

Consolidated balance sheets

	Previous fiscal year	Current fiscal year	Current fiscal year
	March 31, 2017	March 31, 2018	March 31, 2018
	Millions of yen	Millions of yen	Thousands of U.S. dollars
Assets			
Current assets:			
Cash on hand and in banks (Notes 9(1) and 11)	24,537	46,539	439,049
Notes and accounts receivable - trade (Note 11)	20,175	12,930	121,985
Merchandise and finished goods	1,583	1,102	10,399
Work in progress	2,040	1,349	12,733
Raw materials and supplies	2,040	1,616	15,250
Work in progress for game software	30,150	25,635	241,843
Deferred tax assets (Note 14)	2,495	3,201	30,201
Other	2,478	3,371	31,807
Allowance for doubtful accounts	(21)	(34)	(324)
Total current assets	85,480	95,712	902,948
Fixed assets:			
Tangible fixed assets, net of accumulated depreciation (Note 5(1))			
Buildings and structures, net	11,004	11,106	104,778
Machinery and vehicles, net	16	10	96
Tools, fixtures and furniture, net	1,932	1,840	17,365
Equipment for amusement facilities, net	1,616	1,565	14,765
Land	5,234	5,234	49,384
Leased assets, net (Note 10(1))	835	668	6,308
Construction in progress	128	371	3,505
Total tangible fixed assets	20,768	20,797	196,203
Intangible assets	2,843	725	6,842
Investments and other assets			
Investments in securities (Note 12)	574	625	5,899
Claims in bankruptcy and reorganization	67	19	185
Lease deposits (Note 11)	3,920	4,034	38,065
Deferred tax assets (Note 14)	4,311	2,782	26,246
Other	1,003	900	8,493
Allowance for doubtful accounts	(72)	(24)	(229)
Total investments and other assets	9,804	8,338	78,661
Total fixed assets	33,417	29,861	281,707
Total assets	118,897	125,573	1,184,655

The accompanying notes are an integral part of these financial statements.

Consolidated balance sheets

	Previous fiscal year	Current fiscal year	Current fiscal year
	March 31, 2017	March 31, 2018	March 31, 2018
	Millions of yen	Millions of yen	Thousands of U.S. dollars
Liabilities			
Current liabilities:			
Notes and accounts payable - trade (Note 11)	2,288	2,625	24,773
Electronically recorded monetary obligations (Note 11)	4,886	839	7,924
Short-term borrowings (Notes 11 and 21)	9,323	1,473	13,898
Lease obligations (Note 21)	502	392	3,707
Accrued income taxes	1,580	4,453	42,017
Deferred tax liabilities (Note 14)	2,308	766	7,227
Accrued bonuses	2,263	2,866	27,046
Other	6,840	13,618	128,473
Total current liabilities	29,994	27,037	255,068
Long-term liabilities:			
Long-term borrowings (Notes 11 and 21)	6,788	8,315	78,443
Lease obligations (Note 21)	399	329	3,104
Deferred tax liabilities (Note 14)	29	23	220
Liabilities for retirement benefits for employees (Note 13)	2,596	2,819	26,596
Asset retirement obligations (Notes 15 and 22)	509	501	4,727
Other	805	1,127	10,636
Total long-term liabilities	11,128	13,115	123,728
Total liabilities	41,122	40,152	378,796
Net assets			
Shareholders' equity:			
Common stock	33,239	33,239	313,578
Capital surplus	21,328	21,328	201,216
Retained earnings	45,402	53,602	505,684
Treasury stock	(21,448)	(21,454)	(202,399)
Total shareholders' equity	78,521	86,716	818,079
Accumulated other comprehensive income:			
Net unrealized gain or loss on securities, net of tax	107	139	1,317
Cumulative translation adjustments	(541)	(1,142)	(10,779)
Accumulated adjustments for retirement benefits	(313)	(292)	(2,758)
Total accumulated other comprehensive income	(747)	(1,295)	(12,220)
Total net assets	77,774	85,421	805,858
Total liabilities and net assets	118,897	125,573	1,184,655

The accompanying notes are an integral part of these financial statements.

Consolidated statements of income

	Previous fiscal year April 1, 2016 to March 31, 2017 Millions of yen	Current fiscal year April 1, 2017 to March 31, 2018 Millions of yen	Current fiscal year April 1, 2017 to March 31, 2018 Thousands of U.S. dollars
Net sales	87,170	94,515	891,651
Cost of sales	56,438	59,895	565,048
Gross profit	30,731	34,619	326,602
Selling, general and administrative expenses (Notes 6(1) and (3))	17,080	18,582	175,303
Operating income	13,650	16,037	151,299
Non-operating income:			
Interest income	47	58	553
Dividend income	13	14	135
Other	130	145	1,377
Total	192	219	2,066
Non-operating expenses:			
Interest expense	141	103	975
Commission fees	44	64	610
Additionally paid retirement benefits	117	112	1,062
Office transfer expenses	63	254	2,402
Exchange losses, net	746	407	3,848
Other	141	59	558
Total	1,253	1,002	9,458
Ordinary income	12,589	15,254	143,907
Special losses:			
Loss on sales and/or disposal of fixed assets (Note 6(2))	99	104	986
Total	99	104	986
Net income before income taxes	12,489	15,149	142,920
Income taxes - current (Note 14)	1,832	4,617	43,561
Income taxes - deferred (Note 14)	1,777	(405)	(3,825)
Total	3,610	4,212	39,735
Net income	8,879	10,937	103,184
Net income attributable to owners of the parent	8,879	10,937	103,184

The accompanying notes are an integral part of these financial statements.

Consolidated statements of comprehensive income

	Previous fiscal year	Current fiscal year	Current fiscal year
	April 1, 2016 to March 31, 2017	April 1, 2017 to March 31, 2018	April 1, 2017 to March 31, 2018
	Millions of yen	Millions of yen	Thousands of U.S. dollars
Net income	8,879	10,937	103,184
Other comprehensive income (Note 7(1))			
Net unrealized gain or loss on securities, net of tax	105	31	298
Cumulative translation adjustments	(262)	(601)	(5,672)
Adjustments for retirement benefits	(38)	21	201
Total other comprehensive income	(196)	(548)	(5,172)
Comprehensive income	8,683	10,389	98,011
Comprehensive income attributable to:			
Owners of the parent	8,683	10,389	98,011
Non-controlling interests	—	—	—

The accompanying notes are an integral part of these financial statements.

Consolidated statements of changes in net assets

(Millions of yen)

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance as of April 1, 2016	33,239	21,328	39,297	(18,145)	75,719
Changes of items during the fiscal year					
Cash dividends (Note 8(1))			(2,774)		(2,774)
Net income attributable to owners of the parent			8,879		8,879
Repurchase of treasury stock				(3,302)	(3,302)
Disposal of treasury stock					-
Net changes of items other than shareholders' equity					
Total changes of items during the fiscal year	-	-	6,104	(3,302)	2,802
Balance as of March 31, 2017	33,239	21,328	45,402	(21,448)	78,521

	Accumulated other comprehensive income				Total net assets
	Net unrealized gain on securities, net of tax	Cumulative translation adjustments	Accumulated adjustments for retirement benefits	Total accumulated other comprehensive income	
Balance as of April 1, 2016	2	(278)	(274)	(550)	75,168
Changes of items during the fiscal year					
Cash dividends (Note 8(1))					(2,774)
Net income attributable to owners of the parent					8,879
Repurchase of treasury stock					(3,302)
Disposal of treasury stock					-
Net changes of items other than shareholders' equity	105	(262)	(38)	(196)	(196)
Total changes of items during the fiscal year	105	(262)	(38)	(196)	2,605
Balance as of March 31, 2017	107	(541)	(313)	(747)	77,774

The accompanying notes are an integral part of these financial statements.

