

**Consolidated financial results for the 9 months
of the fiscal year ending March 31, 2016 (Japan GAAP - Unaudited)**

Date of issue: January 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: Tamio Oda, Director and Executive Vice President and CFO

Filing date for financial report : January 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 the 9 months ended December 31, 2015 (From April 1, 2015 to December 31, 2015)

(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, 2015	57,060	19.3	10,604	9.0	10,640	5.2	7,006	7.1
9 months ended December 31, 2014	47,830	-36.4	9,727	14.1	10,114	9.3	6,540	9.8

(Note) Comprehensive income 3rd quarter ended December 31, 2015: 7,021 million yen (-31.5%) 3rd quarter ended December 31, 2014: 10,256 million yen (13.6%)

	Earnings per share of common stock	Diluted earnings per share of common stock
	Yen	Yen
9 months ended December 31, 2015	124.61	—
9 months ended December 31, 2014	116.31	—

(2) Financial position

	Total assets	Net assets	Shareholders' equity ratio to total assets
	Millions of yen	Millions of yen	%
3rd quarter ended December 31, 2015	111,429	76,098	68.3
Fiscal year ended March 31, 2015	100,773	71,331	70.8

(Reference) Shareholders' equity: 3rd quarter ended December 31, 2015: 76,098 million yen Year ended March 31, 2015: 71,331 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, 2015	—	15.00	—	25.00	40.00
Year ending March 31, 2016	—	15.00	—		
Year ending March 31, 2016 (Forecast)				25.00	40.00

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

No

3. Earnings forecast for the fiscal year ending March 31, 2016 (From April 1, 2015 to March 31, 2016)

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, 2016	76,000	18.2	12,000	13.4	11,700	7.8	7,700	16.4	136.94

(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" 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, 2015: | 67,723,244 | Year ended March 31, 2015: | 67,723,244 |
| ② Number of treasury stock | | | |
| 3rd quarter ended December 31, 2015: | 11,495,124 | Year ended March 31, 2015: | 11,493,262 |
| ③ Average number of shares outstanding | | | |
| 9 months ended December 31, 2015: | 56,229,256 | 9 months ended December 31, 2014: | 56,232,314 |

(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 accounting methods for the quarterly consolidated financial statements.....	4
(3) Changes in accounting policies, accounting estimates and retrospective restatement for consolidated financial statements.....	4
3. Summary of consolidated financial statements	6
(1) Consolidated balance sheets	6
(2) Consolidated statements of income and comprehensive income	8
(3) Consolidated statements of cash flows	10
(4) Notes to consolidated financial statements.....	11
Going concern assumptions	11
Material changes in shareholders' equity	11
Segment information	11

1. Qualitative information regarding the consolidated business

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

In the game industry during the nine-month period ended December 31, 2015, while the mobile game population centering on smartphones continued to expand, the overall game population also expanded thanks to efforts to further cultivate the existing market by catering to diverse customer tastes and by attracting women, families and senior players through new customer development, and year-end holiday season sales were also strong.

In such an environment, the Company focused on improving the development process and revenue management in order to reduce development costs and shorten the development period. This was achieved by increasing the ratio of internally produced titles through a reduction in the volume of outsourced operations. Additionally, in an effort to develop diverse revenue sources, the Company pushed forward its Single Content Multiple Usage strategy by leveraging its premier contents such as “Monster Hunter” and “Street Fighter”.

Furthermore, the Company has been focusing on expanding its profitable, digital download sales in order to mitigate inventory risk and reduce distribution costs. Additionally, the strong initial sales of the featured title, “Monster Hunter X (Cross)” (for the Nintendo 3DS system), which was released in time for Christmas, contributed to the total unit sales and helped to increase sales overall.

Meanwhile, in the growing Chinese market, distribution of the PC online game “Monster Hunter Online” by Tencent Holdings Limited in cooperation with the Company, which began in December, was off to a good start, thus increasing the possibility of even greater business development going forward.

On the other hand, in the amusement market, the business environment failed to pick up and the results remained soft.

The resulting consolidated net sales for the nine-month period ended December 31, 2015 were 57,060 yen (up 19.3 % from the same term last year). Regarding profitability, operating income was 10,604 million yen (up 9.0% from the same term last year), ordinary income amounted to 10,640 million yen (up 5.2% from the same term last year), and net income attributable to owners of the parent amounted to 7,006 million yen (up 7.1% from the same term last year).

