

**Consolidated financial results for the 6 months
of the fiscal year ending March 31, 2015 (Japan GAAP - Unaudited)**

Date of issue: October 29, 2014

Company name: CAPCOM Co., Ltd.

Stock listing: Tokyo

Code number: 9697

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Filing date for financial report : October 29, 2014

Dividend payment date: November 17, 2014

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 6 months ended September 30, 2014 (From April 1, 2014 to September 30, 2014)

(1) Financial results

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

	Net sales		Operating income		Ordinary income		Net income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
6 months ended September 30, 2014	25,917	-51.3	4,383	-41.6	4,540	-44.6	2,973	-39.9
6 months ended September 30, 2013	53,234	16.9	7,509	15.2	8,190	34.8	4,950	20.0

Note: Comprehensive income 2nd quarter ended September 30, 2014 : 4,202 million yen (-31.0%) 2nd quarter ended September 30, 2013 : 6,091 million yen (100.6%)

	Earnings per share of common stock	Diluted earnings per share of common stock
	Yen	Yen
6 months ended September 30, 2014	52.89	—
6 months ended September 30, 2013	87.59	—

(2) Financial position

	Total assets	Net assets	Shareholders' equity ratio to total assets
	Millions of yen	Millions of yen	%
2nd quarter ended September 30, 2014	94,925	66,943	70.5
Fiscal year ended March 31, 2014	96,611	63,875	66.1

Reference: Shareholders' equity: 2nd quarter ended September 30, 2014 : 66,943 million yen Year ended March 31, 2014 : 63,875 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, 2014	—	15.00	—	25.00	40.00
Year ending March 31, 2015	—	15.00			
Year ending March 31, 2015 (Forecast)			—	25.00	40.00

(Note) Changes in dividends forecast during the 6months ended September 30, 2014 : No

3. Earnings forecast for the fiscal year ending March 31, 2014 (From April 1, 2014 to March 31, 2015)

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

	Net sales		Operating income		Ordinary income		Net income		Net income per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Year ending March 31, 2015	80,000	-21.7	10,500	1.9	10,200	-6.8	6,600	91.6	117.37

(Note) Changes in earnings forecast during the 6 months ended September 30, 2014 : 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 5 for more details.)

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

① Number of shares outstanding (including treasury stock)			
2nd quarter ended September 30, 2014:	67,723,244	Year ended March 31, 2014:	67,723,244
② Number of treasury stock			
2nd quarter ended September 30, 2014:	11,491,293	Year ended March 31, 2014:	11,490,124
③ Average number of shares outstanding			
2nd quarter ended September 30, 2014:	56,232,675	2nd quarter ended September 30, 2013:	56,520,270

(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.

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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 six months period ended September 30, 2014, there were the rising prices of goods and a backlash from last-minute demand before the consumption tax hike, but while performance was uneven, the Japanese economy remained on a recovery trend thanks to the yen's depreciation, rising stock prices, robust employment environment and other factors.

In our industry, though the home video game market saw packaged software sales remain more or less stable, the overall market size expanded due to brisk overseas markets in addition to the social game market's continued rapid development centering on smartphones.

Under such circumstances, with regard to home video game software as its core business, Capcom did not introduce any major software titles, but concentrated on expanding sales through devoting effort to grow download sales, various promotional activities, and so forth.

Moreover, in addition to measures aimed at reorganizing the business structure of its Mobile Contents sub-segment and others, the company endeavored to improve its profits by reducing the cost of sales and cutting back on selling, general and administrative expenses.

Meanwhile, in terms of events, the "10th Anniversary Monster Hunter Exhibition" was held that looked back on the history of the "Monster Hunter" series, Capcom's current flagship title, of which cumulative sales have surpassed 28 million units as a whole since the launch of the first software in 2004.

Furthermore, the Company has promoted the Single Content Multiple Usage strategy. Such efforts include the announcement of the release of a "Monster Hunter" version of a large motorcycle by an Italian motorcycle manufacturer Ducati Japan Ltd., and sales of Monster Hunter-themed T-shirts by UNIQLO Co., Ltd., etc.

In addition, at ChinaJoy 2014 in Shanghai, China's largest game exhibition, "Monster Hunter" attracted interest from attendees, raising hopes for future development in Asia.

"Monster Hunter 4 Ultimate" (for Nintendo 3DS), a highly anticipated title due in the second half of the current fiscal year, was also exhibited at the Tokyo Game Show 2014 held in September, this year and proved highly popular, with long lines forming for it in the trial play zone.

