting in preparing consolidated quarterly financial statements: Yes
Note: For details, please refer to “2. Consolidated financial statements and significant notes thereto (3) Notes to consolidated financial statements (Application of special accounting in preparing consolidated quarterly financial statements)” on page 9 of the attached materials.
- (3) Changes in accounting policies, changes in accounting estimates, and restatement of prior period financial statements after error corrections
- Changes in accounting policies due to revisions to accounting standards and other regulations: None
 - Changes in accounting policies due to other reasons: None
 - Changes in accounting estimates: None
 - Restatement of prior period financial statements after error corrections: None

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

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

As of June 30, 2020	16,424,080 shares
As of September 30, 2019	16,424,080 shares

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

As of June 30, 2020	169,376 shares
As of September 30, 2019	178,196 shares

- c. Average number of outstanding shares during the period (cumulative from the beginning of the fiscal year)

Nine months ended June 30, 2020	16,250,871 shares
Nine months ended June 30, 2019	16,245,885 shares

* Quarterly results are not subject to quarterly review by a certified public accountant or the auditing firm.

* Appropriate use of business forecasts; other special items

(Caution regarding forward-looking statements, etc.)

The results forecast is made based on information available at the time of publication of this document. The Company does not guarantee that it will achieve the forecast results. Actual sales and profits may differ from the forecast results due to uncertainties inherent in the forecast and changes in business conditions, among other factors.

(Availability of supplementary material on financial results)

The supplementary material for quarterly results is posted on the Company's website.

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(Attached materials)**1. Qualitative information regarding settlement of accounts for the nine months****(1) Explanation regarding operating results**

During the first nine months of the fiscal year under review (October 1, 2019, to June 30, 2020), the world economy grew moderately from October through December 2019; however, economic activities were significantly reduced from January through April 2020 due to the spread of the novel coronavirus infection disease (COVID-19). While moves to resume economic activities have been rising in many countries since May, economic recoveries have mostly been limited. In the United States, the number of new COVID-19 cases increased rapidly in June amid efforts to resume economic activities. In Europe, while economies are recovering from their nadir, certain numbers of new cases continue to be confirmed and economic activities remain at a low ebb. The Chinese economy shifted to a recovery with a focus on domestic demand ahead of the United States and Europe, thanks to a relatively low level of damage from the disease for now. Countries have announced a significant strengthening of fiscal spending and monetary easing policies to help companies with financing, provide liquidity to financial markets, and support employment and livelihoods.

The Japanese economy has entered a serious recessionary phase due to the COVID-19 pandemic. Consumption decreased significantly, especially in the restaurant, tourism, and leisure industries in response to business suspensions and stay-at-home advisories after the declaration of a state of emergency. While the economy has shown signs of recovery amid the gradual lifting of the state of emergency since mid-May, conditions remain harsh and the number of foreign visitors to Japan and inbound tourism consumption have dropped to nearly zero. Companies have grown cautious about investment due to a sense of excessive facilities, concerns over financing, and growing uncertainty about the future.

In this situation, Mitsubishi Research Institute, Inc. and its consolidated subsidiaries (the “MRI Group”) were also forced to suspend ongoing operations, change specifications, and suspend, change, or postpone work-in-process projects, among other measures. The MRI Group’s financial results for the first nine months of the fiscal year under review, however, were not critically affected thanks in part to steady achievements made under the Medium-term Management Plan 2020 (“MP2020”).

The fiscal year under review is the final year of the MP2020 of the MRI Group, which is taking steps to complete the execution of the plan. The MRI Group provides comprehensive solutions, prioritizing quality and customer satisfaction and using the knowledge of the scientific methods and advanced technologies that it has developed as a comprehensive think tank.

In the business in the public and public interest sectors and the financial and credit card sectors, which is the core business in MP2020, the MRI Group conducted research studies in energy, healthcare and wellness, and information and communication, taking into consideration policy reforms, including power system reform, medical care and long-term care insurance reform and regional revitalization.

In business using new technologies, the growth business in MP2020, the MRI Group is continuing to advance innovation and sophistication in corporate management and government services through consulting and ICT services using AI, the IoT and the cloud.

The MRI Group continued to address the quality issue that occurred in the IT services segment in the fiscal year ended September 30, 2018, and discussed it with the customers. Meanwhile, as phased development progressed, the MRI Group posted partial sales.

