

**Consolidated financial results for the 3 months
of the fiscal year ending March 31, 2017 (Japan GAAP - Unaudited)**

Date of issue: July 28, 2016

Company name: CAPCOM Co., Ltd.

Stock listing: Tokyo

Code number: 9697

URL : <http://www.capcom.co.jp/>

Representative: Haruhiro Tsujimoto, President and COO

Tel: +81-6-6920-3605

Contact person: Kenkichi Nomura, Director and Executive Corporate Officer, CFO

Filing date for financial report : July 28, 2016

Dividend payment date: —

Quarterly earnings supplementary explanatory materials : Yes

Quarterly earnings presentation : Yes (For institutional investors)

Note: Numbers are rounded down to the nearest 1 million yen.

1. Results for 3 months ended June 30, 2016 (From April 1, 2016 to June 30, 2016)

(1) Financial results

Note: Percentage represents change from the same period of the previous fiscal year.

	Net sales		Operating income		Ordinary income		Net income attributable to owners of the parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
3 months ended June 30, 2016	10,927	-24.9	-726	-	-2,080	-	-1,411	-
3 months ended June 30, 2015	14,541	51.9	2,026	59.8	2,135	74.5	1,569	104.9

Note: Comprehensive income 1st quarter ended June 30, 2016: -3,590 million yen (-%)

1st quarter ended June 30, 2015: 2,427 million yen (448.2%)

	Earnings per share of common stock	Diluted earnings per share of common stock
	Yen	Yen
3 months ended June 30, 2016	-25.11	—
3 months ended June 30, 2015	27.91	—

(2) Financial position

	Total assets	Net assets	Shareholders' equity ratio to total assets
	Millions of yen	Millions of yen	%
1st quarter ended June 30, 2016	111,065	70,172	63.2
Fiscal year ended March 31, 2016	113,057	75,168	66.5

Reference: Shareholders' equity: 1st quarter ended June 30, 2016: 70,172 million yen Year ended March 31, 2016: 75,168 million yen

2. Dividends

Record date	Dividend per share				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Annual
Year ended March 31, 2016	— yen	15.00 yen	— yen	25.00 yen	40.00 yen
Year ending March 31, 2017	—				
Year ending March 31, 2017 (Forecast)		15.00	—	25.00	40.00

(Note) Changes in dividends forecast during the 3 months ended June 30, 2016 : No

3. Earnings forecast for the fiscal year ending March 31, 2017 (From April 1, 2016 to March 31, 2017)

Note: Percentage represents change from the same period of the previous fiscal year.

	Net sales		Operating income		Ordinary income		Net income attributable to owners of the parent		Net income per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Year ending March 31, 2017	85,000	10.4	13,600	13.1	13,300	17.2	9,000	16.2	160.06

(Note) Changes in earnings forecast during the 3 months ended June 30, 2016: No

Notes

(1) Changes in significant consolidated subsidiaries during the period: No

(2) Application of simplified methods in accounting principle for quarterly consolidated financial statements: Yes

(Note: Please refer to "2. Other information" on page 4 for more details.)

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

① Changes resulting from amendment of the accounting standard: Yes

② Changes other than ①: No

③ Changes in accounting estimates: No

④ Retrospective restatement: No

(Note: Please refer to "2. Other information (3)Changes in accounting policies, accounting estimates and retrospective restatement for consolidated financial statements" on page 4 for more details.)

(4) Number of shares outstanding (Common stock):

① Number of shares outstanding (including treasury stock)

1st quarter ended June 30, 2016:	67,723,244	Year ended March 31, 2016:	67,723,244
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② Number of treasury stock

1st quarter ended June 30, 2016:	11,495,205	Year ended March 31, 2016:	11,495,204
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③ Average number of shares outstanding

1st quarter ended June 30, 2016:	56,228,040	1st quarter ended June 30, 2015:	56,229,729
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(Explanation about the appropriate usage of business prospects and other special notes)

- The above-mentioned business forecasts were based on the information available as of the date of the release of this report.
- Future events may cause the actual results to be significantly different from the forecasts.
- Please refer to [Qualitative information regarding the consolidated business forecasts] on page 3 for more details.

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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 three months period ended June 30, 2016, our industry saw signs of new developments in the home video game market. For example, at E3, one of the world's largest trade shows for computer and video games, held in the U.S. in June 2016, VR (virtual reality) games drew much attention. In particular, *RESIDENT EVIL 7 biohazard* (for PlayStation 4, Xbox One and PC), which offers an immersive VR gameplay experience utilizing PlayStation VR mode for the PlayStation 4, was in the spotlight.

