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1. Qualitative information regarding the consolidated business

(1) The progress of the consolidated business results including related qualitative information

During the nine-months period ended December 31, 2016, signs of major changes to our industry became evident, such as the successive releases of VR (virtual reality) devices that are highly compatible with games. With an eye to creating a new market we entered a new era many are calling “VR year one.”

Under such circumstances, the Company has carried out reorganization and strengthened its management structure aiming to reform its development divisions, which are the core of the Company’s business operations. At the same time, the Company promoted group-wide optimization, including its subsidiaries, by clarifying reporting lines and responsibilities to ensure speedy decision-making and agile business development.

Moreover, through a mixed media strategy leveraging its rich content assets, the Company strove to enhance its presence and increase its brand value by generating synergy with its popular games, such as with the airing of the animated TV program *Monster Hunter Stories* (Fuji Television Network) from October 2016; the musical theater performance of *Resident Evil: Voice of Gaia* in Tokyo and Osaka, which is the first musical theater performance based on a survival horror game in the world; and the Japanese release of the latest title in the Resident Evil Hollywood film series, *Resident Evil: The Final Chapter*, on December 23, 2016.

The resulting consolidated net sales for the nine-months period ended December 31, 2016 were 53,507 million yen (down 6.2% from the same term in the previous year) partly due to a dip following *Monster Hunter X (Cross)* (for the Nintendo 3DS family of systems), which was a smash-hit in Japan during the same term in the previous year. Regarding profitability, operating income was 5,119 million yen (down 51.7% from the same term in the previous year), ordinary income was 4,147 million yen (down 61.0% from the same term in the previous year), and net income attributable to owners of the parent was 2,762 million yen (down 60.6% from the same term in the previous year).

Status of business by operating segment

① Digital Contents business

In the Digital Contents business, sales of *Dead Rising 4* (for Xbox One and PC), which was released in December 2016, were firm, while the sales of *Monster Hunter Stories* (for the Nintendo 3DS family of systems), which targeted younger audiences, were soft. On the other hand, re-releases of popular titles *Resident Evil 5* (for PlayStation 4 and Xbox One) and *Resident Evil 4* (for PlayStation 4 and Xbox One) performed steadily thanks to a stable fanbase for the brand. Additionally, *Monster Hunter Generations*, known as *Monster Hunter X (Cross)* in Japan and Asia (for the Nintendo 3DS family of systems), achieved solid sales overseas thanks to Capcom’s established brand capabilities.

Moreover, in online games and mobile phone contents, the Company broke new ground amidst ongoing efforts to achieve progress in this static sub-segment by reviewing its development framework and operation methods. This led *Toraware no Paruma*, an enterprising romance game for smartphones (for Android devices and iOS) developed primarily by female staff, to reach the top of the App Store paid application rankings on its release date.

The resulting net sales were 28,428 million yen (down 21.2% from the same term in the previous year), and operating income was 1,461 million yen (down 84.9% from the same term in the previous year). In the fourth quarter of the fiscal

year ending March 31, 2017, the Company plans on an aggressive sales campaign with the release of two major titles for the quarter *RESIDENT EVIL 7 biohazard* (for PlayStation 4, Xbox One and PC) and *Monster Hunter XX (Double Cross)* (for the Nintendo 3DS family of systems) in Japan.

② Arcade Operations business

In the Arcade Operations business, under the environment in which the regulations on the entry into arcades at night were relaxed by the amendments to the Act on Control and Improvement of Amusement Business, etc. effective June 2016, efforts were made to capture a broad customer base by securing repeat customers and attracting persons of middle or advanced age and children accompanied by a parent. This was done through community-based arcade marketing to win the support of local residents by holding various events and operating arcades that offer comfortable experiences to customers under the banner of “No. 1 arcade in the community.” To develop new business opportunities, the Company also pushed forward innovative new business formulas, such as opening a CharaCap shop, which mainly sells character merchandise, inside an arcade.

During the period under review, a new arcade was opened in Yamaguchi Prefecture bringing the total number of arcades to 35.

The resulting net sales were 7,069 million yen (up 7.5% from the same term in the previous year) and operating income was 611 million yen (up 33.1% from the same term in the previous year).

③ Amusement Equipments business

In the Pachinko & Pachislo sub-segment, *Monster Hunter Kyoryu Sensen*, the featured model this term, was a mega hit, due to synergy with home video games, and drove sales expansion. In the Arcade Games Sales sub-segment, the Company launched *Mario Party Fushigi no Challenge World* and focused on repeat sales of existing products.

The resulting net sales were 16,591 million yen (up 26.7% from the same term in the previous year) and operating income was 5,422 million yen (up 87.3% from the same term in the previous year).

④ Other Businesses

The net sales from Other Businesses, mainly consisting of royalty income from licensing and sale of character merchandise, were 1,418 million yen (up 8.3% from the same term in the previous year) and operating income was 562 million yen (up 58.8% from the same term in the previous year).

(2) Explanation of the consolidated financial position

Total assets as of the end of the third quarter increased by 2,219 million yen from the end of the previous fiscal year to 115,276 million yen. The primary increases were 6,461 million yen in notes and accounts receivable, trade and 5,171 million yen work-in-progress for game software. The primary decrease was 7,515 million yen in cash on hand and in banks.

Total liabilities as of the end of the third quarter increased by 4,906 million yen from the end of the previous fiscal year to 42,795 million yen. The primary increases were 8,482 million yen in short-term borrowings and 3,274 million yen in electronically recorded monetary liabilities. The primary decreases were 5,306 million yen in accrued income taxes and 1,179 million yen in accrued bonuses.

Net assets as of the end of the third quarter decreased by 2,687 million yen from the end of the previous fiscal year to 72,481 million yen. The primary increase was 2,762 million yen in net income attributable to owners of the parent. The primary decreases were an increase of 3,302 million yen in treasury stock and 2,774 million yen in cash dividends.

(3) Qualitative information regarding the consolidated business forecasts

The forecast for the consolidated business results for the current fiscal year ending March 31, 2017 remains the same as what was projected at the financial results announcement on May 9, 2016.

2. Other information

(1) Transfer of major subsidiaries

There were no applicable subsidiary transfers.

(2) Use of special accounting methods for the quarterly consolidated financial statements

(Calculation of tax expense)

Tax expense for consolidated subsidiaries is calculated by determining a reasonable estimate of the effective tax rate after the application of tax-effect accounting for income before income taxes in the second year, including the third quarter, and multiplying income before income taxes by this estimated effective tax rate.

(3) Change(s) in accounting policy (policies), accounting estimates and retrospective restatements for consolidated financial statements

(Change in accounting policy)

(Application of Practical Solution on a change in depreciation method due to Tax Reform 2016)

In conjunction with the revision of the Corporation Tax Act, the Company has applied the “Practical Solution on a change in depreciation method due to Tax Reform 2016” (ASBJ Practical Issues Task Force (PITF) Solution No. 32, June 17, 2016), effective from the first quarter under review, and has changed the method for the depreciation of facilities attached to buildings and structures acquired on or after April 1, 2016 from the declining balance method to the straight-line method.

This change in accounting policy has minimal impact on the Company’s profit/loss for the third quarter under review.

(4) Additional information

(Application of Revised Implementation Guidance on Recoverability of Deferred Tax Assets)

The Company has applied the “Revised Implementation Guidance on Recoverability of Deferred Tax Assets” (ASBJ Guidance No. 26, March 28, 2016), effective from the first quarter under review.