

**Consolidated financial results for the 9 months
of the fiscal year ending March 31, 2017 (Japan GAAP - Unaudited)**

Date of issue: February 1, 2017

Company name: CAPCOM Co., Ltd.

Stock listing: Tokyo

Code number: 9697

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Filing date for financial report : February 1, 2017

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 the 9 months ended December 31, 2016 (From April 1, 2016 to December 31, 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	%
9 months ended December 31, 2016	53,507	-6.2	5,119	-51.7	4,147	-61.0	2,762	-60.6
9 months ended December 31, 2015	57,060	19.3	10,604	9.0	10,640	5.2	7,006	7.1

Note: Comprehensive income 3rd quarter ended December 31, 2016: 3,389 million yen (- 51.7%) 3rd quarter ended December 31, 2015: 7,021 million yen (- 31.5%)

	Earnings per share of common stock	Diluted earnings per share of common stock
	Yen	Yen
9 months ended December 31, 2016	49.70	—
9 months ended December 31, 2015	124.61	—

(2) Financial position

	Total assets	Net assets	Shareholders' equity ratio to total assets
	Millions of yen	Millions of yen	%
3rd quarter ended December 31, 2016	115,276	72,481	62.9
Fiscal year ended March 31, 2016	113,057	75,168	66.5

Reference: Shareholders' equity: 3rd quarter ended December 31, 2016: 72,481 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
	yen	yen	yen	yen	yen
Year ended March 31, 2016	—	15.00	—	25.00	40.00
Year ending March 31, 2017	—	25.00	—		
Year ending March 31, 2017 (Forecast)				25.00	50.00

(Note) Changes in dividends forecast from the latest disclosed information : 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	162.53

(Note) Changes in earnings forecast from the latest disclosed information : No

4. Others

- (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 (2)Use of special accounting methods for the quarterly consolidated financial statements" 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)
3rd quarter ended December 31, 2016: 67,723,244 Year ended March 31, 2016: 67,723,244
② Number of treasury stock
3rd quarter ended December 31, 2016: 12,976,839 Year ended March 31, 2016: 11,495,204
③ Average number of shares outstanding
9 months ended December 31, 2016: 55,578,651 9 months ended December 31, 2015: 56,229,256

(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 forecast] on page 4 for more details.

Attachment contents

1. Qualitative information regarding the consolidated business	2
(1) The progress of the consolidated business results including related qualitative information.....	2
(2) Explanation of the consolidated financial position	3
(3) Qualitative information regarding the consolidated business forecasts	4
2. Other information.....	4
(1) Transfer of major subsidiaries.....	4
(2) Use of special accountings methods for the quarterly consolidated financial statements	4
(3) Change(s) in accounting policy (policies), accounting estimates and retrospective restatements for consolidated financial statements.....	4
(4) Additional Information	4
3. Summary of consolidated financial statements	5
(1) Consolidated balance sheets	5
(2) Consolidated statements of income and comprehensive income	7
(3) Consolidated statements of cash flows	9
(4) Notes to consolidated financial statements.....	10
Going concern assumptions	10
Material changes in shareholders' equity	10
Segment information	10

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, 2016, signs of major changes to our industry became evident, such as the successive releases of VR (virtual reality) devices that are highly compatible with games. With an eye to creating a new market we entered a new era many are calling “VR year one.”

Under such circumstances, the Company has carried out reorganization and strengthened its management structure aiming to reform its development divisions, which are the core of the Company’s business operations. At the same time, the Company promoted group-wide optimization, including its subsidiaries, by clarifying reporting lines and responsibilities to ensure speedy decision-making and agile business development.

Moreover, through a mixed media strategy leveraging its rich content assets, the Company strove to enhance its presence and increase its brand value by generating synergy with its popular games, such as with the airing of the animated TV program *Monster Hunter Stories* (Fuji Television Network) from October 2016; the musical theater performance of *Resident Evil: Voice of Gaia* in Tokyo and Osaka, which is the first musical theater performance based on a survival horror game in the world; and the Japanese release of the latest title in the Resident Evil Hollywood film series, *Resident Evil: The Final Chapter*, on December 23, 2016.