Status of each operational department

① Digital Contents business

In the Digital Contents business, the latest title in the featured series, “Monster Hunter X (Cross)” (for the Nintendo 3DS system), was a major hit due to its overwhelming popularity among users who had highly anticipated its release which contributed to significant sales of more than 3 million units, surpassing the initially-planned 2.5 million units. Additionally, while sales of “Sengoku BASARA 4 SUMERAGI” (for PlayStation 4 and PlayStation 3) were solid thanks to its well-established brand power, “DAIGYAKUTENSAIBAN” (for the Nintendo 3DS system) remained slow.

On the other hand, sales of repeat titles and digital download sales were firm, particularly in overseas markets.

Regarding online games, “Dragon's Dogma Online” (for PlayStation 4, PlayStation 3 and PC), an online open-world action game where players can freely experience a host of adventures, were strong, while mobile contents sales improved as downloads of “Monster Hunter Explore” (for Android and iOS) surpassed 3 million.

The resulting net sales were 36,080 million yen (up 11.3% from the same term last year), and operating income was 9,706 million yen (up 14.6% from the same term last year).

② Arcade Operations business

In the Arcade Operations business, with the market continuing to be weak, the Company strived to expand its customer base by attracting customers including women and families through such measures as holding various events and service days for the middle-aged and seniors by offering “free game experience tours” and the setting up of additional “Asobi Oukoku peekaboo” sites and “Kids' Corner” sections targeting younger children.

Nonetheless, the segment results were soft, partly because of the lack of a high-performance product as well as sluggish demand due to the dispersion of entertainment, resulting from the overlapping of arcade game players with smartphone users.

During the period under review, “Amuse Factory Tokoname” (Aichi Prefecture) and the unique “Capcom Cafe” (Saitama Prefecture) were opened, while one arcade was closed, bringing the total number of arcades to 34.

The resulting net sales were 6,578 million yen (down 5.4% from the same term last year), and operating income was 459 million yen (down 39.8% from the same term last year).

③ Amusement Equipments business

In the Pachinko & Pachislo sub-segment, unit sales of “Resident Evil 6” strongly increased with the support of loyal fans, which has backed the improvement in revenue as it contributed to the increase in sales. However, sales of “Asura's Wrath” remained weak.

Meanwhile, in the Arcade Games Sales sub-segment, sales of “Luigi Mansion Arcade” were weak reflecting the sluggish market, while “crossbeats REV.” for arcades also struggled.

The resulting net sales were 13,091 million yen (up 87.0% from the same term last year), and operating income was 2,895 million yen (up 3.8% from the same term last year).

④ Other Businesses

The net sales from Other Businesses, mainly consisting of publication of game guidebooks and sale of related goods, were 1,310 million yen (down 10.7% from the same term last year), and operating income was 354 million yen (down 22.7% from the same term last year).

(2) Explanation of the consolidated financial position

Total assets as of the end of the third quarter increased by 10,656 million yen from the end of the previous fiscal year to 111,429 million yen. Primary increases were followings: 6,900 million yen in work-in-progress for game software and 5,379 million yen in notes and accounts receivable.

Total liabilities as of the end of the third quarter increased by 5,888 million yen from the end of the previous fiscal year to 35,330 million yen. Primary increases were followings: 2,066 million yen in long-term borrowings, 1,887 million yen in accrued income taxes and 1,781 million yen in short-term borrowings.

Net assets as of the end of the third quarter increased by 4,767 million yen from the end of the previous fiscal year to 76,098 million yen. Primary increase was 7,006 million yen in net income attributable to owners of the parent. Primary decrease was 2,249 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, 2016 remains the same as what was projected at the financial results announcement on May 7, 2015.

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

(Change in accounting policies)

(Application of the Accounting Standard for Business Combinations, etc.)

