

(4) Notes to consolidated financial statements

(Going concern assumptions) Not applicable

(Material changes in shareholders' equity) Not applicable

(Application of special accounting treatment for preparation of quarterly financial statements)

(Calculation of income taxes)

Income taxes for subsidiaries are calculated by multiplying the net income before income taxes by the forecasted effective tax rate, which is computed by matching the forecasted yearly income taxes with the forecasted yearly income before taxes.

(Segment information)

I Previous 6 months (From April 1, 2017 to September 30, 2017)

Information on net sales and operating income (loss) by reportable segment

(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	20,138	5,179	7,330	32,648	1,080	33,729	—	33,729
(2) Inter-segment	—	—	—	—	—	—	—	—
Total	20,138	5,179	7,330	32,648	1,080	33,729	—	33,729
Segment income	3,830	634	1,925	6,390	571	6,961	(1,960)	5,001

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

2. The adjustment for segment income (-1,960 million yen) include unallocated corporate operating expenses (-1,960 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 6 months (From April 1, 2018 to September 30, 2018)

1. Information on net sales and operating income (loss) by reportable segment

(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	34,195	5,504	2,224	41,923	1,403	43,327	—	43,327
(2) Inter-segment	—	—	—	—	—	—	—	—
Total	34,195	5,504	2,224	41,923	1,403	43,327	—	43,327
Segment income	11,751	734	(625)	11,860	685	12,546	(2,037)	10,508

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

2. The adjustment for segment income (-2,037 million yen) include unallocated corporate operating expenses (-2,037 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.

2. Information on impairment loss on fixed assets or goodwill by reportable segment

(Significant impairment loss on fixed assets)

In the "Digital Contents" business segment the carrying value of assets to be disposed of was written down to the recoverable value, which led to an impairment loss of 398 million yen recorded as a special loss.

(Subsequent Events)

At the Board of Directors Meeting held on October 29, 2018, CAPCOM CO., Ltd. (“the Company”) resolved to repurchase treasury stocks via tender offer in accordance with the Articles of Incorporation applied under Section 1 of Article 156 and Section 3 of Article 165 of the Companies Act. (Law number 86 of 2005, including the amendments thereafter.)

(1) Purpose

Shareholder return is one of the Company’s highest priorities, as the Company strives to maintain stable dividends, which includes a dividend payout ratio of 30% on a consolidated basis as the basic target, with consideration given to future business development and changes in the business environment. Also, in accordance with Section 2 of Article 165 of the Companies Act, the Company states in its Articles of Incorporation that it is entitled to purchase its own shares through the stock market etc., based on the resolution by the Board of Directors. The purpose of this is to improve capital efficiency and allow the Company to implement a flexible capital policy in response to changes in the business environment by authorizing the Board of Directors to repurchase its treasury stocks through the stock market etc., and the Company has thus far carried out such actions to further improve return to shareholders

In late August 2018, the Company was notified that Crossroad Co., Ltd. (“Crossroad”), the Company’s main and largest shareholder (excluding treasury stocks), has the intent to sell a portion of its 12,748,800 shares, which account for 9.41% (rounded off to the 2nd decimal place) of the Company’s outstanding shares of 135,446,488 (as of October 29, 2018).

Crossroad is an asset management company owned by the Company’s founding family, with both Yoshiyuki Tsujimoto, President and Representative Director of the Company’s subsidiary, CAPCOM Maintenance Service Co., Ltd., and Ryoza Tsujimoto, Managing Corporate Officer of the Company, as its representative directors, and Haruhiro Tsujimoto, President and Chief Operating Officer (COO) of the Company, as its director. They are the sons of Kenzo Tsujimoto, Chairman and Chief Executive officer (CEO) of the Company, who is also a director of Crossroad. These three sons hold 100% of the voting rights of Crossroad.

Following the notification from Crossroad, the Company started to examine the possibility to repurchase the treasury stocks to improve capital efficiency and return to shareholders, taking into consideration the impact on liquidity and the stock price in the case where a large number of shares have been sold in the market at once, as well as the Company’s financial status comprehensively.

As a conclusion, the Company decided that the repurchase of the treasury stocks would lead to improvement of the Company’s EPS and capital efficiency, such as ROE as well as return to shareholders. The Company also decided that it would have no significant impact on the Company’s financial status or on the dividend policy.

As for concrete measures to repurchase the treasury stocks, the Company decided that the tender offer would be appropriate in terms of fairness among shareholders and transparency of the transaction.

(2) Resolution by the Board of Directors concerning repurchase of treasury stock

- ① Type of shares to be acquired: Common stock
- ② Total number of shares to be acquired: 2,737,200 shares (maximum)
- ③ Total amount: 5,999,942,400 yen (maximum)
- ④ Period of acquisition: From October 30, 2018 through December 28, 2018

(3) Tender offer

- ① Type of shares to be acquired: Common stock
- ② Period of Acquisition: From October 30, 2018 through November 27, 2018
- ③ Purchase price: 2,192 yen per share
- ④ Total number of shares to be acquired: 2,737,100 shares
- ⑤ Start date of settlement: December 19, 2018