The resulting consolidated net sales for the nine-months period ended December 31, 2016 were 53,507 million yen (down 6.2% from the same term in the previous year) partly due to a dip following *Monster Hunter X (Cross)* (for the Nintendo 3DS family of systems), which was a smash-hit in Japan during the same term in the previous year. Regarding profitability, operating income was 5,119 million yen (down 51.7% from the same term in the previous year), ordinary income was 4,147 million yen (down 61.0% from the same term in the previous year), and net income attributable to owners of the parent was 2,762 million yen (down 60.6% from the same term in the previous year).

Status of business by operating segment

① Digital Contents business

In the Digital Contents business, sales of *Dead Rising 4* (for Xbox One and PC), which was released in December 2016, were firm, while the sales of *Monster Hunter Stories* (for the Nintendo 3DS family of systems), which targeted younger audiences, were soft. On the other hand, re-releases of popular titles *Resident Evil 5* (for PlayStation 4 and Xbox One) and *Resident Evil 4* (for PlayStation 4 and Xbox One) performed steadily thanks to a stable fanbase for the brand. Additionally, *Monster Hunter Generations*, known as *Monster Hunter X (Cross)* in Japan and Asia (for the Nintendo 3DS family of systems), achieved solid sales overseas thanks to Capcom’s established brand capabilities.

Moreover, in online games and mobile phone contents, the Company broke new ground amidst ongoing efforts to achieve progress in this static sub-segment by reviewing its development framework and operation methods. This led *Toraware no Paruma*, an enterprising romance game for smartphones (for Android devices and iOS) developed primarily by female staff, to reach the top of the App Store paid application rankings on its release date.

The resulting net sales were 28,428 million yen (down 21.2% from the same term in the previous year), and operating income was 1,461 million yen (down 84.9% from the same term in the previous year). In the fourth quarter of the fiscal

year ending March 31, 2017, the Company plans on an aggressive sales campaign with the release of two major titles for the quarter *RESIDENT EVIL 7 biohazard* (for PlayStation 4, Xbox One and PC) and *Monster Hunter XX (Double Cross)* (for the Nintendo 3DS family of systems) in Japan.

② Arcade Operations business

In the Arcade Operations business, under the environment in which the regulations on the entry into arcades at night 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 children accompanied by a parent. This was done through community-based arcade marketing to win the support of local residents by holding various events and operating arcades that offer comfortable experiences to customers under the banner of “No. 1 arcade in the community.” To develop new business opportunities, the Company also pushed forward innovative new business formulas, such as opening a CharaCap shop, which mainly sells character merchandise, inside an arcade.

During the period under review, a new arcade was opened in Yamaguchi Prefecture bringing the total number of arcades to 35.

The resulting net sales were 7,069 million yen (up 7.5% from the same term in the previous year) and operating income was 611 million yen (up 33.1% from the same term in the previous year).

③ Amusement Equipments business

In the Pachinko & Pachislo sub-segment, *Monster Hunter Kyoryu Sensen*, the featured model this term, was a mega hit, due to synergy with home video games, and drove sales expansion. In the Arcade Games Sales sub-segment, the Company launched *Mario Party Fushigi no Challenge World* and focused on repeat sales of existing products.

The resulting net sales were 16,591 million yen (up 26.7% from the same term in the previous year) and operating income was 5,422 million yen (up 87.3% from the same term in the previous year).

④ Other Businesses

The net sales from Other Businesses, mainly consisting of royalty income from licensing and sale of character merchandise, were 1,418 million yen (up 8.3% from the same term in the previous year) and operating income was 562 million yen (up 58.8% from the same term in the previous year).

(2) Explanation of the consolidated financial position

Total assets as of the end of the third quarter increased by 2,219 million yen from the end of the previous fiscal year to 115,276 million yen. The primary increases were 6,461 million yen in notes and accounts receivable, trade and 5,171 million yen work-in-progress for game software. The primary decrease was 7,515 million yen in cash on hand and in banks.