Consolidated statements of changes in net assets

(Millions of yen)

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance as of April 1, 2017	33,239	21,328	45,402	(21,448)	78,521
Changes of items during the fiscal year					
Cash dividends (Note 8(2))			(2,737)		(2,737)
Net income attributable to owners of the parent			10,937		10,937
Repurchase of treasury stock				(5)	(5)
Disposal of treasury stock		0		0	0
Net changes of items other than shareholders' equity					
Total changes of items during the fiscal year	–	0	8,200	(5)	8,194
Balance as of March 31, 2018	33,239	21,328	53,602	(21,454)	86,716

	Accumulated other comprehensive income				Total net assets
	Net unrealized gain on securities, net of tax	Cumulative translation adjustments	Accumulated adjustments for retirement benefits	Total accumulated other comprehensive income	
Balance as of April 1, 2017	107	(541)	(313)	(747)	77,774
Changes of items during the fiscal year					
Cash dividends (Note 8(2))					(2,737)
Net income attributable to owners of the parent					10,937
Repurchase of treasury stock					(5)
Disposal of treasury stock					0
Net changes of items other than shareholders' equity	31	(601)	21	(548)	(548)
Total changes of items during the fiscal year	31	(601)	21	(548)	7,646
Balance as of March 31, 2018	139	(1,142)	(292)	(1,295)	85,421

(Thousands of U.S. dollars)

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance as of April 1, 2017	313,578	201,216	428,324	(202,345)	740,772
Changes of items during the fiscal year					
Cash dividends (Note 8(2))	–	–	(25,823)	–	(25,823)
Net income attributable to owners of the parent	–	–	103,184	–	103,184
Repurchase of treasury stock	–	–	–	(54)	(54)
Disposal of treasury stock	–	0	–	0	1
Net changes of items other than shareholders' equity					
Total changes of items during the fiscal year	–	0	77,360	(53)	77,307
Balance as of March 31, 2018	313,578	201,216	505,684	(202,399)	818,079

	Accumulated other comprehensive income				Total net assets
	Net unrealized gain or loss on securities, net of tax	Cumulative translation adjustments	Accumulated adjustments for retirement benefits	Total accumulated other comprehensive income	
Balance as of April 1, 2017	1,018	(5,107)	(2,959)	(7,048)	733,724
Changes of items during the fiscal year					
Cash dividends (Note 8(2))					(25,823)
Net income attributable to owners of the parent					103,184
Repurchase of treasury stock					(54)
Disposal of treasury stock					1
Net changes of items other than shareholders' equity	298	(5,672)	201	(5,172)	(5,172)
Total changes of items during the fiscal year	298	(5,672)	201	(5,172)	72,134
Balance as of March 31, 2018	1,317	(10,779)	(2,758)	(12,220)	805,858

The accompanying notes are an integral part of these financial statements.

Consolidated statements of cash flows

	Previous fiscal year	Current fiscal year	Current fiscal year
	April 1, 2016 to March 31, 2017	April 1, 2017 to March 31, 2018	April 1, 2017 to March 31, 2018
	Millions of yen	Millions of yen	Thousands of U.S. dollars
Cash flows from operating activities:			
Net income before income taxes	12,489	15,149	142,920
Depreciation and amortization	5,980	4,706	44,402
Decrease in allowance for doubtful accounts	(1)	(36)	(341)
Increase in accrued bonuses	186	604	5,702
Increase in liabilities for retirement benefits for employees	204	253	2,392
Interest and dividend income	(61)	(71)	(678)
Interest expense	141	103	975
Exchange losses, net	18	134	1,269
Loss on sales and/or disposal of fixed assets	99	104	986
Decrease (increase) in accounts receivable - trade	(10,393)	7,059	66,596
Decrease in inventories	158	1,588	14,983
Decrease (increase) in work in progress for game software	(2,266)	4,069	38,394
(Decrease) increase in notes and accounts payable - trade	2,280	(3,690)	(34,818)
Other	956	6,320	59,629
Subtotal	9,792	36,296	342,416
Interest and dividends received	62	73	692
Interest paid	(140)	(101)	(956)
Income taxes paid	(6,513)	(1,546)	(14,587)
Net cash provided by operating activities	3,200	34,721	327,564
Cash flows from investing activities:			
Payments into time deposits	(200)	-	-
Payment for acquisition of tangible fixed assets	(3,074)	(2,767)	(26,111)
Proceeds from sales of tangible fixed assets	5	0	9
Payment for acquisition of intangible assets	(253)	(150)	(1,416)
Payment for purchase of investments in securities	(13)	(13)	(130)
Payment for other investing activities	(222)	(259)	(2,450)
Proceeds from other investing activities	131	343	3,239
Net cash used in investing activities	(3,628)	(2,847)	(26,859)
Cash flows from financing activities:			
Net (decrease) increase in short-term borrowings	5,000	(5,000)	(47,169)
Repayments of long-term borrowings	(1,497)	(1,323)	(12,482)
Repayments of lease obligations	(535)	(509)	(4,807)
Payment for repurchase of treasury stock	(3,302)	(5)	(53)
Dividends paid by parent company	(2,794)	(2,738)	(25,837)
Net cash used in financing activities	(3,130)	(9,577)	(90,351)
Effect of exchange rate changes on cash and cash equivalents	(533)	(96)	(907)
Net (decrease) increase in cash and cash equivalents	(4,091)	22,201	209,445
Cash and cash equivalents at beginning of year	28,429	24,337	229,603
Cash and cash equivalents at end of year (Note 9(1))	24,337	46,539	439,049

The accompanying notes are an integral part of these financial statements.

1. Major policies in preparing the consolidated financial statements:

The accompanying consolidated financial statements of CAPCOM CO., LTD. (the "Company") and its subsidiaries have been prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements from International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Financial Instruments and Exchange Act.

Each amount in the consolidated financial statements and notes is rounded down to the nearest 1 million yen (in the case of translation into U.S. dollars, it is rounded down to the nearest 1 thousand U.S. dollars).

The rate of ¥106 to U.S.\$1.00, the approximate current rate of exchange prevailing on March 31, 2018, has been used for the purpose of presentation of the U.S. dollar amounts in the accompanying consolidated financial statements. These U.S. dollar amounts are included solely for convenience and should not be construed as representations that the Japanese yen amounts actually represent, have been or could be converted into U.S. dollars at this or any other rate.

2. Summary of significant accounting policies:

(1) Principles of consolidation

The consolidated financial statements consist of the accounts of the Company and its 14 majority owned subsidiaries (the "Companies") at the relevant balance sheet date. All significant intercompany transactions and accounts have been eliminated.

The investments in 20% to 50% owned companies (affiliated companies) are, with minor exceptions, accounted for under the equity method.

The 14 subsidiaries are as follows:

CAPCOM U.S.A., INC. (U.S.A.)

CAPCOM GAME STUDIO VANCOUVER, INC. (Canada)

BEELINE INTERACTIVE, INC. (U.S.A.)

BEELINE INTERACTIVE CANADA, INC. (Canada)

BEELINE INTERACTIVE EUROPE LTD. (U.K.)

CE EUROPE LTD. (U.K.)

CAPCOM ENTERTAINMENT GERMANY GmbH (Germany)

CAPCOM ENTERTAINMENT FRANCE SAS (France)

CAPCOM ASIA CO., LTD. (Hong Kong)

CAPCOM TAIWAN CO., LTD. (Taiwan)

CAPCOM ENTERTAINMENT KOREA CO., LTD. (South Korea)

CAPTRON CO., LTD. (Japan)

K2 CO., LTD. (Japan)

ENTERRISE CO., LTD. (Japan)

An affiliated company accounted for under the equity method is as follows:

STREET FIGHTER FILM, LLC (U.S.A.)

(2) Investments in securities

Available-for-sale securities whose fair values are readily determinable are stated at fair value at the fiscal year end. Net unrealized gains or losses on these securities are recorded as a separate component of "Net assets," at the net of tax amount. The cost of securities sold is determined based on the average cost of all such securities held at the time of sale. Other securities whose fair values are not readily determinable are stated at cost, cost being determined by the average cost method.

(3) Inventories ("Merchandise and finished goods," "Work in progress," "Raw materials and supplies") and "Work in progress for game software"

Inventories are stated at the acquisition cost, determined principally by the moving average cost method. Inventories are stated at cost with the book value reduction method based on a decline in profitability for balance sheet carrying amounts.