These factors resulted in net sales of 70,590 million yen (up 2.2% year on year) and operating profit of 5,896 million yen (up 42.6% year on year) in the MRI Group in the first nine months of the fiscal year under review. Ordinary profit rose significantly to 8,043 million yen (up 68.8% year on year) and profit attributable to owners of parent also increased substantially to 7,199 million yen (up 122.5% year on year), reflecting non-operating income and extraordinary income posted in the first three months in relation to INES Corporation becoming an equity method affiliate and the acceptance and implementation of SCSK Corporation’s tender offer for shares in Minori Solutions Co., Ltd.

The results in each segment are as follows.

<Think tank and consulting services>

In the first nine months under review, net sales (sales to outside clients) stood at 28,828 million yen (up 2.2% year on year), reflecting growth in projects for government and public offices and consulting for financial institutions. Ordinary profit came to 5,912 million yen (up 62.7% year on year), reflecting the posting of an amount equivalent to negative goodwill in non-operating income in relation to INES Corporation becoming an equity method affiliate in the first three months.

<IT services>

In the first nine months under review, net sales (sales to outside clients) amounted to 41,762 million yen (up 2.1% year on year) chiefly due to sales from system development projects for financial institutions. Ordinary profit was 2,125 million yen (up 92.9% year on year), a significant improvement from the same period of the previous fiscal year, when an additional loss was posted due to the project with the quality issue.

(2) Explanation regarding financial position

Total assets at the end of the first nine months under review increased 8,295 million yen (up 9.8%) from the end of the previous fiscal year, to 92,863 million yen. Current assets stood at 54,626 million yen (up 14.7%) and non-current assets were 38,237 million yen (up 3.5%). The main factor for the increase in current assets was an increase of 11,126 million yen in cash and deposits, which more than offset a decrease of 5,277 million yen in notes and accounts receivable - trade. The major factor for an increase in non-current assets was an upturn of 1,055 million yen in investments and other assets chiefly due to a rise in investment securities.

Liabilities rose 1,897 million yen (up 6.4%) from the end of the previous fiscal year, to 31,622 million yen, chiefly reflecting an increase in long-term borrowings of 1,700 million yen.

Net assets climbed 6,398 million yen (up 11.7%) from the end of the previous fiscal year, to 61,241 million yen mainly due to an increase in retained earnings of 5,556 million yen.

(3) Explanation regarding consolidated earnings forecasts and other forward-looking statements

Actual economies in Japan and overseas have been significantly affected by the spread of COVID-19 worldwide. The MRI Group's results in the first nine months of the fiscal year under review do not show significant effects from the pandemic. However, there may be an impact on business activities and results if the pandemic is prolonged or has a significant impact on the businesses of MRI Group's clients. The risks that the Group can expect at present are stated below. The Group will take steps to minimize the effects.

Risks of effects on the Group's results

- 1) Falls in sales and profit due to the suspension of operations in progress, changes in specifications, etc.

The scope of certain projects has been reduced. Certain projects have been postponed.

- 2) Falls in orders, sales and profit due to cancellations of offers, delays in orders, etc.

Orders for projects from April have been postponed or cancelled.

Earnings forecast

The MRI Group has revised its consolidated earnings forecasts and full-year earnings forecasts by segment for the fiscal year ending September 30, 2020, as presented below in response primarily to the results for the first nine months of the fiscal year under review. Profit is expected to exceed the forecast announced on February 5, 2020, after compensating for the above-mentioned downward impact of COVID-19 on net sales. On the assumption that the impact of COVID-19 will remain at the current level, the MRI Group does not expect that the same level of restrictions on economic activities as those in April and May following the declaration of a state of emergency will be imposed again.