Total liabilities as of the end of the third quarter increased by 4,906 million yen from the end of the previous fiscal year to 42,795 million yen. The primary increases were 8,482 million yen in short-term borrowings and 3,274 million yen in electronically recorded monetary liabilities. The primary decreases were 5,306 million yen in accrued income taxes and 1,179 million yen in accrued bonuses.

Net assets as of the end of the third quarter decreased by 2,687 million yen from the end of the previous fiscal year to 72,481 million yen. The primary increase was 2,762 million yen in net income attributable to owners of the parent. The primary decreases were an increase of 3,302 million yen in treasury stock and 2,774 million yen in cash dividends.

(3) Qualitative information regarding the consolidated business forecasts

The forecast for the consolidated business results for the 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 second 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 third 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 3rd quarter (As of December 31, 2016)
Assets		
Current assets		
Cash on hand and in banks	28,429	20,913
Notes and accounts receivable, trade	9,879	16,341
Merchandise and finished goods	1,704	2,706
Work-in-progress	2,085	1,697
Raw materials and supplies	1,954	1,953
Work-in-progress for game software	24,825	29,996
Other	7,055	6,438
Allowance for doubtful accounts	(18)	(22)
Total current assets	75,917	80,025
Fixed assets		
Tangible fixed assets, net of accumulated depreciation	20,825	20,308
Intangible fixed assets		
Online contents in progress	2,395	2,918
Other	5,740	3,736
Total intangible fixed assets	8,135	6,654
Investments and other assets		
Other	8,257	8,395
Allowance for doubtful accounts	(78)	(107)
Total investments and other assets	8,179	8,288
Total fixed assets	37,140	35,251
Total assets	113,057	115,276

(Unit: Millions of yen)

	Previous fiscal year (as of March 31, 2016)	Current 3rd quarter (As of December 31, 2016)
Liabilities		
Current liabilities		
Notes and accounts payable, trade	4,053	5,320
Electronically recorded monetary obligations	888	4,162
Short-term borrowings	1,497	9,979
Accrued income taxes	6,470	1,163
Accrued bonuses	2,080	901
Other	7,366	6,567
Total current liabilities	22,355	28,095
Long-term liabilities		
Long-term borrowings	11,111	10,363
Liabilities for retirement benefits for employees	2,323	2,429
Other	2,098	1,905
Total long-term liabilities	15,532	14,699
Total liabilities	37,888	42,795
Net assets		
Shareholders' equity		
Common stock	33,239	33,239
Capital surplus	21,328	21,328
Retained earnings	39,297	39,285
Treasury stock	(18,145)	(21,448)
Total shareholders' equity	75,719	72,405
Accumulated other comprehensive income		
Net unrealized gain or loss on securities, net of tax	2	111
Cumulative translation adjustments	(278)	206
Accumulated adjustments for retirement benefits	(274)	(241)
Total accumulated other comprehensive income	(550)	76
Total net assets	75,168	72,481
Total liabilities and net assets	113,057	115,276

(2) Consolidated statements of income and comprehensive income

Consolidated statements of income

(Unit: Millions of yen)

	Previous 9 months From April 1, 2015 to December 31, 2015	Current 9 months From April 1, 2016 to December 31, 2016
Net sales	57,060	53,507
Cost of sales	34,215	37,305
Gross profit	22,845	16,201
Selling, general and administrative expenses	12,240	11,081
Operating income	10,604	5,119
Non-operating income		
Interest income	73	33
Dividend income	13	13
Exchange gain, net	56	—
Other	74	79
Total non-operating income	218	126
Non-operating expenses		
Interest expense	89	106
Commissions	42	34
Exchange loss, net	-	716
Other	50	242
Total non-operating expenses	182	1,098
Ordinary income	10,640	4,147
Special losses		
Loss on sales and /or disposal of fixed assets	37	50
Impairment loss	106	—
Total special losses	144	50
Net income before income taxes	10,496	4,096
Income taxes-current	2,984	1,366
Income taxes-deferred	504	(32)
Total income taxes	3,489	1,334
Net income	7,006	2,762
Net income attributable to owners of the parent	7,006	2,762

Consolidated statements of comprehensive income

(Unit: Millions of yen)