Work in progress for game software, including development costs incurred by subcontractors for game machines, is stated at accumulated cost on a specific project basis. Work in progress for game software is stated at cost with the book value reduction method based on a decline in profitability for balance sheet carrying amounts.

(4) Tangible fixed assets, except for leased assets

Tangible fixed assets are stated at cost. The Company and its domestic subsidiaries compute depreciation of tangible fixed assets using the declining balance method at rates based on the estimated useful life of the respective asset, except for buildings (excluding leasehold improvements and auxiliary facilities attached to buildings), for which depreciation is computed using the straight-line method. Foreign subsidiaries, except for some subsidiaries, compute depreciation on a straight-line basis.

The primary useful lives are as follows:

Buildings and structures	3-50 years
Equipment for amusement facilities	3-20 years

(5) Intangible assets, except for leased assets

Amortization of intangible assets is computed by the straight-line method. The amortization period, except that for computer software and online game contents, is based upon the individual estimated useful life of the asset.

The amortization period for computer software and online game contents is based upon the estimated period of internal use (5 years) and the estimated period of online game services (2 to 3 years), respectively.

(6) Leased assets

Leases that do not transfer ownership of the leased assets to the lessee

Depreciation of such leased assets is computed by the straight-line method with the lease term regarded as useful life and the residual value at zero. If there is a contract on guaranteed residual value for the lease, such guaranteed residual value is used as the accounting residual one.

Leases that transfer ownership of the leased assets to the lessee

Depreciation methods for such leased assets are the same with those applied to the tangible fixed assets owned by the Companies.

(7) Allowance for doubtful accounts

The allowance for doubtful accounts is calculated based on the prior loss experience and the estimated amount of probable individual bad debts at the fiscal year end. This amount is considered sufficient to cover possible losses on collection.

(8) Accrued bonuses

Accrued bonuses are stated at the estimated amount of the bonus to be paid to employees based on their services provided during the fiscal year.

(9) Attributing retirement benefits to service periods and amortizing liabilities unrealized in profit or loss

In calculating projected benefit obligations, attributing retirement benefits to service periods is based on benefit formula method. Prior service liabilities are amortized over 8 years, the average remaining service period, commencing from the date on which they are incurred. Actuarial net gains or losses are amortized over 8 to 14 years, commencing from the following year in which they arise.

(10) Cash and cash equivalents in the consolidated statements of cash flows

Cash and cash equivalents include all highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and are so near maturity that they present an insignificant risk of change in value.

(11) Revenue recognition

Significant revenue recognition for game content

The revenue for unavailable portion of the game content sold to customers is deferred until it is made available.

(12) Other

Accounting for consumption taxes

Consumption taxes on goods and services are not included in the revenue and expense amounts in the accompanying consolidated statements of income.

3. Unapplied accounting standards, etc.

(1) Implementation Guidance on Tax Effect Accounting, etc.

"Implementation Guidance on Tax Effect Accounting" (ASBJ Guidance No. 28, February 16, 2018)

"Implementation Guidance on Recoverability of Deferred Tax Assets" (ASBJ Guidance No. 26, February 16, 2018)

(i) Overview

The treatment of temporary difference for investments in subsidiaries on non-consolidated financial statements has been reviewed and the treatment of recoverability of deferred tax assets for the companies which are classified as category 1 has been clarified.

(ii) Effective date

Effective from the beginning of the fiscal year ending March 31, 2019

(iii) Effects of application of the Guidance

The impact is now under examination.

(2) Accounting Standard for Revenue Recognition, etc.

"Accounting Standard for Revenue Recognition" (ASBJ Guidance No. 29, March 30, 2018)

"Implementation Guidance on Accounting Standard for Revenue Recognition" (ASBJ Guidance No. 30, March 30, 2018)

(i) Overview

This is a comprehensive accounting standard for revenue recognition.

Revenue recognition takes the following five steps.

Step 1: Identify the contract(s) with a customer

Step 2: Identify the separate performance obligations in the contract

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to the separate performance obligations

Step 5: Recognize revenue when the entity satisfies a performance obligation

(ii) Effective date

Effective from the beginning of the fiscal year ending March 31, 2022

(iii) Effects of application of the Guidance

The impact is now under examination.

4. Change in presentation

(Consolidated statements of income)

Effective from the fiscal year ended March 31 2018, "Additionally paid retirement benefits" and "Office transfer expenses," which were included in "Other" under Non-operating expenses, have been disclosed separately due to increase in materiality. The consolidated statement of income for the previous fiscal year has been restated to reflect this change. As a result, "Other" of ¥322 million (\$3,038 thousand) disclosed under "Non-operating expenses" in the statement of income for the previous fiscal year has been reclassified and split into "Additionally paid retirement benefits" of ¥117 million (\$1,107 thousand), "Office transfer expenses" of ¥63 million (\$595 thousand) and "Other" of ¥141 million (\$1,334 thousand).

(Consolidated statements of cash flows)

Effective from the fiscal year ended March 31 2018, "Increase in Online contents in progress", which was separately disclosed in the "Cash flows from operating activities" has been included in "Other" due to decrease in materiality. Furthermore, "Increase or decrease in other current assets" and "Increase or decrease in other current liabilities" as part of the cash flows from operating activities have been included in "Other" to improve clarity of the statement of the cash flows. To reflect this change, the consolidated statement of cash flows for the previous fiscal year has been restated. As a result, "Increase in online contents in progress" of (¥704 million (\$6,650 thousand)), "Decrease in other current assets" of ¥875 million (\$8,260 thousand), "Increase in other current liabilities" of ¥545 million (\$5,149 thousand) , and "Other" of ¥239 million (\$2,262 thousand) have been reclassified and combined into "Other" amounting to ¥956 million (\$9,022 thousand).

5. Notes to consolidated balance sheets

(1) Accumulated depreciation of tangible fixed assets

	Previous fiscal year March 31, 2017	Current fiscal year March 31, 2018	Current fiscal year March 31, 2018
	Millions of yen	Millions of yen	Thousands of U.S. dollars
Accumulated depreciation of tangible fixed assets	19,749	20,760	195,855

(Note) The above balances include the accumulated impairment loss on tangible fixed assets.

(2) Notes that matured on the balance sheet day of the fiscal year

Although the balance sheet day for the current fiscal year was not a business day, the notes that matured on this day were treated as if they were settled on the date.

	Previous fiscal year March 31, 2017	Current fiscal year March 31, 2018	Current fiscal year March 31, 2018
	Millions of yen	Millions of yen	Thousands of U.S. dollars
Notes payable	-	13	129

(3) Overdraft agreements and credit line agreements

The Company has entered into overdraft agreements and credit line agreements with some banks by syndicate financing for the purpose of efficient and sustainable financing and improving the efficiency of funds operations and the Company's financial flexibility.

The balance of unexercised loans, etc., based on these agreements at the end of the fiscal year were as follows:

	Previous fiscal year March 31, 2017	Current fiscal year March 31, 2018	Current fiscal year March 31, 2018
	Millions of yen	Millions of yen	Thousands of U.S. dollars
Total amount of overdraft limit and credit line	26,700	26,700	251,886
Borrowings	5,000	-	-
Unexercised balance	21,700	26,700	251,886

6. Notes to consolidated statements of income

(1) The amount of book value reduction based on a decline in profitability including in "Cost of Sales"

	Previous fiscal year April 1, 2016 to March 31, 2017	Current fiscal year April 1, 2017 to March 31, 2018	Current fiscal year April 1, 2017 to March 31, 2018
	Millions of yen	Millions of yen	Thousands of U.S. dollars
	1,034	10,158	95,838

(2) Major items and the amounts under "Selling, general and administrative expenses"

	Previous fiscal year April 1, 2016 to March 31, 2017	Current fiscal year April 1, 2017 to March 31, 2018	Current fiscal year April 1, 2017 to March 31, 2018
	Millions of yen	Millions of yen	Thousands of U.S. dollars
Advertising expenses	2,706	3,481	32,843
Promotion expenses	2,133	2,176	20,532
Salaries for directors and employees	4,067	4,186	39,496
Provision for accrued bonuses	1,059	1,122	10,592