Revision of full-year consolidated earnings forecasts (from October 1, 2019 to September 30, 2020)

	Consolidated net sales	Consolidated operating profit	Consolidated ordinary profit	Profit attributable to owners of parent	Basic earnings per share
	Million yen	Million yen	Million yen	Million yen	Yen
Previous forecasts (A)	94,000	4,900	7,000	6,300	387.65
Revised forecasts (B)	92,500	5,500	7,500	6,600	406.11
Change (B) – (A)	(1,500)	600	500	300	–
Percent change	(1.6)	12.2	7.1	4.8	–
(Ref.) Consolidated results for the previous fiscal year (ended Sep. 2019)	90,029	5,130	5,718	3,599	221.58

Revision of full-year earnings forecasts by segment (from October 1, 2019 to September 30, 2020)

	Think tank and consulting services		IT services	
	Net sales	Ordinary profit	Net sales	Ordinary profit
	Million yen	Million yen	Million yen	Million yen
Previous forecasts (A)	36,000	4,600	58,000	2,400
Revised forecasts (B)	34,500	4,900	58,000	2,600
Change (B) – (A)	(1,500)	300	–	200
Percent change	(4.2)	6.5	–	8.3
(Ref.) Results by segment in the previous fiscal year (ended Sep. 2019)	34,099	3,351	55,930	2,325

The earnings forecasts are made based on information available at the time of publication of this document and MRI Group does not guarantee that it will achieve the forecast results. Actual sales and profits may differ from the forecast results due to factors such as uncertainties inherent in the forecasts and changes in business conditions.

2. Consolidated financial statements and significant notes thereto

(1) Consolidated quarterly balance sheets

(Million yen)

	As of September 30, 2019	As of June 30, 2020
Assets		
Current assets		
Cash and deposits	25,957	37,083
Notes and accounts receivable - trade	13,134	7,856
Inventories	6,914	7,289
Other	1,641	2,400
Allowance for doubtful accounts	(12)	(3)
Total current assets	47,635	54,626
Non-current assets		
Property and equipment		
Buildings and structures, net	6,010	5,630
Machinery, equipment and vehicles, net	11	8
Tools, furniture and fixtures, net	1,330	1,560
Land	720	720
Leased assets, net	582	908
Construction in progress	191	269
Total property and equipment	8,846	9,098
Intangible assets		
Software	3,270	2,810
Leased assets	2,632	2,232
Other	134	990
Total intangible assets	6,036	6,033
Investments and other assets		
Investment securities	14,398	15,450
Deferred tax assets	4,164	4,114
Other	3,491	3,544
Allowance for doubtful accounts	(6)	(4)
Total investments and other assets	22,049	23,104
Total non-current assets	36,932	38,237
Total assets	84,568	92,863

(Million yen)

	As of September 30, 2019	As of June 30, 2020
Liabilities		
Current liabilities		
Accounts payable - trade	3,344	3,755
Current portion of long-term borrowings	–	300
Accounts payable - other	2,880	1,182
Accrued expenses	1,079	1,119
Income taxes payable	1,257	1,923
Provision for bonuses	3,782	2,147
Provision for loss on order received	1,226	761
Other	3,155	6,002
Total current liabilities	16,726	17,192
Non-current liabilities		
Long-term borrowings	–	1,400
Lease obligations	2,553	2,455
Provision for share-based compensation	301	354
Net defined benefit liability	10,068	10,157
Asset retirement obligations	51	51
Other	23	10
Total non-current liabilities	12,998	14,430
Total liabilities	29,724	31,622
Net assets		
Shareholders' equity		
Capital stock	6,336	6,336
Capital surplus	4,765	4,765
Retained earnings	35,585	41,142
Treasury shares	(579)	(550)
Total shareholders' equity	46,107	51,692
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1,906	1,991
Deferred gains or losses on hedges	(153)	(80)
Foreign currency translation adjustment	11	11
Remeasurements of defined benefit plans	69	90
Total accumulated other comprehensive income	1,833	2,013
Non-controlling interests	6,902	7,535
Total net assets	54,843	61,241
Total liabilities and net assets	84,568	92,863

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

(Million yen)