The Company has applied the “Accounting Standard for Business Combinations” (ASBJ Statement No. 21, September 13, 2013; hereinafter the “Accounting Standard for Business Combinations”), “Accounting Standard for Consolidated Financial Statements” (ASBJ Statement No. 22, September 13, 2013; hereinafter the “Accounting Standard for Consolidated Financial Statements”), and “Accounting Standard for Business Divestitures” (ASBJ Statement No. 7, September 13, 2013; hereinafter the “Accounting Standard for Business Divestitures”), etc. effective from the first quarter under review. As a result, the method of recording the amount of difference caused by changes in the Company’s ownership interests in subsidiaries in the case of subsidiaries under ongoing control of the Company was changed to one in which it is recorded as capital surplus, and the method of recording acquisition-related costs was changed to one in which they are recognized as expenses for the fiscal year in which they are incurred. Furthermore, for business combinations carried out on or after the first day of the first quarter under review, the accounting method was changed to one in which the reviewed acquisition cost allocation resulting from the finalization of the tentative accounting treatment is reflected in the quarterly consolidated financial statements for the quarterly period in which the business combination occurs. In addition, a change in the presentation of quarterly net income, etc. and a change in the presentation of the minority interests to non-controlling interests were adopted. In order to reflect these changes in presentation, the quarterly consolidated financial statements for the third quarter of the previous fiscal year and the consolidated financial statements for the previous fiscal year were reclassified.

The application of the Accounting Standard for Business Combinations, etc. is subject to the transitional treatment provided for in Paragraph 58-2(4) of the Accounting Standard for Business Combinations, Paragraph 44-5(4) of the Accounting Standard for Consolidated Financial Statements, and Paragraph 57-4(4) of the Accounting Standard for Business Divestitures. Accordingly, these standards have been applied prospectively from the first day of the first quarter under review.

This change in accounting policies has no impact on the Company's consolidated financial statements for the third quarter under review.

3. Consolidated financial statements

(1) Consolidated balance sheets

(Unit: Millions of yen)

	Previous fiscal year (as of March 31, 2015)	Current 3rd quarter (As of December 31, 2015)
Assets		
Current assets		
Cash on hand and in banks	32,204	28,157
Notes and accounts receivable, trade	8,005	13,384
Merchandise and finished goods	1,225	1,521
Work-in-progress	1,672	1,910
Raw materials and supplies	1,020	2,059
Work-in-progress for game software	16,833	23,734
Other	4,755	5,058
Allowance for doubtful accounts	(56)	(23)
Total current assets	65,659	75,803
Fixed assets		
Tangible fixed assets, net of accumulated depreciation	17,328	18,332
Intangible fixed assets		
Online contents in progress	7,895	5,214
Other	2,772	5,429
Total intangible fixed assets	10,668	10,644
Investments and other assets		
Other	7,196	6,727
Allowance for doubtful accounts	(78)	(78)
Total investments and other assets	7,117	6,649
Total fixed assets	35,113	35,626
Total assets	100,773	111,429

(Unit: Millions of yen)

	Previous fiscal year (As of March 31, 2015)	Current 3rd quarter (As of December 31, 2015)
Liabilities		
Current liabilities		
Notes and accounts payable, trade	3,089	2,325
Electronically recorded monetary obligations	988	2,475
Short-term borrowings	3,452	5,234
Accrued income taxes	823	2,711
Accrued bonuses	1,832	988
Other	7,058	7,822
Total current liabilities	17,246	21,556
Long-term liabilities		
Long-term borrowings	7,540	9,606
Liabilities for retirement benefits for employees	2,101	2,279
Other	2,554	1,888
Total long-term liabilities	12,195	13,774
Total liabilities	29,442	35,330
Net assets		
Shareholders' equity		
Common stock	33,239	33,239
Capital surplus	21,328	21,328
Retained earnings	33,801	38,558
Treasury stock	(18,140)	(18,145)
Total shareholders' equity	70,228	74,981
Accumulated other comprehensive income		
Net unrealized gain on securities, net of tax	170	171
Cumulative translation adjustments	1,215	1,209
Accumulated adjustments for retirement benefits	(283)	(263)
Total accumulated other comprehensive income	1,102	1,117
Total net assets	71,331	76,098
Total liabilities and net assets	100,773	111,429

(2) Summary of consolidated statements of income

(Unit: Millions of yen)