(3) The breakdown of "Loss on sales and/or disposal of fixed assets"

	Previous fiscal year April 1, 2016 to March 31, 2017	Current fiscal year April 1, 2017 to March 31, 2018	Current fiscal year April 1, 2017 to March 31, 2018
	Millions of yen	Millions of yen	Thousands of U.S. dollars
Buildings and structures	47	47	448
Tools, fixtures and furniture	21	8	76
Equipment for amusement facilities	9	15	147
Software	12	33	314
Other	7	0	0
Total	99	104	986

(4) Research and development expenses included in general and administrative expenses

	Previous fiscal year April 1, 2016 to March 31, 2017	Current fiscal year April 1, 2017 to March 31, 2018	Current fiscal year April 1, 2017 to March 31, 2018
	Millions of yen	Millions of yen	Thousands of U.S. dollars
	695	1,102	10,405

7. Notes to consolidated statements of comprehensive income

(1) Amount of recycling and income tax effect associated with other comprehensive income

	Previous fiscal year April 1, 2016 to March 31, 2017	Current fiscal year April 1, 2017 to March 31, 2018	Current fiscal year April 1, 2017 to March 31, 2018
	Millions of yen	Millions of yen	Thousands of U.S. dollars
Net unrealized gain or loss on securities			
Amount arising during the fiscal year	105	31	298
Amount of recycling	-	-	-
Net gain before the effect of income taxes	105	31	298
Effect of income taxes	-	-	-
Net unrealized gain or loss on securities, net of tax	105	31	298
Cumulative translation adjustment			
Amount arising during the fiscal year	(262)	(601)	(5,672)
Adjustments for retirement benefits			
Amount arising during the fiscal year	(117)	(14)	(135)
Amount of recycling	47	45	425
Net gain before the effect of income taxes	(70)	30	289
Effect of income taxes	31	(9)	(88)
Adjustments for retirement benefits, net of tax	(38)	21	201
Total other comprehensive income	(196)	(548)	(5,172)

8. Notes to consolidated statements of changes in net assets

(1) Previous fiscal year (April 1, 2016 to March 31, 2017)

① Number of outstanding shares

Type of shares	Number of shares as of April 1, 2016	Increase in the number of shares	Decrease in the number of shares	Number of shares as of March 31, 2017
Common stock (thousand shares)	67,723	-	-	67,723

(Note) There was no change in the number of shares during the current fiscal year.

② Number of treasury stocks

Type of shares	Number of shares as of April 1, 2016	Increase in the number of shares	Decrease in the number of shares	Number of shares as of March 31, 2017
Common stock (thousand shares)	11,495	1,481	-	12,977

(Note) The increase was due to purchase of treasury stocks shares.

1,480 thousand shares

The increase was due to purchase of less-than-one-unit shares.

1 thousand shares

③ Dividend

(i) Amount of dividends paid

Resolution	Type of shares	Amount of dividends	Dividend per share (yen)	Record date	Effective date
General shareholders' meeting held on June 17, 2016	Common stock	¥1,405 million	25	March 31, 2016	June 20, 2016
Board of Directors' meeting held on October 27, 2016	Common stock	¥1,368 million	25	September 30, 2016	November 14, 2016

(ii) Dividends whose effective date was to be after the end of current fiscal year and record date was included in the current fiscal year.

Resolution	Type of shares	Amount of dividends	Source of dividends	Dividend per share (yen)	Record date	Effective date
General shareholders' meeting held on June 9, 2017	Common stock	¥1,368 million	Retained earnings	25	March 31, 2017	June 12, 2017

(2) Current fiscal year (April 1, 2017 to March 31, 2018)

① Number of outstanding shares

Type of shares	Number of shares as of April 1, 2017	Increase in the number of shares	Decrease in the number of shares	Number of shares as of March 31, 2018
Common stock (thousand shares)	67,723	-	-	67,723

(Note) There was no change in the number of shares during the current fiscal year.

② Number of treasury stocks

Type of shares	Number of shares as of April 1, 2017	Increase in the number of shares	Decrease in the number of shares	Number of shares as of March 31, 2018
Common stock (thousand shares)	12,977	1	0	12,978

(Note) The increase was due to purchase of less-than-one-unit shares.

1 thousand shares

The decrease was due to purchase claim of less-than-one-unit shares.

0 thousand shares

③ Dividend

(i) Amount of dividends paid

Resolution	Type of shares	Amount of dividends	Dividend per share (yen)	Record date	Effective date
General shareholders' meeting held on June 9, 2017	Common stock	¥1,368 million	25	March 31, 2017	June 12, 2017
Board of Directors' meeting held on November 6, 2017	Common stock	¥1,368 million	25	September 30, 2017	November 24, 2017

Resolution	Type of shares	Amount of dividends	Dividend per share (U.S. dollars)	Record date	Effective date
General shareholders' meeting held on June 9, 2017	Common stock	\$12,977 thousand	0.24	March 31, 2017	June 12, 2017
Board of Directors' meeting held on November 6, 2017	Common stock	\$12,911 thousand	0.24	September 30, 2017	November 24, 2017

(ii) Dividends whose effective date was to be after the end of current fiscal year and record date was included in the current fiscal year.

Resolution	Type of shares	Amount of dividends	Source of dividends	Dividend per share (yen)	Record date	Effective date
General shareholders' meeting held on June 11, 2018	Common stock	¥1,916 million	Retained earnings	35	March 31, 2018	June 12, 2018

Resolution	Type of shares	Amount of dividends	Source of dividends	Dividend per share (U.S. dollars)	Record date	Effective date
General shareholders' meeting held on June 11, 2018	Common stock	\$18,076 thousand	Retained earnings	0.33	March 31, 2018	June 12, 2018

(Note) With an effective date of April 1, 2018, the Company performed a 2-for-1 stock split of its common stock.

For dividends for the years ended March 31, 2017 and 2018, the above dividends paid show the actual amounts prior to the stock split.

9. Notes to consolidated statements of cash flows

(1) Cash and cash equivalents at end of year

	Previous fiscal year April 1, 2016 to March 31, 2017	Current fiscal year April 1, 2017 to March 31, 2018	Current fiscal year April 1, 2017 to March 31, 2018
	Millions of yen	Millions of yen	Thousands of U.S. dollars
Cash on hand and in banks	24,537	46,539	439,049
Time deposits with maturities over three months	(200)	-	-
Cash and cash equivalents	<u>24,337</u>	<u>46,539</u>	<u>439,049</u>

10. Accounting for leases

(1) Capital leases

- ① Capital leases which transfer ownership of the leased assets to the lessee
 - Leased assets:
 - Intangible assets
 - Major assets are software for "Amusement equipment" segment.
 - Depreciation method:
 - See Note 2(6), "Summary of significant accounting policies - Leased assets."
- ② Capital leases which do not transfer ownership of the leased assets to the lessee
 - Leased assets:
 - Tangible fixed assets
 - Major assets are equipment for amusement facilities for the "Arcade operations" segment.
 - Depreciation method:
 - See Note 2(6), "Summary of significant accounting policies - Leased assets."

(2) Operating leases

- ① Future lease payments

	Previous fiscal year March 31, 2017	Current fiscal year March 31, 2018	Current fiscal year March 31, 2018
	Millions of yen	Millions of yen	Thousands of U.S. dollars
Due within one year	285	380	3,591
Due over one year	3,783	2,319	21,882
Total	4,068	2,700	25,473

11. Financial instruments

(1) Conditions of financial instruments

① Management policy

The Companies' fund management policy is to invest in financial instruments that have high levels of safety concerning the repayment of the principal and the receipt of interest, taking safety, liquidity (negotiability, marketability) and profitability into consideration. The Companies raise funds through borrowings from financial institutions, such as banks, etc. The Companies also utilize derivative financial instruments in order to hedge foreign currency exchange risk and interest fluctuation rate risk and do not enter into derivative financial instruments for speculative purposes.

② Financial instruments, risks, and risk management

Notes and accounts receivable - trade are exposed to the credit risk of customers. To minimize the risk, the Companies regularly monitor the credit status of major customers as well as perform due date control and balance control for each customer according to the importance of the business in accordance with credit exposure management rules.