Given the above, as well as a backlash following the massive success of "Monster Hunter 4" (for Nintendo 3DS) the same term last year, consolidated sales and profits decreased for the second quarter, with net sales of 25,917 million yen (down 51.3% from the same term last year), operating income of 4,383 million yen (down 41.6% from the same term last year), ordinary income of 4,540 million yen (down 44.6% from the same term last year), and net income of 2,973 million yen (down 39.9% from the same term last year).

Status of each operational department

① Digital Contents business

In the Digital Contents business, “Ultra Street Fighter IV” (for PlayStation 3, Xbox 360, and PC) and “Phoenix Wright: Ace Attorney Trilogy” (for Nintendo 3DS) posted steady sales, while “Dead Rising 3” (for Xbox One and PC), which sold over a million units in the previous fiscal year, continued to do well. However, no major new titles were released in this period, so sales focused on existing products.

Meanwhile, the online titles “Monster Hunter Frontier G” series (for PC, Xbox 360, PlayStation 3, Wii U, and PlayStation Vita) performed solidly.

In addition, in the Mobile Contents sub-segment, despite the fact that there were no major titles aside from some exceptions like “Monster Hunter Freedom Unite for iOS”, profitability improved thanks to a successful overhaul of the profit structure.

Because small titles and repeat sales made up the majority of sales overall due to the lack of major titles in the lineup during the period under review, sales were not sufficient to offset the aforementioned downturn in “Monster Hunter 4” (for Nintendo 3DS) sales, even though the digital download content supported sales growth.

As a result, net sales were 13,463 million yen (down 64.1% from the same term last year) and operating income was 2,150 million yen (down 60.0% from the same term last year).

② Arcade Operations business

In the Arcade Operations business, with the market continuing to be weak due to the decentralization of the entertainment industry, a lack of products that attract new customers, and other factors, Capcom strived to develop community-based arcades through holding promotional events and installing game machines that appeal to a broad range of customers.

However, business remained weak due to the underperformance of existing arcades, in addition to the impact of the consumption tax hike and other factors.

During the period under review, one unprofitable arcade was closed, bringing the total number of arcades to 32.

As a result, net sales were 4,820 million yen (down 11.7% from the same term last year) and operating income was 660 million yen (down 32.3% from the same term last year).

③ Amusement Equipments business

In the Pachinko & Pachislo sub-segment, “Sengoku BASARA 3” continued to perform as planned, while Capcom concentrated on repeat sales and the contracted product development business.

In the Arcade Games Sales sub-segment, even though “Onimusha Soul Card Rush” was launched, sales centered on existing products.

As a result, net sales were 6,881 million yen (down 22.9% from the same term last year) and operating income was 3,159 million yen (up 25.4% from the same term last year).

④ Other Businesses

The net sales from Other Businesses, mainly consisting of the publication of game guidebooks and the sales of related goods were 752 million yen (down 43.9% from the same term last year) and operating income was 225 million yen (down 56.5% from the same term last year).

(2) Qualitative information regarding the financial position

Total assets as of the end of the second quarter decreased by 1,685 million yen from the end of the previous fiscal year to 94,925 million yen. Primary increases were followings: 5,274 million yen in work-in-progress for game software, 748 million yen in merchandise and finished goods and 471 million yen in work-in-progress. Primary decrease was 9,853 million yen in notes and accounts receivable, trade.

Liabilities as of the end of the second quarter decreased by 4,752 million yen from the end of the previous fiscal year to 27,982 million yen. Primary increase was 6,169 million yen in short-term borrowings. Primary decreases were followings: 5,551 million yen in electronically recorded monetary obligations, 2,221 million yen in notes and accounts payable, trade, 2,201 million yen in long-term borrowings.

Net assets as of the end of the second quarter increased by 3,067 million yen from the end of the previous fiscal year to 66,943 million yen. Primary increases were 2,973 million yen in net income for the 6 months period under review and 1,227 million yen in cumulative translation adjustments which related to foreign exchange translation of the net assets of foreign consolidated subsidiaries. Primary decrease was 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, 2015 remains the same as what was projected at the financial results announcement on May 8, 2014.