	Previous 9 months From April 1, 2014 to December 31, 2014	Current 9 months From April 1, 2015 to December 31, 2015
Net sales	47,830	57,060
Cost of sales	27,169	34,215
Gross profit	20,661	22,845
Reversal of allowance for sales returns	80	—
Net gross profit	20,741	22,845
Selling, general and administrative expenses	11,014	12,240
Operating income	9,727	10,604
Non-operating income		
Interest income	72	73
Dividend income	13	13
Exchange gain, net	393	56
Other	160	74
Total non-operating income	638	218
Non-operating expenses		
Interest expense	62	89
Commissions	63	42
Other	124	50
Total non-operating expenses	251	182
Ordinary income	10,114	10,640
Special losses		
Loss on sales and /or disposal of fixed assets	52	37
Impairment loss	—	106
Total special losses	52	144
Net income before income taxes	10,062	10,496
Income taxes-current	1,364	2,984
Income taxes-deferred	2,157	504
Total income taxes	3,522	3,489
Net income	6,540	7,006
Net income attributable to owners of the parent	6,540	7,006

Consolidated statements of comprehensive income

(Unit: Millions of yen)

	Previous 9 months From April 1, 2014 to December 31, 2014	Current 9 months From April 1, 2015 to December 31, 2015
Net income	6,540	7,006
Other comprehensive income		
Net unrealized gain or loss on securities, net of tax	16	0
Cumulative translation adjustments	3,683	(5)
Adjustments for retirement benefits	16	20
Total other comprehensive income	3,716	15
Comprehensive income	10,256	7,021
Comprehensive income attributable to:		
Owners of the parent	10,256	7,021
Non-controlling interests	—	—

(3) Summary of statements of cash flows

(Unit: Millions of yen)

	Previous 9 months From April 1, 2014 to December 31, 2014	Current 9 months From April 1, 2015 to December 31, 2015
Cash flows from operating activities		
Net income before income taxes	10,062	10,496
Depreciation and amortization	2,455	4,037
Impairment loss	—	106
Amortization of goodwill	66	—
Decrease in allowance for doubtful accounts	(2)	(34)
Decrease in accrued bonuses	(770)	(844)
Interest and dividend income	(85)	(86)
Interest expense	62	89
Exchange gain, net	(168)	(4)
Loss on sales and/or disposal of fixed assets	52	37
(Increase) decrease in accounts receivable, trade	11,914	(5,326)
Increase in inventories	(526)	(1,348)
Increase in work-in-progress for game software	(6,017)	(7,130)
Increase in online contents in progress	(3,334)	(2,178)
Increase (decrease) in accounts payable, trade	(8,524)	705
Increase (decrease) in other current liabilities	(563)	1,133
Other	(414)	(1,441)
Sub total	4,206	(1,788)
Interest and dividends received	97	89
Interest paid	(61)	(74)
Income taxes paid	(894)	(925)
Net cash provided by operating activities	3,348	(2,698)
Cash flows from investing activities		
Payment for acquisitions of tangible fixed assets	(4,399)	(2,697)
Proceeds from sales of tangible fixed assets	207	4
Payment for acquisitions of intangible fixed assets	(194)	(161)
Other	(35)	156
Net cash used in investing activities	(4,422)	(2,697)
Cash flows from financing activities		
Increase in short-term borrowings	2,140	4,000
Proceeds from long-term borrowing	1,002	—
Repayments of long-term borrowings	(50)	(152)
Payment for repurchase of treasury stock	(3)	(4)
Dividends paid	(2,251)	(2,251)
Other	(279)	(371)
Net cash provided by (used in) financing activities	555	1,219
Effect of exchange rate changes on cash and cash equivalents	2,567	114
Net (decrease) increase in cash and cash equivalents	2,049	(4,061)
Cash and cash equivalents at beginning of year	26,118	27,998
Cash and cash equivalents at end of year	28,167	23,936

(4) Notes to consolidated financial statements

(Going concern assumptions) Not applicable

(Material changes in shareholders' equity) Not applicable

(Segment Information)

I Previous 9 months (From April 1, 2014 to December 31, 2014)

1. 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	32,408	6,952	7,002	46,363	1,466	47,830	—	47,830
(2) Inter-segment	—	—	—	—	—	—	—	—
Total	32,408	6,952	7,002	46,363	1,466	47,830	—	47,830
Operating income	8,469	763	2,789	12,022	458	12,480	(2,753)	9,727

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

2. Adjustments of segments (-2,753 million yen) include unallocated corporate operating expenses (-2,753 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, 2015 to December 31, 2015)

1. 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.