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1. Operating results overview

(1) Operating results for the period under review

During the nine months ended December 31, 2017, our industry saw major growth in the market for home video games, both in terms of software as well as hardware, due to greater penetration of the PlayStation 4 home video game console and the strong performance of the new Nintendo Switch game console.

In addition, “esports” (Electronic Sports), which are becoming increasingly popular in the U.S. as well as other markets, are raising hopes for further market growth, driven by games coming to be recognized as a new sport following esports adoption as an official event in the 2022 Asian Games.

Furthermore, the Company’s efforts to create new business domains in Japan have been gaining traction, as evidenced by the overwhelming audience response at the esports event held during the Tokyo Game Show 2017 for the Company’s popular title, *Street Fighter V*, the latest in the series many consider to be the origin of esports.

Given this situation, the Company strove to bolster its management structure, enhance its development team and improve its development environment, enabling it to focus on the development of software for home video games, which are the source of its competitiveness. It also concentrated its efforts in expanding its digital offerings, which promise recurring revenues, in addition to one-time package sales. Moreover, in an effort to shore up its stagnant mobile contents performance, the Company made organizational reforms, developed appealing titles and provided software collaborations, aiming to increase customer satisfaction. In order to diversify its revenue, the Company advanced its “Single Content Multiple Usage” strategy, utilizing popular titles across movies, animation, stationery, toys and food and beverage products. However, in the Pachinko & Pachislo sub-segment, the repercussions of recent changes in model-testing methods have forced the Company into a challenging situation.

As a result, for the nine months ended December 31, 2017, consolidated net sales were 47,740 million yen (down 10.8% from the same term in the previous year). In terms of profitability, thanks to the contribution made by licensing revenue from utilizing our intellectual property (IP), operating income was 7,009 million yen (up 36.9% from the same term in the previous year), ordinary income was 7,099 million yen (up 71.2% from the same term in the previous year), and net income attributable to owners of the parent was 4,439 million yen (up 60.7% from the same term in the previous year).

Status of business by operating segment

① Digital Contents business

In this business, *Resident Evil 7 biohazard* (for PlayStation 4, Xbox One and PC) and *Monster Hunter XX (Double Cross)* (for Nintendo Switch) performed strongly, in addition to *Ultra Street Fighter II* (for Nintendo Switch) becoming a smash hit. Meanwhile, sales of *Marvel vs. Capcom: Infinite* (for PlayStation 4, Xbox One and PC), which was launched in September 2017 targeting the European and US markets, tended to be soft.

In online games, *Monster Hunter Frontier Z*, a perennial favorite which underwent a major update commemorating its 10th anniversary, gave a solid performance. In mobile contents, amid business reforms including alliance strategies carried out by the Company to bring about a breakthrough in the business, *Monster Hunter Explore* remained steadily popular, as licensing revenue utilizing our IP also contributed to the increase in profits.

The resulting net sales were 30,844 million yen (up 8.5% from the same term in the previous year) and operating income was 6,257 million yen (up 328.2% from the same term in the previous year).

In the fourth quarter of the fiscal year ending March 31, 2018, the Company plans on an aggressive sales campaign with the release of its flagship title, *Monster Hunter: World* (for PlayStation 4 and Xbox One).

② Arcade Operations business

In this business, the market was revitalized owing to the growing number of new users, including women and inbound tourists. Under these circumstances, the Company made efforts to secure repeat customers and acquire new customers, such as families with children, through various methods. These included installing machines that meet diverse customer needs, holding events and conducting service-day campaigns, as well as reducing arcade-operating costs.

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

The resulting net sales were 7,632 million yen (up 8.0% from the same term in the previous year) and operating income was 815 million yen (up 33.4% from the same term in the previous year).

③ Amusement Equipments business

In the struggling Pachinko & Pachislo sub-segment, the Company was able to secure a certain amount of profit for *Resident Evil: Revelations* by lowering its cost of sales ratio. Meanwhile, despite the Company's efforts to expand its contracted product development, the effects of the recent changes in model-testing methods could not be avoided and sales were weak. In the Arcade Games Sales sub-segment, sales of *Monster Hunter Medal Hunting G*, a consistently popular medal game remained strong. Nevertheless, sales for this business overall were soft.

The resulting net sales were 7,711 million yen (down 53.5% from the same term in the previous year) and operating income was 2,128 million yen (down 60.7% from the same term in the previous year).

④ Other Businesses

The net sales from Other Businesses, mainly consisting of royalty income from the licensing and sale of character merchandise, were 1,552 million yen (up 9.5% from the same term in the previous year) and operating income was 758 million yen (up 34.8% from the same term in the previous 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 7,034 million yen from the end of the previous fiscal year to 111,863 million yen. The primary increase was 10,454 million yen in work in progress for game software. The primary decrease was 14,037 million yen in notes and accounts receivable, trade.

Total liabilities as of the end of the third quarter decreased by 9,790 million yen from the end of the previous fiscal year to 31,332 million yen. The primary decreases were as follows: 4,176 million yen in electronically recorded monetary liabilities, 1,850 million yen in short-term borrowings and 1,296 million yen in accrued bonuses.

Net assets as of the end of the third quarter increased by 2,756 million yen from the end of the previous fiscal year to 80,531 million yen. The primary increase was 4,439 million yen in net income attributable to owners of the parent. The primary decrease was 2,737 million yen in cash dividends.

(3) Qualitative information regarding the consolidated business forecasts

The forecast for the consolidated business results current fiscal year ending March 31, 2018 remains the same as what was projected at the financial results announcement on April 27, 2017.