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1. Qualitative information regarding the consolidated business

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

During the nine months period ended December 31, 2013, strong consumer spending and exports, weakening of the yen, improvement in the employment/income environment and high stock prices, as well as Tokyo being selected to host the 2020 Olympic Games, put the Japanese economy on the road to recovery.

In the industry, while a range of next-generation home video game consoles were launched in North America and Europe that thrived well after Christmas sales began, Japan is the last market where such consoles will be launched including those to be released this spring or undecided. This resulted in an overall soft market, putting the home video game market in a transition period.

The social game market, on the other hand, saw native app games surge amid the shift from feature phones (conventional mobile phones) to smartphones (high-function mobile phones) as the mainstream platform.

Additionally, with the spread of tablets (multi-functional mobile terminals) and the rise of LINE, an app that allows users to call and instant message for free, leading to increasing presence and other progress in multi-polarization of business structures, the market environment has been rapidly changing.

Under these circumstances, our much-anticipated flagship title “Monster Hunter 4” introduced in September 2013 became a huge hit with people lining up at major shops across the country from the day of release. Its sales exceeded 4 million units making it a mega hit and the accumulated sales of the series surpassed 28 million units as well.

In addition, in order to adapt to the changes of external business environments, Capcom worked on improvement of the development process and revenue management by clarifying the chain of operations and responsibility through reorganization of the development structure and speeding up of decision making, as well as by increasing the ratio of in-house development through such measures as progressively reducing the outsourcing of development, mainly using overseas development companies.

In addition, “Monster Hunter Festa’13”, which Capcom held in five cities nationwide including Tokyo and Osaka last fall, turned out to be a success bringing in nearly 50,000 fans being participated in total.

Moreover, our branding development will gain further momentum through “Monster Hunter the Real 2014” planned to be held in February, 2014 in collaboration with Universal Studios Japan, a theme park in Osaka.

Meanwhile, Capcom won the best game manufacturer for the third consecutive year at the prestigious “FAMITSU Awards 2012”.

Given the above, the results for the nine months period ended December 31, 2013 were net sales of 75,221 million yen (up 3.5% from the same term last year), operating income of 8,521 million yen (down 13.4% from the same term last year), ordinary income of 9,251 million yen (down 8.0% from the same term last year), and net income of 5,957 million yen (down 10.3% from the same term last year).

Status of each operational department

① Digital Contents business

In the Digital Contents business, in addition to the feature title “Monster Hunter 4” (for Nintendo 3DS) being supported by overwhelming popularity, as mentioned above, and creating a huge buzz even comparable to a sort of social phenomenon, “Dragon’s Dogma: Dark Arisen” (for PlayStation 3 and Xbox 360) also steadily increased sales.

Furthermore, projected sales were basically achieved for not only “Dead Rising 3” (for Xbox One) that has been geared toward the European and U.S. markets, “Resident Evil Revelations” (for PlayStation 3, Xbox 360, Wii U and PC), but also “Phoenix Wright: Ace Attorney - Dual Destinies” (for Nintendo 3DS).

Furthermore, the downloadable versions, which respond to changes in forms of distribution, contributed to expansion of sales by growing significantly both overseas and domestically in line with the progress in diversification of business models, including the better-than-expected performance of “DuckTales: Remastered” for overseas markets in addition to the aforementioned “Monster Hunter 4” showing strong sales.

On the other hand, sales of “Lost Planet 3” (for PlayStation 3, Xbox 360 and PC) were below expectations due in part to intensifying competition in the European and U.S. markets.

Meanwhile, in addition to the online game “Monster Hunter Frontier G” (for PC, Xbox 360, PlayStation 3 and Wii U) performing steadily, the browser game “Onimusha Soul” is garnering a great deal of attention in Taiwan, including being at the top of the charts, with the start of its distribution there. In order to expand Capcom’s business field, this marked the beginning of the Company’s base in Taiwan, which was established in 2012, in gaining a foothold.

In addition, the Beeline brand’s mainstay title “Smurfs’ Village” also maintained its ongoing popularity, providing stable income.

However, mobile contents did not achieve expected level of sales throughout the period under review, due in part to lack of major titles and the fierce competition even though “Monster Hunter Hunting Quest” performed steadily.

The resulting net sales were 56,067 million yen (up 12.8% from the same term last year), and operating income was 6,919 million yen (down 5.5% from the same term last year).

②Arcade Operations business

In the Arcade Operations business, Capcom has been working to capture a wide range of customers including core customers, repeat customers and families as well as to get new customers through development of elaborate activities to draw in customers such as conducting “free game experiencing tours” for middle-aged and seniors, and setting up “kids’ corners” for pre-school children to broaden the customer base in continued stagnant market.

However, the lack of high-performing game machines, intensification of competition with other modes of entertainment and bad weather adversely impacted efforts to attract customers.

Capcom opened an arcade in Shizuoka city and closed an unprofitable arcade during the period under review, bringing the total number of arcades to 34 as of the end of the period.

The resulting net sales were 7,949 million yen (down 3.0% from the same term last year), and operating income was 1,242 million yen (down 2.3% from the same term last year).

③Amusement Equipment business

In the Pachinko & Pachislo division, “DEVIL MAY CRY 4”, which was released last September, realized better-than-expected sales, serving to lead sales expansion and support earnings.

In addition, in the Arcade Games Sales division, a new coin-operated game machine “Mario Party Fushigi no Korokoro Catcher 2” performed solidly.

However, due to the backlash from the huge hit “Resident Evil 5” in the third quarter of the previous fiscal year, there was a substantial decrease in sales and income.

The resulting net sales were 9,213 million yen (down 28.3% from the same term last year), and operating income was 2,450 million yen (down 33.8% from the same term last year).

④Other Businesses

In Other Businesses, which is mainly the publication of game guidebooks, etc. and selling of character and other goods, net sales were 1,991 million yen (up 3.0% from the same term last year), and operating income was 721 million yen (up 6.7% from the same term last year).

(2) Qualitative information regarding the financial position

Total assets as of the end of the third quarter decreased by 9,425 million yen from the end of the previous fiscal year to 94,939 million yen. Primary increase was 1,827 million yen in work-in-progress. Primary decreases were 7,936 million yen in work-in-progress for game software and supplies and 3,642 million yen in notes and accounts receivable, trade.

Liabilities as of the end of the third quarter decreased by 13,884 million yen from the end of the previous fiscal year to 27,651 million yen. Primary decreases were the followings: 10,142 million yen in short-term borrowings, 1,487 million yen in accrued income taxes.

Net assets as of the end of the third quarter increased by 4,459 million yen from the end of the previous fiscal year to 67,287 million yen. Primary increases were 5,957 million yen in net income for the 9 months period under review and 2,975 million yen in cumulative translation adjustments which related to foreign exchange translation of the net assets of foreign consolidated subsidiaries. Primary decreases were 2,285 million yen in increase in treasury stock and 2,283 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, 2014 remains the same as what was projected at the financial results announcement on May 8, 2013.

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 third quarter, and multiplying income before income taxes by this estimated effective tax rate.