The investments in securities the Company holds consist mainly of listed equity securities of its business partners. These securities are exposed to stock price volatility risk. To minimize such risk, the Company states the fair value of these securities on a quarterly basis to report it to the Board of Directors' meeting.

As for notes and accounts payable - trade, due date of payment is within one year. Short-term borrowings are mainly for normal operating activities, and long-term borrowings are mainly for capital investments. Notes and accounts payable - trade and borrowings are exposed to liquidity risk. The Companies minimize such risk by forecasting cash flows on a monthly basis.

③ Supplemental information on the fair value of financial instruments

Not applicable

(2) Fair value of financial instruments

The carrying value on the consolidated balance sheets, fair value and any differences between the two were as follows:

① Previous fiscal year (March 31, 2017)

(Millions of yen)

	Carrying value	Fair value	Difference
Cash on hand and in banks	24,537	24,537	-
Notes and accounts receivable - trade	20,175	20,175	-
Lease deposits	3,920	3,920	-
Total	48,633	48,633	-
Notes and accounts payable - trade	2,288	2,288	-
Electronically recorded monetary obligations	4,886	4,886	-
Short-term borrowings	9,323	9,323	-
Long-term borrowings	6,788	6,820	32
Total	23,287	23,319	32

② Current fiscal year (March 31, 2018)

(Millions of yen)

	Carrying value	Fair value	Difference
Cash on hand and in banks	46,539	46,539	-
Notes and accounts receivable - trade	12,930	12,930	-
Lease deposits	4,034	4,033	(1)
Total	63,504	63,503	(1)
Notes and accounts payable - trade	2,625	2,625	-
Electronically recorded monetary obligations	839	839	-
Short-term borrowings	1,473	1,473	-
Long-term borrowings	8,315	8,337	22
Total	13,254	13,277	22

(Thousands of U.S. dollars)

	Carrying value	Fair value	Difference
Cash on hand and in banks	439,049	439,049	-
Notes and accounts receivable - trade	121,985	121,985	-
Lease deposits	38,065	38,053	(11)
Total	599,100	599,088	(11)
Notes and accounts payable - trade	24,773	24,773	-
Electronically recorded monetary obligations	7,924	7,924	-
Short-term borrowings	13,898	13,898	-
Long-term borrowings	78,443	78,659	216
Total	125,039	125,255	216

(Note 1) Fair value measurement of financial instruments

Assets

(1) Cash on hand and in banks and (2) Notes and accounts receivable - trade

The fair value is assumed to be the same as the carrying value as it approximates fair value because of the short maturity of these instruments.

(3) Lease deposits

The fair value is measured at the present value of future cash flows discounted using the yield of national government bonds according to periods until repayment.

Liabilities

(1) Notes and accounts payable - trade, (2) Electronically recorded obligations and (3) Short-term borrowings

The fair value is assumed to be the same as the carrying value as it approximates fair value because of the short maturity of these instruments.

(4) Long-term borrowings

The fair value of long-term borrowings with variable interest rates is measured at the carrying value as it approximates fair value.

(The market interest rate fluctuation is reflected in the variable interest rates in the short term and the credit status of the Company does not change remarkably after raising funds through long-term borrowings with variable interest rates.)

The fair value of long-term borrowings with fixed rates is measured at the present value of future cash flow (principal plus interest) discounted using the assumed interest rate of similar new borrowings.

(Note 2) Redemption schedule for monetary assets with maturity dates subsequent to the consolidated balance sheets date

(1) Previous fiscal year (March 31, 2017)

(Millions of yen)

	April 1, 2017 to March 31, 2018	April 1, 2018 to March 31, 2022	April 1, 2022 to March 31, 2027	April 1, 2027 and thereafter
Cash on hand and in banks	24,537	-	-	-
Notes and accounts receivable - trade	20,175	-	-	-
Lease deposits	562	2,033	1,321	2
Total	45,275	2,033	1,321	2

(2) Current fiscal year (March 31, 2018)

(Millions of yen)

	April 1, 2018 to March 31, 2019	April 1, 2019 to March 31, 2023	April 1, 2023 to March 31, 2028	April 1, 2028 and thereafter
Cash on hand and in banks	46,539	-	-	-
Notes and accounts receivable - trade	12,930	-	-	-
Lease deposits	364	3,317	250	102
Total	59,833	3,317	250	102

(Thousands of U.S. dollars)

	April 1, 2018 to March 31, 2019	April 1, 2019 to March 31, 2023	April 1, 2023 to March 31, 2028	April 1, 2028 and thereafter
Cash on hand and in banks	439,049	-	-	-
Notes and accounts receivable - trade	121,985	-	-	-
Lease deposits	3,435	31,299	2,362	967
Total	564,470	31,299	2,362	967

(Note 3) Repayment schedule for short-term and long-term borrowings with maturity dates subsequent to the consolidated balance sheets date

(1) Previous fiscal year (March 31, 2017)

(Millions of yen)

	April 1, 2017 to March 31, 2018	April 1, 2018 to March 31, 2019	April 1, 2019 to March 31, 2020	April 1, 2020 to March 31, 2021	April 1, 2021 to March 31, 2022	April 1, 2022 and thereafter
Short-term borrowings	5,000	-	-	-	-	-
Long-term borrowings	4,323	1,473	1,579	1,129	727	1,878
Total	9,323	1,473	1,579	1,129	727	1,878

(2) Current fiscal year (March 31, 2018)

(Millions of yen)

	April 1, 2018 to March 31, 2019	April 1, 2019 to March 31, 2020	April 1, 2020 to March 31, 2021	April 1, 2021 to March 31, 2022	April 1, 2022 to March 31, 2023	April 1, 2023 and thereafter
Short-term borrowings	-	-	-	-	-	-
Long-term borrowings	1,473	1,579	4,129	727	626	1,252
Total	1,473	1,579	4,129	727	626	1,252

(Thousands of U.S. dollars)

	April 1, 2018 to March 31, 2019	April 1, 2019 to March 31, 2020	April 1, 2020 to March 31, 2021	April 1, 2021 to March 31, 2022	April 1, 2022 to March 31, 2023	April 1, 2023 and thereafter
Short-term borrowings	-	-	-	-	-	-
Long-term borrowings	13,898	14,897	38,954	6,866	5,908	11,815
Total	13,898	14,897	38,954	6,866	5,908	11,815

12. Investments in securities

(1) Available-for-sale securities with a readily determinable fair value

① Previous fiscal year (March 31, 2017)

(Millions of yen)			
Classification	Carrying value	Acquisition cost	Difference
Securities with book value exceeding acquisition cost			
Equity securities	409	283	126
Bonds	-	-	-
Others	-	-	-
Subtotal	409	283	126
Securities with book value not exceeding acquisition cost			
Equity securities	136	155	(18)
Bonds	-	-	-
Others	-	-	-
Subtotal	136	155	(18)
Total	546	438	107

② Current fiscal year (March 31, 2018)

(Millions of yen)			
Classification	Carrying value	Acquisition cost	Difference
Securities with book value exceeding acquisition cost			
Equity securities	592	452	139
Bonds	-	-	-
Others	-	-	-
Subtotal	592	452	139
Securities with book value not exceeding acquisition cost			
Equity securities	-	-	-
Bonds	-	-	-
Others	-	-	-
Subtotal	-	-	-
Total	592	452	139

(Thousands of U.S. dollars)			
Classification	Carrying value	Acquisition cost	Difference
Securities with book value exceeding acquisition cost			
Equity securities	5,586	4,269	1,317
Bonds	-	-	-
Others	-	-	-
Subtotal	5,586	4,269	1,317
Securities with book value not exceeding acquisition cost			
Equity securities	-	-	-
Bonds	-	-	-
Others	-	-	-
Subtotal	-	-	-
Total	5,586	4,269	1,317

(2) Investments in securities sold during the fiscal year

① Previous fiscal year (April 1, 2016 to March 31, 2017)

Not applicable

② Current fiscal year (April 1, 2017 to March 31, 2018)

Not applicable

13. Retirement benefits for employees

(1) Summary of retirement benefit plans

The Company and its domestic subsidiaries have unfunded lump-sum benefit plans and defined contribution pension plans. Some foreign subsidiaries have defined contribution pension plans.