	Nine months ended June 30, 2019	Nine months ended June 30, 2020
Net sales	69,102	70,590
Cost of sales	53,903	53,790
Gross profit	15,199	16,799
Selling, general and administrative expenses	11,063	10,903
Operating profit	4,135	5,896
Non-operating income		
Interest income	0	2
Dividend income	201	174
Share of profit of entities accounted for using equity method	460	2,045
Other	51	44
Total non-operating income	712	2,266
Non-operating expenses		
Interest expenses	20	33
Foreign exchange losses	9	–
Loss on investments in silent partnership	53	49
Overseas withholding taxes	–	28
Other	0	8
Total non-operating expenses	83	119
Ordinary profit	4,764	8,043
Extraordinary income		
Gain on sales of investment securities	252	2,731
Other	41	–
Total extraordinary income	293	2,731
Extraordinary losses		
Loss on retirement of non-current assets	9	25
Loss on revaluation of investment securities	82	40
Loss on cancellation of leases	1	0
Other	19	1
Total extraordinary losses	113	67
Profit before income taxes	4,944	10,708
Income taxes	1,584	2,744
Profit	3,360	7,964
Profit attributable to non-controlling interests	124	764
Profit attributable to owners of parent	3,235	7,199

Consolidated quarterly statements of comprehensive income

(Million yen)

	Nine months ended June 30, 2019	Nine months ended June 30, 2020
Profit	3,360	7,964
Other comprehensive income		
Valuation difference on available-for-sale securities	(1,092)	162
Deferred gains or losses on hedges	(132)	73
Foreign currency translation adjustment	0	(0)
Remeasurements of defined benefit plans	50	15
Share of other comprehensive income of entities accounted for using equity method	(0)	(36)
Total other comprehensive income	(1,174)	213
Comprehensive income	2,185	8,177
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	2,173	7,379
Comprehensive income attributable to non- controlling interests	12	798

(3) Notes to consolidated financial statements

(Notes on going concern assumption)

Not applicable

(Notes in the case of material changes in shareholders' equity)

Not applicable

(Application of special accounting in preparing consolidated quarterly financial statements)

(Calculation of tax expenses)

Tax expenses are calculated by multiplying profit before income taxes in the first nine months under review by a reasonably estimated effective tax rate after the application of tax effect accounting for profit before income taxes in the consolidated fiscal year including the third quarter under review.

(Additional information)

(Share-based compensation system linked to operating performance for directors, executives and research fellows)

At the 47th annual shareholders' meeting held on December 19, 2016, the Company resolved to introduce a performance-based stock compensation plan ("the Plan") for its directors (excluding outside directors, non-executive directors and directors living outside Japan), executive officers and research fellows who have signed an engagement agreement (excluding those living outside Japan) (collectively referred to as the "Directors, Etc.>"). The Plan has been introduced to raise awareness of contributions to improving operating results at the MRI Group and enhancing the corporate value in the medium to long term. The Plan is an officers' compensation system that is closely connected to the MRI Group's results, transparent and objective.

The accounting for the Plan is in line with the Practical Solution on Transactions of Delivering the Company's Own Stock to employees through trusts (ASBJ PITF No. 30, March 26, 2015).

1) Overview of transaction

The Plan has a mechanism called a Board Incentive Plan trust ("BIP Trust"). After the resignation of the Directors, Etc. (or the death of the Directors, Etc.), the Company grants shares of the Company held by the BIP Trust or provides money equivalent to the shares to the Directors, Etc. according to the performance target achievement level.

2) MRI's shares remaining in the trust

The book value of the shares held by the BIP Trust (excluding the incidental expense) is posted in net assets as treasury shares. The book value of the treasury shares and the number of treasury shares were 578 million yen and 177,000, respectively, in the previous fiscal year and 549 million yen and 168,000, respectively in the third quarter under review.

(Provision for loss on order received)

In the fiscal year ended September 30, 2018, failure occurred in the testing stage of a contract large-scale system development project at a consolidated subsidiary, and additional repair work was required for quality assurance. The client wished to discontinue the main part of the development and a cancellation agreement was concluded for the main part in January 2019. We have been taking steps under the cancellation agreement and have been reviewing the remaining part of the agreement in consultation with the client in stages.

In the first nine months under review, we posted net sales and cost of sales for part of the development project after acceptance inspection by the client and reduced the corresponding amount from provision for loss on order received of 1,188 million yen posted at the end of the previous fiscal year. We are continuing to discuss the schedule and work with the client, and at the end of the third quarter under review, we estimated expenses and posted an estimated loss of 583 million yen as provision for loss on order received. The inventories related to the order received where losses are expected and provision for loss on order received are not offset and both are presented as is. Inventories related to the development project at the end of the third quarter stood at 102 million yen.