	Previous 9 months From April 1, 2015 to December 31, 2015	Current 9 months From April 1, 2016 to December 31, 2016
Net income	7,006	2,762
Other comprehensive income		
Net unrealized gain or loss on securities, net of tax	0	109
Cumulative translation adjustments	(5)	484
Adjustments for retirement benefits	20	33
Total other comprehensive income	15	627
Comprehensive income	7,021	3,389
Comprehensive income attributable to:		
Owners of the parent	7,021	3,389
Non-controlling interests	—	—

(3) Consolidated statements of cash flows

(Unit: Millions of yen)

	Previous 9 months From April 1, 2015 to December 31, 2015	Current 9 months From April 1, 2016 to December 31, 2016
Cash flows from operating activities		
Net income before income taxes	10,496	4,096
Depreciation and amortization	4,037	4,400
Impairment loss	106	—
Increase (decrease) in allowance for doubtful accounts	(34)	33
Decrease in accrued bonuses	(844)	(1,168)
Interest and dividend income	(86)	(47)
Interest expense	89	106
Exchange gain, net	(4)	(7)
Loss on sales and/or disposal of fixed assets	37	50
Increase in accounts receivable, trade	(5,326)	(6,637)
Increase in inventories	(1,348)	(461)
Increase in work-in-progress for game software	(7,130)	(4,927)
Increase in online contents in progress	(2,178)	(530)
Increase in accounts payable, trade	705	4,478
(Decrease) increase in other current liabilities	1,133	(117)
Other	(1,441)	493
Sub total	(1,788)	(236)
Interest and dividends received	89	47
Interest paid	(74)	(88)
Income taxes paid	(925)	(6,533)
Net cash used in operating activities	(2,698)	(6,810)
Cash flows from investing activities		
Payment for acquisitions of tangible fixed assets	(2,697)	(1,584)
Proceeds from sales of tangible fixed assets	4	5
Payment for acquisitions of intangible fixed assets	(161)	(100)
Other	156	(36)
Net cash used in investing activities	(2,697)	(1,716)
Cash flows from financing activities		
Increase in short-term borrowings	4,000	8,500
Repayments of long-term borrowings	(152)	(765)
Payment for repurchase of treasury stock	(4)	(3,302)
Dividends paid	(2,251)	(2,796)
Other	(371)	(398)
Net cash provided by financing activities	1,219	1,236
Effect of exchange rate changes on cash and cash equivalents	114	(225)
Net decrease in cash and cash equivalents	(4,061)	(7,515)
Cash and cash equivalents at beginning of year	27,998	28,429
Cash and cash equivalents at end of year	23,936	20,913

(4) Notes to consolidated financial statements

(Going concern assumptions) Not applicable

(Material changes in shareholders' equity)

Capcom made a resolution to repurchase treasury stock through the board of directors' meeting held on August 25, 2016 in accordance with the articles of incorporation applied under Article 156 and Section 3 of Article 165 of the Companies Act.

As a result, Capcom repurchased its treasury stock of 1,480 thousand shares for 3,299 million yen from August 26, 2016 to September 5, 2016.

(Segment information)

I Previous 9 months (From April 1, 2015 to December 31, 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	36,080	6,578	13,091	55,750	1,310	57,060	—	57,060
(2) Inter-segment	—	—	—	—	—	—	—	—
Total	36,080	6,578	13,091	55,750	1,310	57,060	—	57,060
Operating income	9,706	459	2,895	13,060	354	13,415	(2,810)	10,604

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

2. Adjustments of segments (-2,810 million yen) include unallocated corporate operating expenses (-2,810 million yen).

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

3. Operating income (loss) for segment is adjusted on operating income on the quarterly consolidated statements of income.

II Current 9 months (From April 1, 2016 to December 31, 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	28,428	7,069	16,591	52,089	1,418	53,507	—	53,507
(2) Inter-segment	—	—	—	—	—	—	—	—
Total	28,428	7,069	16,591	52,089	1,418	53,507	—	53,507
Operating income	1,461	611	5,422	7,495	562	8,058	(2,938)	5,119

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

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

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

3. Operating income (loss) for segment is adjusted on operating income on the quarterly consolidated statements of income.