(2) Defined benefit plans (excluding plans using simplified method)

① Change in projected benefit obligations

	Previous fiscal year April 1, 2016 to March 31, 2017	Current fiscal year April 1, 2017 to March 31, 2018	Current fiscal year April 1, 2017 to March 31, 2018
	Millions of yen	Millions of yen	Thousands of U.S. dollars
Projected benefit obligations at beginning of year	2,241	2,561	24,166
Service costs	232	241	2,276
Interest costs	10	12	117
Actuarial gain or loss incurred	117	14	135
Payment of retirement benefits	(39)	(55)	(520)
Projected benefit obligations at end of year	2,561	2,774	26,176

② Reconciliation of projected benefit obligations to liabilities for retirement benefits for employees

	Previous fiscal year March 31, 2017	Current fiscal year March 31, 2018	Current fiscal year March 31, 2018
	Millions of yen	Millions of yen	Thousands of U.S. dollars
Projected benefit obligations for unfunded plan	2,561	2,774	26,176
Net balance presented in the consolidated balance sheet	2,561	2,774	26,176
Liabilities for retirement benefits for employees	2,561	2,774	26,176
Net balance presented in the consolidated balance sheet	2,561	2,774	26,176

③ Breakdown of retirement and pension cost

	Previous fiscal year April 1, 2016 to March 31, 2017	Current fiscal year April 1, 2017 to March 31, 2018	Current fiscal year April 1, 2017 to March 31, 2018
	Millions of yen	Millions of yen	Thousands of U.S. dollars
Service costs	232	241	2,276
Interest costs	10	12	117
Amortization of actuarial differences	59	57	539
Amortization of prior service costs	(12)	(12)	(114)
Net periodic benefit costs	290	298	2,819

④ Adjustments for retirement benefits

The breakdown of adjustments for retirement benefits before the effect of income taxes was as follows.

	Previous fiscal year April 1, 2016 to March 31, 2017	Current fiscal year April 1, 2017 to March 31, 2018	Current fiscal year April 1, 2017 to March 31, 2018
	Millions of yen	Millions of yen	Thousands of U.S. dollars
Prior service liabilities	(12)	(12)	(114)
Actuarial differences	(57)	42	403
Total	(70)	30	289

⑤ Accumulated adjustments for retirement benefits

The breakdown of accumulated adjustments for retirement benefits before the effect of income taxes was as follows.

	Previous fiscal year April 1, 2016 to March 31, 2017	Current fiscal year April 1, 2017 to March 31, 2018	Current fiscal year April 1, 2017 to March 31, 2018
	Millions of yen	Millions of yen	Thousands of U.S. dollars
Unrecognized prior service liabilities	(21)	(9)	(85)
Unrecognized actuarial differences	472	429	4,054
Total	451	420	3,968

⑥ Actuarial assumption

Major actuarial assumption (on weighted average)

	Previous fiscal year April 1, 2016 to March 31, 2017	Current fiscal year April 1, 2017 to March 31, 2018
Discount rate	0.6%	0.6%

(3) Defined benefit plans using simplified method

① Change in projected benefit obligations

	Previous fiscal year April 1, 2016 to March 31, 2017	Current fiscal year April 1, 2017 to March 31, 2018	Current fiscal year April 1, 2017 to March 31, 2018
	Millions of yen	Millions of yen	Thousands of U.S. dollars
Projected benefit obligations at beginning of year	82	34	327
Service costs	32	17	168
Payment of retirement benefits	(78)	(7)	(74)
Other	(1)	(0)	(1)
Projected benefit obligations at end of year	34	44	420

② Reconciliation of projected benefit obligations to liabilities for retirement benefits for employees

	March 31, 2017	March 31, 2018	March 31, 2018
	Millions of yen	Millions of yen	Thousands of U.S. dollars
Projected benefit obligations for unfunded plan	34	44	420
Net balance presented in the consolidated balance sheet	34	44	420
Liabilities for retirement benefits for employees	34	44	420
Net balance presented in the consolidated balance sheet	34	44	420

③ Retirement and pension cost

Retirement and pension costs for plans using simplified method were ¥32 million for the previous fiscal year and ¥17 million (\$168 thousand) for the current fiscal year.

(4) Defined contribution plans

The Companies contributed ¥306 million and ¥314 million (\$2,966 thousand) to their defined contribution plans for the previous fiscal year and the current fiscal year, respectively.

14. Accounting for income taxes

(1) Significant components of deferred tax assets and liabilities

	Previous fiscal year March 31, 2017	Current fiscal year March 31, 2018	Current fiscal year March 31, 2018
	Millions of yen	Millions of yen	Thousands of U.S. dollars
(Deferred tax assets)			
Accrued bonuses	684	834	7,870
Liabilities for retirement benefits for employees	790	858	8,095
Accrued retirement benefits for directors	111	105	999
Inventories	1,254	1,790	16,891
Unearned revenue	470	455	4,295
Investments in subsidiaries and affiliated companies	151	151	1,432
Tax loss carryforwards in the subsidiaries	3,110	2,232	21,058
Tax credits carryforwards in the subsidiaries	1,006	774	7,307
Intangible assets	315	-	-
Depreciation and amortization	240	255	2,413
Deferred revenue	-	806	7,610
Other	1,345	1,254	11,835
Subtotal	9,482	9,519	89,810
Valuation allowance	(2,196)	(1,870)	(17,642)
Total deferred tax assets	<u>7,285</u>	<u>7,649</u>	<u>72,167</u>
(Deferred tax liabilities)			
Tax deductible inventories for a foreign subsidiary	(2,635)	(2,009)	(18,960)
Other	(181)	(445)	(4,206)
Total deferred tax liabilities	<u>(2,816)</u>	<u>(2,455)</u>	<u>(23,167)</u>
Net deferred tax assets	<u>4,469</u>	<u>5,194</u>	<u>49,000</u>
Net deferred tax assets are reflected in the consolidated balance sheets as follows:			
Current assets			
– deferred tax assets	2,495	3,201	30,201
Fixed assets			
– deferred tax assets	4,311	2,782	26,246
Current liabilities			
– deferred tax liabilities	(2,308)	(766)	(7,227)
Long-term liabilities			
– deferred tax liabilities	(29)	(23)	(220)

(2) Reconciliation of the difference between the statutory tax rate and the effective income tax rate

	Previous fiscal year March 31, 2017	Current fiscal year March 31, 2018
	(Unit : %)	(Unit : %)
Statutory income tax rate	30.8	30.8
(Reconciliation)		
Change in valuation allowance	0.5	(0.9)
Tax credit	(2.5)	(7.1)
Different tax rates applied to foreign subsidiaries	0.6	(2.2)
Permanent difference (meals and entertainment, etc.)	0.2	1.8
Unappropriated retained earnings of foreign subsidiaries	0.2	(0.1)
Tax adjustments resulting from consolidation elimination entries, etc.	(0.7)	(1.0)
Decrease in deferred tax assets due to change in statutory income tax rate	-	5.2
Others	(0.1)	1.4
Effective income tax rate	<u>28.9</u>	<u>27.8</u>

(3) Change in deferred tax assets and liabilities due to change of corporate tax rate

Due to the enactment of the "Tax Cuts and Jobs Act" in the U.S. on December 22, 2017, the federal tax rate subsidiaries reduced from 35% to 21%. As a result, the balance of deferred tax assets (net of deferred tax liabilities) decreased by ¥752 million (\$7,097 thousand) and the amount of income taxes - deferred increased by ¥783 million (\$7,395 thousand).

15. Asset retirement obligations

Asset retirement obligations on the balance sheet.

① Outline of asset retirement obligations

Obligations to restore business offices and amusement stores in the "Arcade operations" segment to their original state, as specified in the real estate lease agreements.

② Calculation of asset retirement obligations

Asset retirement obligations are calculated with the future cash flows discounted. For the business offices, their depreciation periods (mainly 15 years) are regarded as their estimated periods of use and the yields of the national government bonds, which correspond to the respective depreciation periods, are used as their discount rates.