We estimate expenses as reasonably as possible. However, we are still discussing the schedule and work, and the estimated expenses may change depending on the progress of the discussion and its results.

(Accounting estimates related to the impact of COVID-19)

The COVID-19 pandemic is having an extreme impact on the real economies of Japan and other countries. While the economy has shown signs of recovery amid the gradual lifting of the state of emergency since mid-May, companies have become cautious about investing due to growing uncertainty about the future.

On the assumption that the impact of COVID-19 will remain at the current level, the MRI Group does not expect that the same level of restrictions on economic activities as those in April and May following the declaration of a state of emergency will be imposed again. The suspension of ongoing operations, changes in specifications, and the cancelation, postponement, etc. of projects in progress have an impact on the MRI Group's consolidated results, which, however, is expected to be limited. The MRI Group has made its accounting estimates based on these assumptions.

The impact of the COVID-19 pandemic, however, is highly unpredictable and may affect the financial position and operating results of the MRI Group depending on future developments.

(Segment information, etc.)

I. Nine months ended June 30, 2019

1. Information regarding amounts of net sales and profit/loss by reportable segment

(Million yen)

	Reportable segments		Total	Adjustment (Note 1)	Amount recorded in the consolidated quarterly statements of income (Note 2)
	Think tank and consulting services	IT services			
Net sales					
Outside customers	28,215	40,886	69,102	–	69,102
Inter-segment sales and transfers	55	1,011	1,066	(1,066)	–
Total	28,271	41,898	70,169	(1,066)	69,102
Segment profit	3,634	1,101	4,735	28	4,764

Notes: 1. The adjustment in segment profit of 28 million yen includes an adjustment of inventories of negative 6 million yen and an adjustment of non-current assets of 35 million yen.

2. Segment profit is adjusted in accordance with ordinary profit in the consolidated statements of income.

2. Information regarding impairment loss of non-current assets or regarding goodwill by reportable segment

There are no significant items in the first nine months under review.

II. Nine months ended June 30, 2020

1. Information regarding amounts of net sales and profit/loss by reportable segment

(Million yen)

	Reportable segments		Total	Adjustment (Note 1)	Amount recorded in the consolidated quarterly statements of income (Note 2)
	Think tank and consulting services	IT services			
Net sales					
Outside customers	28,828	41,762	70,590	–	70,590
Inter-segment sales and transfers	38	873	911	(911)	–
Total	28,867	42,635	71,502	(911)	70,590
Segment profit	5,912	2,125	8,037	6	8,043

Notes: 1. The adjustment in segment profit of 6 million yen includes an adjustment of inventories of negative 4 million yen and an adjustment of non-current assets of 10 million yen.

2. Segment profit is adjusted in accordance with ordinary profit in the consolidated statements of income.

2. Information regarding impairment loss of non-current assets or regarding goodwill by reportable segment

(Significant gain on bargain purchase)

In the think tank and consulting services segment, an amount equivalent to negative goodwill of 1,333 million yen, which occurred in relation to an additional acquisition of shares in INES Corporation and the application of the equity method, is posted as the share of profit of entities accounted for using the equity method.

3. Supplementary information

Status of orders received and sales

(1) Status of orders received

The table below shows orders by segment.

(Million yen)

Segment name	Nine months ended June 30, 2020			
	Orders received	Year-on-year change (%)	Order backlog	Year-on-year change (%)
Think tank and consulting services	29,005	11.2	26,483	15.8
IT services	43,091	(0.3)	41,703	7.4
System development	26,283	(0.6)	21,173	9.3
Outsourcing services	16,808	0.2	20,529	5.6
Total	72,097	4.0	68,187	10.5

- Notes: 1. Inter-segment transactions are offset against each other.
 2. The numbers exclude consumption tax.
 3. For services that are provided continually and paid for based on performance, expected sales for a year after the end of the third quarter under review are stated in the order backlog column.

(2) Sales performance

The table below shows sales by segment.

(Million yen)

Segment name	Nine months ended June 30, 2020	Year-on-year change (%)
Think tank and consulting services	28,828	2.2
IT services	41,762	2.1
System development	25,333	4.9
Outsourcing services	16,428	(1.9)
Total	70,590	2.2

- Notes: 1. Inter-segment transactions are offset against each other.
 2. The numbers exclude consumption tax.