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## 1. Operating results overview

### (1) Operating results for the period under review

During the nine months ended December 31, 2018, our industry witnessed steady yet uneven growth in the market for home video games, while mobile games showed signs of slowing down. In the major growth market of China, underlying anxiety over the future prevailed due to the tightening of regulations on games, as evidenced by the suspension of review of all new games for which applications for approval were filed in or after March 2018.

Meanwhile, esports, which was featured as a demonstration event at the 2018 Asian Games last year, continued to increase in popularity around Japan with the start of league matches and the launch of pro teams domestically in an effort to expand the fan base.

In such an environment, *Monster Hunter: World* (for PlayStation 4, Xbox One and PC), which shook up the market last year, continued to report strong sales, with total shipments breaking 10 million units and marking a record high for any single title in the Company's history. Furthermore, at the Japan Game Awards 2018, in addition to *Monster Hunter: World* receiving the Grand Award, *Mega Man 11* (for PlayStation 4, Nintendo Switch, Xbox One and PC), *Resident Evil 2* (for PlayStation 4, Xbox One and PC) and *Devil May Cry 5* (for Xbox One, PlayStation 4 and PC) were selected for awards in the Future Division. In addition, the Company announced last October that live-action film adaptations of *Monster Hunter* and *Mega Man* are scheduled to be produced in Hollywood, with the aim of creating synergy with the popular games through a greater overseas presence and an increase in branding value.

As a result, for the nine months ended December 31, 2018, consolidated net sales were 61,270 million yen (up 28.3% from the same term in the previous fiscal year). In terms of profitability, thanks to the growth in the Digital Contents business, operating income was 13,461 million yen (up 92.0% from the same term in the previous fiscal year), ordinary income was 13,539 million yen (up 90.7% from the same term in the previous fiscal year), and net income attributable to the owners of the parent was 9,180 million yen (up 106.8% from the same term in the previous fiscal year).

### Status of business by operating segment

#### ① Digital Contents business

In this business, the *Monster Hunter* series served as the driving force in improving the Company's business performance. Feature title *Monster Hunter: World* (for PlayStation 4 and Xbox One) was a phenomenal success in the previous fiscal year, and continued to maintain popularity through the expansion of its user base, while the strong performance of the Steam version for PC boosted profits. Further, *Monster Hunter Generations Ultimate* (for Nintendo Switch), which was released in markets outside of Japan, enjoyed robust sales owing to its consistent popularity.

In addition, *Mega Man 11* (for PlayStation 4, Nintendo Switch, Xbox One and PC) and *Red Dead Redemption 2* (for PlayStation 4 and Xbox One), a distribution title, reported strong sales, while sales of *Onimusha*, (for PlayStation 4, Nintendo Switch and Xbox One), which was released at the end of 2018, were also off to a good start.

Furthermore, *Street Fighter 30th Anniversary Collection* (for PlayStation 4, Nintendo Switch, Xbox One and PC) performed strongly, while *Mega Man X Legacy Collection*, *Mega Man X Legacy Collection 2* and *Mega Man X Legacy Collection 1+2* (for PlayStation 4, Nintendo Switch, Xbox One and PC for all three titles) performed well thanks to a dedicated fan base and strong brand power. In addition, high-margin catalog titles steadily increased sales and

contributed to improving profitability.

The resulting net sales were 47,855 million yen (up 55.2% from the same term in the previous fiscal year) and operating income was 15,288 million yen (up 144.3% from the same term in the previous fiscal year).

#### ② Arcade Operations business

In this business, the Company promoted arcades as a familiar entertainment option to secure a wide range of customers, including repeat customers, the middle-aged and seniors, women and families with children, as well as inbound tourists. These promotions included installing game machines that meet diverse customer demands, conducting service day campaigns, and holding various events. In addition, as a new undertaking, in November 2018, the Company launched *Capcom Net Catcher Cap Tore*, an online crane game which can be played by remote control from smartphones and PCs.

During the period under review, the Company opened two stores and closed one, bringing the total number of stores to 37.

The resulting net sales were 8,082 million yen (up 5.9% from the same term in the previous fiscal year) and operating income was 868 million yen (up 6.5% from the same term in the previous fiscal year).

#### ③ Amusement Equipments business

In the Pachinko & Pachislo sub-segment, the Company launched *Biohazard into the Panic*, *Street Fighter V* and other products in a shrinking market environment, and sales struggled due to the downturn in consumer confidence and dampening investments by the Pachinko/Pachislo hall operators.

The Arcade Games Sales sub-segment also struggled and business was generally weak, due to a lack of new products.

The resulting net sales were 3,231 million yen (down 58.1% from the same term in the previous fiscal year) and an operating loss of 639 million yen (compared to an operating income of 2,128 million yen in the same term of the previous fiscal year).

#### ④ Other Businesses

The net sales from Other Businesses, mainly consisting of royalty income from the licensing and sale of character merchandise, were 2,102 million yen (up 35.4% from the same term in the previous fiscal year) and operating income was 981 million yen (up 29.4% from the same term in the previous fiscal year).

#### (2) Overview of the consolidated financial position for the period under review

Total assets as of the end of the third quarter decreased by 12,015 million yen from the end of the previous fiscal year to 112,813 million yen. The primary decreases were 5,159 million yen in cash on hand and in banks and 7,731 million yen in notes and accounts receivable - trade.

Total liabilities as of the end of the third quarter decreased by 12,010 million yen from the end of the previous fiscal year to 27,397 million yen. The primary decreases were as follows: 3,668 million yen in accrued income taxes and 1,672 million yen in accrued bonuses.

Net assets as of the end of the third quarter decreased by 5 million yen from the end of the previous fiscal year to 85,415 million yen. The primary increase was 9,180 million yen in net income attributable to owners of the parent. The primary decreases were 3,558 million yen in dividends from retained earnings and 6,001 million yen in payments for repurchase of treasury stock.

The Partial Amendments to Accounting Standard for Tax Effect Accounting (Accounting Standards Board of Japan Statement No. 28, February 16, 2018) have been applied from the beginning of the first quarter of the consolidated fiscal year under review, and comparisons to the previous consolidated fiscal year have been carried out with figures that have had the relevant accounting standards retroactively applied.

(3) Qualitative information regarding the consolidated business forecasts

The forecast for the consolidated business results for the current fiscal year ending March 31, 2019 remains the same as what was projected at the financial results announcement on May 8, 2018.