In such an environment, the Group's business strategy prioritizes the second half of the fiscal year through measures such as releasing this fiscal year's major titles in the second half of the year in order to generate sizable sales in December and into the next calendar year. Therefore, during the first quarter under review, the business mainly focused on minor titles.

The resulting consolidated net sales for the three months period ended June 30, 2016 were 10,927 million yen (down 24.9% from the same term last year). The Company recorded an operating loss of 726 million yen for the quarter (compared with an operating income of 2,026 million yen for the same term last year). The Company also recorded an ordinary loss of 2,080 million yen due to foreign exchange losses caused by the rapidly rising yen (compared with an ordinary income of 2,135 million yen for the same term last year) and a net loss attributable to owners of the parent of 1,411 million yen (compared with a net income attributable to owners of the parent of 1,569 million yen for the same term last year).

Status of each operational department

① Digital Contents business

In the Digital Contents business, a series title *Phoenix Wright: Ace Attorney – Spirit of Justice* (for the Nintendo 3DS system) sold largely as planned with sales supported by core users. In addition, the Company released *Umbrella Corps* (for PlayStation 4 and PC), a title based on settings from *Resident Evil*, on June 23. However, as the first quarter corresponded to the off-launch season in the market launch cycle of major titles, sales were mostly generated by minor titles. Also, sales of catalog titles, whose profit margin is high, did not grow substantially.

Moreover, the Company has been trying to improve the challenges surrounding online games and mobile phone contents.

The resulting net sales were 6,740 million yen (up 7.1% from the same term last year). The Company recorded an operating loss of 8.0 million yen (down 99.2% from the same term last year).

② Arcade Operations business

In the Arcade Operations business, under the environment in which the regulations on the entrance to arcades in the nighttime were relaxed by the amendments to the Act on Control and Improvement of Amusement Business, etc. effective June 2016, efforts were made to capture a broad customer base by securing repeat customers and attracting persons of middle or advanced age and younger children with their parent through community-based arcade marketing to win the support of local residents such as holding various events and operating arcades in a manner to offer comfortable experience to customers.

To develop business opportunities, the Company also pushed forward with innovative new business formulas such as the opening in the arcade of a new “CharaCap” shop, which mainly sells character goods.

As there were no new openings or closures of arcades during the period under review, the total number of arcades remained unchanged from the end of the previous fiscal year at 34.

The resulting net sales were 2,157 million yen (up 11.6% from the same term last year) and operating income was 107 million yen (up 205.9% from the same term last year).

③ Amusement Equipments business

In the Pachinko & Pachislo sub-segment, the Company mainly focused on contracted product development except for the launch of *Super Street Fighter IV* as it plans to concentrate major business development efforts on the second half of the fiscal year. In the Arcade Games Sales sub-segment, business was generally weak as the Company focused on sales of existing products.

The resulting net sales were 1,662 million yen (down 72.5% from the same term last year). The Company recorded an operating loss of 61 million yen (compared with an operating income of 1,772 million yen for the same term last year).

④ Other Businesses

The net sales from Other Businesses, mainly consisting of publication of game guidebooks and sale of character merchandise, were 366 million yen (up 34.5% from the same term last year) and operating income was 126 million yen (up 152.9% from the same term last year).

(2) Explanation of the consolidated financial position

Total assets as of the end of the first quarter decreased by 1,992 million yen from the end of the previous fiscal year to 111,065 million yen.

Primary increase was 2,321 million yen in work-in-progress for game software. Primary decrease was 3,221 million yen in notes and accounts receivable, trade.

Total liabilities as of the end of the first quarter increased by 3,004 million yen from the end of the previous fiscal year to 40,892 million yen. Primary increase was 12,494 million yen in short-term borrowings. Primary decreases were followings: 6,130 million yen in accrued income taxes, 2,164 million yen in notes and accounts payable, trade and 875 million yen in accrued bonuses.

Net assets as of the end of the first quarter decreased by 4,996 million yen from the end of the previous fiscal year to 70,172 million yen. Primary decreases were followings: 2,133 million yen in cumulative translation adjustments which related to foreign exchange translation of the net assets of foreign consolidated subsidiaries, 1,411 million yen in net loss attributable to owners of the parent and 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, 2017 remains the same as what was projected at the financial results announcement on May 9, 2016.

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.