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 second 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 Retirement Benefits, etc)

Effective from the first quarter of the fiscal year ending March 31, 2015, the Company has adopted the provisions specified in the main clause of Section 35 of the “Accounting Standard for Retirement Benefits” (Accounting Standard Board of Japan (ASBJ) Statement No. 26, May 17, 2012,) and the provisions specified in the main clause of Section 67 of the “Guidance on Accounting Standard for Retirement Benefits (ASBJ Guidance No. 25, May 17, 2012). Accordingly, the Company has revised the method of calculating retirement benefit obligations and prior service costs and changed its method of attributing projected retirement benefits from the straight-line attribution method to the benefit formula. At the same time, the Company changed its method of determining the discount rate from the method in which the discount rate is determined by reference to the maturity of bonds based on the number of years that approximate the average remaining years of service of the employees to the method in which a single weighted average discount rate is used that reflects the estimated timing of benefit payments and the amount of benefit payment for each estimated payment period.

The application of the Accounting Standard for Retirement Benefits, etc. is subject to the tentative treatment provided for in Section 37 of the Accounting Standard for Retirement Benefits. Consequently, the impact of the change in the method of calculating retirement benefit obligations and prior service costs has been recognized as increases or decreases to retained earnings as of the beginning of the second quarter of the fiscal year ending March 31, 2015.

As a result, as of the beginning of the second quarter of the fiscal year ending March 31, 2015, net defined benefit liabilities have decreased by 423 million yen and retained earnings have increased by 273 million yen. The impact of this change on the profit or loss of the cumulative second quarter of the fiscal year ending March 31, 2015 is minimal.

3. Summary of consolidated financial statements

(1) Consolidated balance sheets

(Unit: Millions of yen)

	Previous fiscal year (as of March 31, 2014)	Current fiscal year (as of September 30, 2014)
Assets		
Current assets		
Cash on hand and in banks	29,720	27,724
Notes and accounts receivable, trade	18,134	8,280
Merchandise and finished goods	1,191	1,940
Work-in-progress	942	1,413
Raw materials and supplies	996	654
Work-in-progress for game software	10,355	15,630
Other	5,220	7,990
Allowance for doubtful accounts	(55)	(53)
Total current assets	66,506	63,580
Fixed assets		
Tangible fixed assets, net of accumulated depreciation	13,577	14,249
Intangible fixed assets		
Goodwill	67	—
Other	7,300	9,375
Total intangible fixed assets	7,368	9,375
Investments and other assets		
Other	9,236	7,797
Allowance for doubtful accounts	(77)	(76)
Total investments and other assets	9,159	7,720
Total fixed assets	30,104	31,345
Total assets	96,611	94,925

(Unit: Millions of yen)

	Previous fiscal year (as of March 31, 2014)	Current fiscal year (as of September 30, 2014)
Liabilities		
Current liabilities		
Notes and accounts payable, trade	4,950	2,728
Electronically recorded monetary obligations	6,926	1,374
Short-term borrowings	4,050	10,219
Accrued income taxes	758	959
Accrued bonuses	1,802	497
Allowance for sales returns	87	12
Other	6,971	7,642
Total current liabilities	25,547	23,434
Long-term liabilities		
Long-term borrowings	3,000	798
Liabilities for retirement benefits for employees	2,158	1,808
Other	2,029	1,940
Total long-term liabilities	7,187	4,547
Total liabilities	32,735	27,982
Net assets		
Shareholders' equity		
Common stock	33,239	33,239
Capital surplus	21,328	21,328
Retained earnings	29,160	31,001
Treasury stock	(18,134)	(18,136)
Total shareholders' equity	65,593	67,432
Accumulated other comprehensive income		
Net unrealized gain on securities, net of tax	99	88
Cumulative translation adjustments	(1,647)	(419)
Accumulated adjustments for retirement benefits	(169)	(158)
Total accumulated other comprehensive income	(1,717)	(489)
Total net assets	63,875	66,943
Total liabilities and net assets	96,611	94,925

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

(Unit: Millions of yen)

	Previous 6 months From April 1, 2013 to September 30, 2013	Current 6 months From April 1, 2014 to September 30, 2014
Net sales	53,234	25,917
Cost of sales	35,781	14,715
Gross profit	17,452	11,201
Reversal of allowance for sales returns	94	74
Net gross profit	17,547	11,276
Selling, general and administrative expenses	10,038	6,892
Operating income	7,509	4,383
Non-operating income		
Interest income	45	47
Dividend income	5	6
Gain on receipt of cancellation compensation	210	—
Exchange gain, net	387	249
Other	137	56
Total non-operating income	786	360
Non-operating expenses		
Interest expense	59	42
Commission fee	28	41
Loss on closing amusement stores	—	87
Other	17	31
Total non-operating expenses	105	203
Ordinary income	8,190	4,540
Special losses		
Loss on sales and /or disposal of fixed assets	78	10
Loss on restructuring	310	—
Total special losses	388	10
Net income before income taxes	7,801	4,530
Income taxes-current	541	893
Income taxes-deferred	2,309	663
Total income taxes	2,850	1,556
Net income before minority interests	4,950	2,973
Net income	4,950	2,973

