Attachment contents

1. Qualitative information regarding the consolidated business

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

During the six months period ended September 30, 2014, there were the rising prices of goods and a backlash from last-minute demand before the consumption tax hike, but while performance was uneven, the Japanese economy remained on a recovery trend thanks to the yen's depreciation, rising stock prices, robust employment environment and other factors.

In our industry, though the home video game market saw packaged software sales remain more or less stable, the overall market size expanded due to brisk overseas markets in addition to the social game market's continued rapid development centering on smartphones.

Under such circumstances, with regard to home video game software as its core business, Capcom did not introduce any major software titles, but concentrated on expanding sales through devoting effort to grow download sales, various promotional activities, and so forth.

Moreover, in addition to measures aimed at reorganizing the business structure of its Mobile Contents sub-segment and others, the company endeavored to improve its profits by reducing the cost of sales and cutting back on selling, general and administrative expenses.

Meanwhile, in terms of events, the "10th Anniversary Monster Hunter Exhibition" was held that looked back on the history of the "Monster Hunter" series, Capcom's current flagship title, of which cumulative sales have surpassed 28 million units as a whole since the launch of the first software in 2004.

Furthermore, the Company has promoted the Single Content Multiple Usage strategy. Such efforts include the announcement of the release of a "Monster Hunter" version of a large motorcycle by an Italian motorcycle manufacturer Ducati Japan Ltd., and sales of Monster Hunter-themed T-shirts by UNIQLO Co., Ltd., etc.

In addition, at ChinaJoy 2014 in Shanghai, China's largest game exhibition, "Monster Hunter" attracted interest from attendees, raising hopes for future development in Asia.

"Monster Hunter 4 Ultimate" (for Nintendo 3DS), a highly anticipated title due in the second half of the current fiscal year, was also exhibited at the Tokyo Game Show 2014 held in September, this year and proved highly popular, with long lines forming for it in the trial play zone.

Given the above, as well as a backlash following the massive success of "Monster Hunter 4" (for Nintendo 3DS) the same term last year, consolidated sales and profits decreased for the second quarter, with net sales of 25,917 million yen (down 51.3% from the same term last year), operating income of 4,383 million yen (down 41.6% from the same term last year), ordinary income of 4,540 million yen (down 44.6% from the same term last year), and net income of 2,973 million yen (down 39.9% from the same term last year).

Status of each operational department

① Digital Contents business

In the Digital Contents business, “Ultra Street Fighter IV” (for PlayStation 3, Xbox 360, and PC) and “Phoenix Wright: Ace Attorney Trilogy” (for Nintendo 3DS) posted steady sales, while “Dead Rising 3” (for Xbox One and PC), which sold over a million units in the previous fiscal year, continued to do well. However, no major new titles were released in this period, so sales focused on existing products.

Meanwhile, the online titles “Monster Hunter Frontier G” series (for PC, Xbox 360, PlayStation 3, Wii U, and PlayStation Vita) performed solidly.

In addition, in the Mobile Contents sub-segment, despite the fact that there were no major titles aside from some exceptions like “Monster Hunter Freedom Unite for iOS”, profitability improved thanks to a successful overhaul of the profit structure.

Because small titles and repeat sales made up the majority of sales overall due to the lack of major titles in the lineup during the period under review, sales were not sufficient to offset the aforementioned downturn in “Monster Hunter 4” (for Nintendo 3DS) sales, even though the digital download content supported sales growth.

As a result, net sales were 13,463 million yen (down 64.1% from the same term last year) and operating income was 2,150 million yen (down 60.0% from the same term last year).

② Arcade Operations business

In the Arcade Operations business, with the market continuing to be weak due to the decentralization of the entertainment industry, a lack of products that attract new customers, and other factors, Capcom strived to develop community-based arcades through holding promotional events and installing game machines that appeal to a broad range of customers.

However, business remained weak due to the underperformance of existing arcades, in addition to the impact of the consumption tax hike and other factors.