For the amusement facilities, their lease periods (mainly 6 to 15 years) are regarded as their estimated periods of use and the yields of the national government bonds, which corresponds to the respective lease periods, are used as their discount rates.

③ Increase or decrease in asset retirement obligations

	Previous fiscal year April 1, 2016 to March 31, 2017	Current fiscal year April 1, 2017 to March 31, 2018	Current fiscal year April 1, 2017 to March 31, 2018
	Millions of yen	Millions of yen	Thousands of U.S. dollars
Beginning balance	502	509	4,807
Increase due to purchase of tangible fixed assets	10	5	49
Adjustment due to passage of time	4	4	40
Decrease due to settlement of asset retirement obligations	(8)	(18)	(170)
Ending balance	509	501	4,727

16. Investment and rental property

The note is omitted due to the insignificance of the total amount.

17. Segment information

(1) Outline of reportable segments

① Classification of reportable segments

The reportable segments the Company reports are the business units for which the Company is able to obtain separate financial information in order for the Board of Directors to conduct periodic investigations to determine the distribution of operational resources and to evaluate business performance. The Company has several operational headquarters which plan comprehensive business strategies in the domestic and overseas markets for their products and services, and develop its business activities. Therefore the Company's reportable segments are based on the products and services its operational headquarters deal in and are composed of the following 3 segments: "Digital content," "Arcade operations" and "Amusement equipment."

② Product and service line

The "Digital content" segment develops and distributes video and mobile games for consumers.

The "Arcade operations" segment operates amusement stores which install amusement equipment.

The "Amusement equipment" segment manufactures arcade game machines and pachinko gambling machines, etc. to be distributed to arcade operators and pachinko parlors.

(2) Method of calculating sales and income (loss), identifiable assets and liabilities and other items by reportable segment

the accounting policies for the reportable segment are based on those in "Summary of significant accounting policies."
Income by reportable segment is calculated based on operating income on the consolidated statements of income.

(3) Information on net sales and operating income (loss), identifiable assets and liabilities and other items by reportable segment

① Previous fiscal year (April 1, 2016 to March 31, 2017)

(Millions of yen)								
	Reportable segment				Other (Note 1)	Total	Adjustment (Note 2)	Consolidated total (Note 3)
	Digital content	Arcade operations	Amusement equipment	Total				
Net sales								
Customers	58,704	9,525	16,856	85,086	2,083	87,170	-	87,170
Intersegment	-	-	-	-	-	-	-	-
Total	58,704	9,525	16,856	85,086	2,083	87,170	-	87,170
Segment income	11,096	752	5,106	16,955	969	17,925	(4,274)	13,650
Segment assets	66,691	6,988	16,169	89,849	4,718	94,568	24,328	118,897
Other items								
Depreciation	3,366	1,079	440	4,886	638	5,524	455	5,980
Increase in tangible and intangible fixed assets	1,124	1,094	421	2,640	72	2,712	1,055	3,767

(Note) 1. "Other" incorporates operations not included in reportable segments, including the character content business, etc.

2. Adjustments were as follows:

(1) Adjustments of segment income of (¥4,274) million include unallocated corporate operating expenses of (¥4,274) million. The corporate operating expenses, which do not belong to any reportable segments, mainly consist of administrative expenses.

(2) Adjustments of segment assets of ¥24,328 million include unallocated corporate identifiable assets of ¥24,328 million.

(3) Adjustments of increase in tangible and intangible fixed assets of ¥1,055 million are capital investments by headquarters.

3. Segment income is adjusted on operating income of the consolidated statements of income.

② Current fiscal year (April 1, 2017 to March 31, 2018)

(Millions of yen)

	Reportable segment				Other (Note 1)	Total	Adjustment (Note 2)	Consolidated total (Note 3)
	Digital content	Arcade operations	Amusement equipment	Total				
Net sales								
Customers	74,141	10,231	7,803	92,176	2,338	94,515	-	94,515
Intersegment	-	-	-	-	-	-	-	-
Total	74,141	10,231	7,803	92,176	2,338	94,515	-	94,515
Segment income	19,103	879	(764)	19,218	1,126	20,345	(4,307)	16,037
Segment assets	61,661	7,471	10,002	79,136	3,600	82,737	42,836	125,573
Other items								
Depreciation	2,163	1,141	63	3,368	606	3,975	731	4,706
Increase in tangible and intangible fixed assets	384	1,192	224	1,801	17	1,818	1,222	3,041

(Thousands of U.S. dollars)

	Reportable segment				Other (Note 1)	Total	Adjustment (Note 2)	Consolidated total (Note 3)
	Digital content	Arcade operations	Amusement equipment	Total				
Net sales								
Customers	699,446	96,525	73,622	869,594	22,056	891,651	-	891,651
Intersegment	-	-	-	-	-	-	-	-
Total	699,446	96,525	73,622	869,594	22,056	891,651	-	891,651
Segment income	180,218	8,300	(7,210)	181,308	10,630	191,939	(40,640)	151,299
Segment assets	581,716	70,490	94,361	746,567	33,970	780,538	404,117	1,184,655
Other items								
Depreciation	20,413	10,770	598	31,782	5,718	37,501	6,900	44,402
Increase in tangible and intangible fixed assets	3,627	11,249	2,114	16,991	167	17,159	11,532	28,691

(Note) 1. "Other" incorporates operations not included in reportable segments, including the character content business, etc.

2. Adjustments were as follows:

- (1) Adjustments of segment income of (¥4,307) million ((¥40,640) thousand) include unallocated corporate operating expenses of (¥4,307) million ((¥40,640) thousand).
The corporate operating expenses, which do not belong to any reportable segments, mainly consist of administrative expenses.
- (2) Adjustments of segment assets of ¥42,836 million (\$404,117 thousand) include unallocated corporate identifiable assets of ¥42,836 million (\$404,117 thousand).
- (3) Adjustments of increase in tangible and intangible fixed assets of ¥1,222 million (\$11,532 thousand) are capital investments by headquarters.

3. Segment income is adjusted on operating income of the consolidated statements of income.

[Related information]

1. Information by product and service line

The information is omitted as the same kind of information is disclosed in Note 17(1), "Segment information."

2. Information by country or region

(1) Net sales

① Previous fiscal year (April 1, 2016 to March 31, 2017) (Millions of yen)

Japan	North America	Europe	Other regions	Total
54,546	21,670	8,483	2,469	87,170

② Current fiscal year (April 1, 2017 to March 31, 2018) (Millions of yen)

Japan	North America	Europe	Other regions	Total
52,121	25,665	11,159	5,568	94,515

(Thousands of U.S. dollars)

Japan	North America	Europe	Other regions	Total
491,709	242,126	105,282	52,532	891,651

(Note) 1. The sales amounts are classified by country or region where customers are located.

2. Countries or regions that are not in Japan

(1) North America..... United States of America

(2) Europe..... European countries

(3) Other regions..... Asia and others

(2) Tangible fixed assets

The information is omitted as the balance of tangible fixed assets in Japan exceeded 90% or more of the total balance of tangible fixed assets of the consolidated balance sheet.