Consolidated statements of comprehensive income

(Unit: Millions of yen)

	Previous fiscal year From April 1, 2013 to September 30, 2013	Current fiscal year From April 1, 2014 to September 30, 2014
Net income before minority interests	4,950	2,973
Other comprehensive income		
Net unrealized gain or loss on securities, net of tax	55	(10)
Cumulative translation adjustments	1,085	1,227
Adjustments for retirement benefits	—	10
Total other comprehensive income	1,141	1,228
Comprehensive income	6,091	4,202
Comprehensive income attributable to:		
Owners of the parent	6,091	4,202
Minority interests	—	—

(3) Consolidated statements of cash flows

(Unit: Millions of yen)

	Previous 6 months From April 1, 2013 to September 30, 2013	Current 6 months From April 1, 2014 to September 30, 2014
Cash flows from operating activities		
Net income before income taxes	7,801	4,530
Depreciation and amortization	2,100	1,557
Amortization of goodwill	68	67
Decrease in allowance for doubtful accounts	(8)	(3)
Decrease in accrued bonuses	(35)	(146)
Interest and dividend income	(51)	(54)
Interest expense	59	42
Exchange gain, net	(246)	(46)
Loss on sales and/or disposal of fixed assets	78	10
Loss on restructuring	310	—
Decrease (increase) in accounts receivable, trade	(8,163)	9,918
(Increase) decrease in inventories	966	(870)
(Increase) decrease in work-in-progress for game software	4,368	(5,084)
Decrease in accounts payable, trade	(372)	(7,784)
Decrease in other current liabilities	(77)	(718)
Other	(2,185)	(4,651)
Sub total	4,612	(3,235)
Interest and dividends received	46	73
Interest paid	(55)	(42)
Income taxes paid	(1,800)	(571)
Net cash (used in) provided by operating activities	2,802	(3,776)
Cash flows from investing activities		
Payments into time deposits	(3,452)	—
Payment for acquisitions of tangible fixed assets	(1,055)	(1,639)
Proceeds from sales of tangible fixed assets	-	205
Payment for acquisitions of intangible fixed assets	(238)	(183)
Other	36	(18)
Net cash used in investing activities	(4,710)	(1,635)
Cash flows from financing activities		
Net increase in short-term borrowings	100	3,000
Proceeds from long-term borrowing	—	1,002
Repayments of long-term borrowings	(142)	(33)
Payment for repurchase of treasury stock	(2,284)	(2)
Dividend paid	(1,438)	(1,407)
Other	(187)	(180)
Net cash provided by (used in) financing activities	(3,952)	2,377
Effect of exchange rate changes on cash and cash equivalents	1,323	809
Net decrease in cash and cash equivalents	(4,536)	(2,224)
Cash and cash equivalents at beginning of year	31,522	26,118
Cash and cash equivalents at end of quarter	26,985	23,893

(4) Notes to consolidated financial statements

(Going concern assumptions) Not applicable

(Material changes in shareholders' equity) Not applicable

(Segment Information)

I Previous 6 months (From April 1, 2013 to September 30, 2013)

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	37,510	5,461	8,921	51,892	1,341	53,234	—	53,234
(2) Inter-segment	—	—	—	—	—	—	—	—
Total	37,510	5,461	8,921	51,892	1,341	53,234	—	53,234
Operating income	5,380	975	2,519	8,875	518	9,393	(1,884)	7,509

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

2. Adjustments of segments (-1,884 million yen) include unallocated corporate operating expenses (-1,884 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 6 months (From April 1, 2014 to September 30, 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	13,463	4,820	6,681	25,165	752	25,917	—	25,917
(2) Inter-segment	—	—	—	—	—	—	—	—
Total	13,463	4,820	6,681	25,165	752	25,917	—	25,917
Operating income	2,150	660	3,159	5,970	225	6,196	(1,812)	4,383

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

2. Adjustments of segments (-1,812 million yen) include unallocated corporate operating expenses (-1,812 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.