Attachment contents

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

Under such circumstances, the Capcom Group (the Company) promoted the expansion of its development departments, which have been the source of its competitiveness by commencing full-scale operations in April of its new development base, the R&D Building #2, with its state-of-the-art facilities comparable to major film studios in Hollywood including the motion capture room, among others.

Additionally, this fiscal year’s feature title, the fully VR-compatible *Resident Evil 7 biohazard* (for PlayStation 4, Xbox One and PC), not only drew the attention of many show-goers at E3, one of the world’s largest game trade shows held in the U.S. in June of this year and where VR was in the spotlight, but similarly was also massively successful at the Company’s booth at the Tokyo Game Show 2016, Japan’s largest game fair that was held in September and which attracted a record number of visitors; at both events the title received lavish praise, showing the Company’s business strategy of prioritizing the second half of the fiscal year through releasing this fiscal year’s major titles in the second half of the year to be sound.

Moreover, the Company also focused on developing new users and deepening its relationships with existing customers by such means as offering *Street Fighter V*, the latest game in the *Street Fighter* series, which has been the cornerstone of the Company’s growth, to be featured in domestic eSports league competitions.

Additionally, the Company proactively expanded its media mix as part of efforts to enhance the Capcom presence and increase Capcom’s brand value by generating synergy with its popular games, such as the airing of the animated TV program *Monster Hunter Stories* (Fuji Television Network) from October 2016, which followed the airing of animated TV program *Phoenix Wright: Ace Attorney* (Nippon TV group network).

Meanwhile, the Company’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, therefore, during the period under review the business mainly focused on minor titles.

The Company, as part of its efforts to return its profits to shareholders, purchased 1.48 million shares of treasury stock in September 2016.

The resulting consolidated net sales for the six-months period ended September 30, 2016 were 28,676 million yen (down 9.4% from the same term last year). Regarding profitability, operating income was 1,715 million yen (down 39.7% from the same term last year). Furthermore, due to the rapidly rising yen, the Company recorded a foreign exchange loss, thus ordinary income amounted to 514 million yen (down 82.2% from the same term last year) and net income attributable to owners of the parent amounted to 405 million yen (down 79.2% from the same term last year).

For comparison, in addition to the second half releases of *Resident Evil 7 biohazard* (for PlayStation 4, Xbox One and PC) and *Dead Rising 4* (for Xbox One and PC), a game targeting the overseas market, the Company will have releases such as the major pachislo machine *Monster Hunter Kyoryu Sensen*, and thus its consolidated earnings forecast for the fiscal year ending March, 2017 is as follows.

| Net sales | Operating income | Ordinary income | Net income attributable to owners of the parent | Net income per share |
|---|---|---|---|---|
| 85,000 million yen (10.4% increase YoY) | 13,600 million yen (13.1% increase YoY) | 13,300 million yen (17.2% increase YoY) | 9,000 million yen (16.2% increase YoY) | 162.53 yen |

Status of business by segment

① Digital Contents business

In the Digital Contents business, series title *Phoenix Wright: Ace Attorney – Spirit of Justice* (for the Nintendo 3DS family of systems) sold largely as planned, while re-releases of popular titles *Resident Evil 5* (for PlayStation 4 and Xbox One) and *Resident Evil 4* (for PlayStation 4 and Xbox One) also performed steadily thanks to a stable fanbase for the brand. In addition, *Monster Hunter Generations* (for the Nintendo 3DS family of systems) achieved solid sales overseas thanks to Capcom’s established brand capabilities, while elsewhere *Sengoku BASARA Sanada Yukimura-den* (for PlayStation 4 and PlayStation 3) was released.

As the launch of the major titles will be concentrated in the second half of the year, the majority of titles released during the period under review were supplemental or catalog titles.

On the other hand, online games and mobile phone content were off to a promising start, amidst ongoing efforts by the Company to achieve progress surrounding this static sub-segment by reviewing its development framework and operation methods. This led to *Toraware no Paruma*, an enterprising romance game for smartphones (for Android devices and iOS) developed mainly by female staff, to reach the top of the App Store paid application rankings on its release date.

The resulting net sales were 16,373 million yen (up 14.5% from the same term last year) and operating income was 1,099 million yen (down 28.3% from the same term last year).

② Arcade Operations business

In the Arcade Operations business, despite the effects of temporary factors such as the Rio de Janeiro Olympics and the scorching hot summer, 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 families with children through community-based arcade marketing to win the support of local residents by holding various events and operating arcades in a manner to offer comfortable experience to customers. To develop new 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 merchandise.

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 4,810 million yen (up 9.2% from the same term last year) and operating income was 478 million yen (up 34.6% 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 *Devil May Cry X (Cross)* and *Super Street Fighter IV*, as it planned to concentrate major business development efforts on the second half of the fiscal year. In the Arcade Games Sales sub-segment, the Company launched *Mario Party Fushigi no Challenge World* and focused on sales of existing products.

The resulting net sales were 6,530 million yen (down 46.2% from the same term last year) and operating income was 1,651 million yen (down 35.3% from the same time last year).

④ Other Businesses

The net sales from Other Businesses, mainly consisting of royalty income from licensing and sale of character merchandise, were 962 million yen (up 21.0% from the same term last year) and operating income was 395 million yen (up 55.9% from the same time last year).

(2) Explanation of the consolidated financial position

Total assets as of the end of the second quarter decreased by 7,410 million yen from the end of the previous fiscal year to 105,646 million yen.

The primary increase was 3,954 million yen in work-in-progress for game software. Primary decreases were 6,169 million yen in cash on hand and in banks and 2,542 million yen in notes and accounts receivable, trade.

Total liabilities as of the end of the second quarter decreased by 633 million yen from the end of the previous fiscal year to 37,254 million yen. The primary increase was 8,338 million yen in short-term borrowings. Primary decreases were as following: 5,549 million yen in accrued income taxes and 2,785 million yen in notes and accounts payable, trade.

Net assets as of the end of the second quarter decreased by 6,776 million yen from the end of the previous fiscal year to 68,392 million yen. The primary increase was 405 million yen in net income attributable to owners of the parent. Primary decreases were 2,488 million yen in cumulative translation adjustments which related to foreign exchange translation of the net assets of foreign consolidated subsidiaries, an increase of 3,301 million yen in treasury stock 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 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 second 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.