(3) Change(s) in accounting policy (policies), accounting estimates and retrospective restatements for consolidated financial statements

(Change in accounting policy)

(Application of Practical Solution on a change in depreciation method due to Tax Reform 2016)

In conjunction with the revision of the Corporation Tax Act, the Company has applied the “Practical Solution on a change in depreciation method due to Tax Reform 2016” (ASBJ Practical Issues Task Force (PITF) Solution No. 32, June 17, 2016), effective from the first quarter under review, and has changed the method for the depreciation of facilities attached to buildings and structures acquired on or after April 1, 2016 from the declining balance method to the straight-line method.

This change in accounting policy has minimal impact on the Company’s profit/loss for the first quarter under review.

(4) Additional information

(Application of Revised Implementation Guidance on Recoverability of Deferred Tax Assets)

The Company has applied the “Revised Implementation Guidance on Recoverability of Deferred Tax Assets” (ASBJ Guidance No. 26, March 28, 2016), effective from the first quarter under review.

3. Summary of consolidated financial statements

(1) Consolidated balance sheets

(Unit: Millions of yen)

	Previous fiscal year (as of March 31, 2016)	Current fiscal year (as of June 30, 2016)
Assets		
Current assets		
Cash on hand and in banks	28,429	28,770
Notes and accounts receivable, trade	9,879	6,658
Merchandise and finished goods	1,704	1,973
Work-in-progress	2,085	2,318
Raw materials and supplies	1,954	1,763
Work-in-progress for game software	24,825	27,146
Other	7,055	6,285
Allowance for doubtful accounts	(18)	(13)
Total current assets	75,917	74,901
Fixed assets		
Tangible fixed assets, net of accumulated depreciation	20,825	20,554
Intangible fixed assets		
Online contents in progress	2,395	2,667
Other	5,740	5,049
Total intangible fixed assets	8,135	7,716
Investments and other assets		
Other	8,257	7,969
Allowance for doubtful accounts	(78)	(77)
Total investments and other assets	8,179	7,891
Total fixed assets	37,140	36,163
Total assets	113,057	111,065

(Unit: Millions of yen)

	Previous fiscal year (as of March 31, 2016)	Current fiscal year (as of June 30, 2016)
Liabilities		
Current liabilities		
Notes and accounts payable, trade	4,053	1,889
Electronically recorded monetary obligations	888	1,135
Short-term borrowings	1,497	13,991
Accrued income taxes	6,470	339
Accrued bonuses	2,080	1,205
Other	7,366	6,983
Total current liabilities	22,355	25,544
Long-term liabilities		
Long-term borrowings	11,111	10,950
Liabilities for retirement benefits for employees	2,323	2,366
Other	2,098	2,030
Total long-term liabilities	15,532	15,348
Total liabilities	37,888	40,892
Net assets		
Shareholders' equity		
Common stock	33,239	33,239
Capital surplus	21,328	21,328
Retained earnings	39,297	36,479
Treasury stock	(18,145)	(18,145)
Total shareholders' equity	75,719	72,902
Accumulated other comprehensive income		
Net unrealized gain on securities, net of tax	2	(59)
Cumulative translation adjustments	(278)	(2,411)
Accumulated adjustments for retirement benefits	(274)	(257)
Total accumulated other comprehensive income	(550)	(2,729)
Total net assets	75,168	70,172
Total liabilities and net assets	113,057	111,065

(2) Consolidated statements of income and comprehensive income
Consolidated statements of income

(Unit: Millions of yen)

	Previous 3 months From April 1, 2015 to June 30, 2015	Current 3 months From April 1, 2016 to June 30, 2016
Net sales	14,541	10,927
Cost of sales	8,552	8,238
Gross profit	5,989	2,688
Selling, general and administrative expenses	3,962	3,415
Operating income (loss)	2,026	(726)
Non-operating income		
Interest income	23	11
Dividend income	7	7
Exchange gain, net	90	—
Other	34	10
Total non-operating income	154	29
Non-operating expenses		
Interest expense	26	33
Commission fee	16	14
Exchange loss, net	—	1,335
Other	3	0
Total non-operating expenses	46	1,383
Ordinary income (loss)	2,135	(2,080)
Special losses		
Loss on sales and /or disposal of fixed assets	0	1
Total special losses	0	1
Net income (loss) before income taxes	2,134	(2,081)
Income taxes-current	410	111
Income taxes-deferred	155	(781)
Total income taxes	565	(669)
Net income (loss)	1,569	(1,411)
Net income (loss) attributable to owners of the parent	1,569	(1,411)

Consolidated statements of comprehensive income

(Unit: Millions of yen)