During the period under review, one unprofitable arcade was closed, bringing the total number of arcades to 32.

As a result, net sales were 4,820 million yen (down 11.7% from the same term last year) and operating income was 660 million yen (down 32.3% from the same term last year).

③ Amusement Equipments business

In the Pachinko & Pachislo sub-segment, “Sengoku BASARA 3” continued to perform as planned, while Capcom concentrated on repeat sales and the contracted product development business.

In the Arcade Games Sales sub-segment, even though “Onimusha Soul Card Rush” was launched, sales centered on existing products.

As a result, net sales were 6,881 million yen (down 22.9% from the same term last year) and operating income was 3,159 million yen (up 25.4% from the same term last year).

④ Other Businesses

The net sales from Other Businesses, mainly consisting of the publication of game guidebooks and the sales of related goods were 752 million yen (down 43.9% from the same term last year) and operating income was 225 million yen (down 56.5% from the same term last year).

(2) Qualitative information regarding the financial position

Total assets as of the end of the second quarter decreased by 1,685 million yen from the end of the previous fiscal year to 94,925 million yen. Primary increases were followings: 5,274 million yen in work-in-progress for game software, 748 million yen in merchandise and finished goods and 471 million yen in work-in-progress. Primary decrease was 9,853 million yen in notes and accounts receivable, trade.

Liabilities as of the end of the second quarter decreased by 4,752 million yen from the end of the previous fiscal year to 27,982 million yen. Primary increase was 6,169 million yen in short-term borrowings. Primary decreases were followings: 5,551 million yen in electronically recorded monetary obligations, 2,221 million yen in notes and accounts payable, trade, 2,201 million yen in long-term borrowings.

Net assets as of the end of the second quarter increased by 3,067 million yen from the end of the previous fiscal year to 66,943 million yen. Primary increases were 2,973 million yen in net income for the 6 months period under review and 1,227 million yen in cumulative translation adjustments which related to foreign exchange translation of the net assets of foreign consolidated subsidiaries. Primary decrease was 1,405 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, 2015 remains the same as what was projected at the financial results announcement on May 8, 2014.

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 fiscal year, including the second quarter, and multiplying income before income taxes by this estimated effective tax rate.

(3) Changes in accounting policies, accounting estimates and retrospective restatement for consolidated financial statements

(Change in accounting policies)

(Application of the Accounting Standard for Retirement Benefits, etc)

Effective from the first quarter of the fiscal year ending March 31, 2015, the Company has adopted the provisions specified in the main clause of Section 35 of the "Accounting Standard for Retirement Benefits" (Accounting Standard Board of Japan (ASBJ) Statement No. 26, May 17, 2012,) and the provisions specified in the main clause of Section 67 of the "Guidance on Accounting Standard for Retirement Benefits (ASBJ Guidance No. 25, May 17, 2012). Accordingly, the Company has revised the method of calculating retirement benefit obligations and prior service costs and changed its method of attributing projected retirement benefits from the straight-line attribution method to the benefit formula. At the same time, the Company changed its method of determining the discount rate from the method in which the discount rate is determined by reference to the maturity of bonds based on the number of years that approximate the average remaining years of service of the employees to the method in which a single weighted average discount rate is used that reflects the estimated timing of benefit payments and the amount of benefit payment for each estimated payment period.

The application of the Accounting Standard for Retirement Benefits, etc. is subject to the tentative treatment provided for in Section 37 of the Accounting Standard for Retirement Benefits. Consequently, the impact of the change in the method of calculating retirement benefit obligations and prior service costs has been recognized as increases or decreases to retained earnings as of the beginning of the second quarter of the fiscal year ending March 31, 2015.

As a result, as of the beginning of the second quarter of the fiscal year ending March 31, 2015, net defined benefit liabilities have decreased by 423 million yen and retained earnings have increased by 273 million yen. The impact of this change on the profit or loss of the cumulative second quarter of the fiscal year ending March 31, 2015 is minimal.