3. Information by major customer

(1) Previous fiscal year (April 1, 2016 to March 31, 2017) (Millions of yen)

Customer	Amount of net sales	Reportable segment
Fields Corporation	15,582	Amusement equipment

(2) Current fiscal year (April 1, 2017 to March 31, 2018) (Millions of yen)

Customer	Amount of net sales	Reportable segment
Sony Interactive Entertainment Inc	9,548	Digital Content

(Thousands of U.S. dollars)

Customer	Amount of net sales	Reportable segment
Sony Interactive Entertainment Inc	90,075	Digital Content

[Impairment loss by reportable segment]

1. Previous fiscal year (April 1, 2016 to March 31, 2017)
Not Applicable
2. Current fiscal year (April 1, 2017 to March 31, 2018)
Not applicable

[Amortization and balance of goodwill by reportable segment]
Not applicable

[Negative goodwill by reportable segment]
Not applicable

18. Per share information

Previous fiscal year April 1, 2016 to March 31, 2017	Current fiscal year April 1, 2017 to March 31, 2018	Current fiscal year April 1, 2017 to March 31, 2018
Net assets per share 710.32 yen	Net assets per share 780.18 yen	Net assets per share 7.36 U.S. dollars
Net income per share 80.18 yen	Net income per share 99.89 yen	Net income per share 0.94 U.S. dollars

- (Note) 1. The diluted net income per share for the current fiscal year is omitted as the Companies had no residual securities.
2. With an effective date of April 1, 2018, the Company performed a 2-for-1 stock split of its common stock.
The Company calculated "Net assets per share" and "Net income per share" assuming that the stock split was implemented with an effective date of April 1, 2017.
3. The basis for computation of net assets per share was as follows:

	Previous fiscal year March 31, 2017 Millions of yen	Current fiscal year March 31, 2018 Millions of yen	Current fiscal year March 31, 2018 Thousands of U.S. dollars
Total amount of net assets	77,774	85,421	805,858
Amounts to be deducted from total amount of net assets	-	-	-
Ending balance of net assets attributable to common stock	77,774	85,421	805,858
Number of shares of common stocks used for computation of net assets per share (thousands of shares)	109,492	109,489	109,489

3. The basis for the computation of net income per share was as follows:

	Previous fiscal year April 1, 2016 to March 31, 2017 Millions of yen	Current fiscal year April 1, 2017 to March 31, 2018 Millions of yen	Current fiscal year April 1, 2017 to March 31, 2018 Thousands of U.S. dollars
Net income attributable to owners of the parent	8,879	10,937	103,184
Amount not allocated to common stock	-	-	-
Net income attributable to owners of the parent allocated to common stock	8,879	10,937	103,184
Average number of shares of common stock outstanding during the fiscal year (thousands of shares)	110,746	109,491	109,491

19. Significant subsequent events

Stock split

With an effective date of April 1, 2018, the Company performed a stock split following the resolution of the board of directors meeting held on March 6, 2018.

(1) Purpose

The purpose of the stock split is to improve the liquidity of the Company's stock and expand its investor base by reducing the stock price per investment unit.

(2) Summary of the stock split

① Method of stock split

Each share of common stock owned by shareholders listed or recorded in the closing register of shareholders on the record date of Saturday, March 31, 2018 were split into two shares.

② Number of shares increased by the stock split

Total number of issued shares prior to the stock split:	67,723,244 shares
Number of shares to be increased by the stock split:	67,723,244 shares
Total number of issued shares following the stock split:	135,446,488 shares
Total number of authorized shares following the stock split:	300,000,000 shares

(3) Schedule of stock split

① Public notice of record date:	Wednesday, March 14, 2018
② Record date	Saturday, March 31, 2018
③ Effective date	Sunday, April 1, 2018

(4) Other

- ① Following the above stock split, the total number of authorized shares provided for in article 6 of the Company's Articles of Incorporation will be amended from 150 million to 300 million, effective Sunday, April 1, 2018 and in accordance with the provisions of Article 184, Paragraph 2 of the Companies Act.
- ② Change of capital
No change
- ③ Impact on per share information
The impact of the stock split is described in "Per share information."

20. Supplemental schedules of bonds
Not applicable

21. Supplemental schedules of borrowings

(Millions of yen)

Category	Balance as of March 31, 2017	Balance as of March 31, 2018	Average interest rate (%)	Date of maturity
Short-term borrowings	5,000	-	-	-
Net income attributable to owners of the parent (Millions of yen)	4,323	1,473	0.8	-
Current portion of lease obligations	502	392	1.2	-
Long-term borrowings (Excluding current portion)	6,788	8,315	0.7	From 2019 to 2025
Lease obligations (Excluding current portion)	399	329	1.2	From 2019 to 2023
Net sales (Thousands of U.S. dollars)	-	-	-	-
Net income before income taxes (Thousands of U.S. dollars)	17,013	10,510	-	-

(Thousands of U.S. dollars)

Category	Balance as of March 31, 2017	Balance as of March 31, 2018	Average interest rate (%)	Date of maturity
Short-term borrowings	-	-	-	-
Current portion of long-term borrowings due within one year	14,124	13,898	0.8	-
Current portion of lease obligations	4,956	3,707	1.2	-
Long-term borrowings (Excluding current portion)	104,824	78,443	0.7	From 2019 to 2025
Lease obligations (Excluding current portion)	5,670	3,104	1.2	From 2019 to 2023
Other interest bearing debt	-	-	-	-
Total	129,575	99,153	-	-

(Note 1. The average interest rate represents the weighted average rate applicable to the ending balance.

2. The following table shows the aggregate annual maturities of long-term borrowings and lease obligations for five years subsequent to March 31, 2018 (excluding the current portion).

(Millions of yen)

	Due after 1 year but within 2 years	Due after 2 years but within 3 years	Due after 3 years but within 4 years	Due after 4 years but within 5 years
Long-term borrowings	1,579	4,129	727	626
Lease obligations	235	90	2	0

(Thousands of U.S. dollars)

	Due after 1 year but within 2 years	Due after 2 years but within 3 years	Due after 3 years but within 4 years	Due after 4 years but within 5 years
Long-term borrowings	14,897	38,954	6,866	5,908
Lease obligations	2,222	857	19	4

22. Supplemental schedules of asset retirement obligations

The note is omitted because the balance of the asset retirement obligations as of the beginning and the end of the current fiscal year was 1 % or less than the total balance of the liabilities and the net assets as of the beginning and the end of the current fiscal year, respectively.

23. Supplemental schedules of other

1. Quarterly sales, etc., for the current fiscal year

	1st quarter April 1, 2017 to June 30, 2017	2nd quarter April 1, 2017 to September 30, 2017	3rd quarter April 1, 2017 to December 31, 2017	4th quarter April 1, 2017 to March 31, 2018
Net sales (Millions of yen)	11,746	33,729	47,740	94,515
Net income before income taxes (Millions of yen)	744	4,952	7,015	15,149
Net income attributable to owners of the parent (Millions of yen)	521	3,481	4,439	10,937
Net income per share (yen)	4.76	31.79	40.55	99.89

	1st quarter April 1, 2017 to June 30, 2017	2nd quarter April 1, 2017 to September 30, 2017	3rd quarter April 1, 2017 to December 31, 2017	4th quarter April 1, 2017 to March 31, 2018
Net sales (Thousands of U.S. dollars)	110,813	318,200	450,384	891,651
Net income before income taxes (Thousands of U.S. dollars)	7,026	46,719	66,187	142,920
Net income attributable to owners of the parent (Thousands of U.S. dollars)	4,919	32,841	41,880	103,184
Net income per share (U.S. dollars)	0.04	0.30	0.38	0.94

	1st quarter April 1, 2017 to June 30, 2017	2nd quarter July 1, 2017 to September 30, 2017	3rd quarter October 1, 2017 to December 31, 2017	4th quarter January 1, 2018 to March 31, 2018
Net income per share (yen)	4.76	27.03	8.75	59.35

	1st quarter April 1, 2017 to June 30, 2017	2nd quarter July 1, 2017 to September 30, 2017	3rd quarter October 1, 2017 to December 31, 2017	4th quarter January 1, 2018 to March 31, 2018
Net income per share (U.S. dollars)	0.04	0.26	0.08	0.56

(Note) With an effective date of April 1, 2018, the Company performed a 2-for-1 stock split of its common stock.

The Company calculated "Net Income per share" assuming that the stock split was implemented with an effective date of April 1, 2017.

2. Investigation by antitrust authority

The Companies are under investigation by the European Commission on suspicion of breach of antitrust.



Independent Auditor's Report

To the Board of Directors of CAPCOM Co., Ltd.

We have audited the accompanying consolidated financial statements of CAPCOM Co., Ltd. and its subsidiaries, which comprise the consolidated balance sheets as at March 31, 2018 and 2017, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in net assets and consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, while the objective of the financial statement audit is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of CAPCOM Co., Ltd. and its subsidiaries as at March 31, 2018 and 2017, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2018 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA LLC

August 10, 2018
Osaka, Japan