	Previous fiscal year From April 1, 2015 to June 30, 2015	Current fiscal year From April 1, 2016 to June 30, 2016
Net income (loss)	1,569	(1,411)
Other comprehensive income		
Net unrealized gain or loss on securities, net of tax	80	(62)
Cumulative translation adjustments	771	(2,133)
Adjustments for retirement benefits	6	16
Total other comprehensive income	858	(2,178)
Comprehensive income	2,427	(3,590)
Comprehensive income attributable to:		
Owners of the parent	2,427	(3,590)
Non-controlling interests	—	—

(3) Consolidated statements of cash flows

(Unit: Millions of yen)

	Previous 3 months From April 1, 2015 to June 30, 2015	Current 3 months From April 1, 2016 to June 30, 2016
Cash flows from operating activities		
Net income (loss) before income taxes	2,134	(2,081)
Depreciation and amortization	1,029	1,421
Decrease in allowance for doubtful accounts	(0)	(3)
Decrease in accrued bonuses	(688)	(861)
Interest and dividend income	(30)	(18)
Interest expense	26	33
Exchange (loss) gain, net	(31)	655
Loss on sales and/or disposal of fixed assets	0	1
Decrease (increase) in notes and accounts receivable, trade	(387)	2,906
Increase in inventories	(2,657)	(357)
Increase in work-in-progress for game software	(3,052)	(3,025)
Increase in online contents in progress	(884)	(272)
(Decrease) increase in notes and accounts payable, trade	3,223	(1,813)
Other	(825)	1,685
Sub total	<u>(2,143)</u>	<u>(1,730)</u>
Interest and dividends received	51	18
Interest paid	(14)	(18)
Income taxes paid	(571)	(6,053)
Net cash used in operating activities	<u>(2,677)</u>	<u>(7,783)</u>
Cash flows from investing activities		
Payment for acquisitions of tangible fixed assets	(772)	(416)
Proceeds from sales of tangible fixed assets	4	—
Payment for acquisitions of intangible fixed assets	(145)	(23)
Other	3	(21)
Net cash used in investing activities	<u>(909)</u>	<u>(461)</u>
Cash flows from financing activities		
Net increase in short-term borrowings	3,500	12,500
Repayments of long-term borrowings	(16)	(166)
Payment for repurchase of treasury stock	(1)	(0)
Dividend paid	(1,406)	(1,429)
Other	(118)	(130)
Net cash provided by financing activities	<u>1,956</u>	<u>10,772</u>
Effect of exchange rate changes on cash and cash equivalents	583	(2,187)
Net increase (decrease) in cash and cash equivalents	<u>(1,047)</u>	<u>340</u>
Cash and cash equivalents at beginning of year	<u>27,998</u>	<u>28,429</u>
Cash and cash equivalents at end of quarter	<u>26,950</u>	<u>28,770</u>

(4) Notes to consolidated financial statements

(Going concern assumptions) Not applicable

(Material changes in shareholders' equity) Not applicable

(Segment information)

I Previous 3 months (From April 1, 2015 to June 30, 2015)

Information on net sales and operating income (loss)

(Unit: Millions of yen)

	Reportable segment				Other (Note 1)	Total	Adjustment (Note 2)	Consolidated total (Note 3)
	Digital Contents	Arcade Operations	Amusement Equipments	Total				
Net sales								
(1) Customers	6,294	1,932	6,042	14,268	272	14,541	—	14,541
(2) Inter-segment	—	—	—	—	—	—	—	—
Total	6,294	1,932	6,042	14,268	272	14,541	—	14,541
Segment income	1,107	35	1,772	2,914	50	2,964	(938)	2,026

(Note) 1. "Other" incorporates operations not included in reportable segments, including Character Contents business etc.

2. Adjustments of segments (-938 million yen) include unallocated corporate operating expenses (-938 million yen).

The corporate operating expenses, which do not belong to any reportable segments mainly consist of administrative expenses.

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

II Current 3 months (From April 1, 2016 to June 30, 2016)

Information on net sales and operating income (loss)

(Unit: Millions of yen)

	Reportable segment				Other (Note 1)	Total	Adjustment (Note 2)	Consolidated total (Note 3)
	Digital Contents	Arcade Operations	Amusement Equipments	Total				
Net sales								
(1) Customers	6,740	2,157	1,662	10,560	366	10,927	—	10,927
(2) Inter-segment	—	—	—	—	—	—	—	—
Total	6,740	2,157	1,662	10,560	366	10,927	—	10,927
Segment income	8	107	(61)	55	126	181	(908)	(726)

(Note) 1. "Other" incorporates operations not included in reportable segments, including Character Contents business etc.

2. Adjustments of segments (-908 million yen) include unallocated corporate operating expenses (-908 million yen).

The corporate operating expenses, which do not belong to any reportable segments mainly consist of administrative expenses.

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