

**Consolidated financial results for the 9 months
of the fiscal year ending March 31, 2018 (Japan GAAP - Unaudited)**

Date of issue: January 31, 2018

Company name: CAPCOM Co., Ltd. Stock listing: Tokyo
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 Filing date for financial report : January 31, 2018 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, 2017 (From April 1, 2017 to December 31, 2017)

(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, 2017	47,740	-10.8	7,009	36.9	7,099	71.2	4,439	60.7
9 months ended December 31, 2016	53,507	-6.2	5,119	-51.7	4,147	-61.0	2,762	-60.6

Note: Comprehensive income 9 months ended December 31, 2017: 5,497 million yen (62.2%) 9 months ended December 31, 2016: 3,389 million yen (- 51.7%)

	Earnings per share of common stock	Diluted earnings per share of common stock
	Yen	Yen
9 months ended December 31, 2017	81.09	—
9 months ended December 31, 2016	49.70	—

(2) Financial position

	Total assets	Net assets	Shareholders' equity ratio
	Millions of yen	Millions of yen	%
3rd quarter ended December 31, 2017	111,863	80,531	72.0
Fiscal year ended March 31, 2017	118,897	77,774	65.4

Reference: Shareholders' equity: 3rd quarter ended December 31, 2017: 80,531 million yen Year ended March 31, 2017: 77,774 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, 2017	—	25.00	—	25.00	50.00
Year ending March 31, 2018	—	25.00	—		
Year ending March 31, 2018 (Forecast)				25.00	50.00

Note: Changes in dividends forecast during the 9 months ended December 31, 2017: No

3. Earnings forecast for the fiscal year ending March 31, 2018 (From April 1, 2017 to March 31, 2018)

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, 2018	93,000	6.7	14,500	6.2	14,000	11.2	9,500	7.0	173.53

Note: Changes in earnings forecast during the 9 months ended December 31, 2017: 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. Summary of consolidated financial statements (4) Notes to consolidated financial statements

(Application of special accounting treatment for preparation of quarterly financial statements)" on page 10 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: No
 ② Changes other than ①: No
 ③ Changes in accounting estimates: No
 ④ Retrospective restatement: No

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

① Number of shares outstanding (including treasury stock)			
3rd quarter ended December 31, 2017:	67,723,244	Year ended March 31, 2017:	67,723,244
② Number of treasury stock			
3rd quarter ended December 31, 2017:	12,978,039	Year ended March 31, 2017:	12,977,009
③ Average number of shares outstanding			
9 months ended December 31, 2017:	54,745,938	9 months ended December 31, 2016:	55,578,651

(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 "1. Operating results overview (3) Qualitative information regarding the consolidated business forecasts" on page 4 for more details.

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1. Operating results overview

(1) Operating results for the period under review

During the nine months ended December 31, 2017, our industry saw major growth in the market for home video games, both in terms of software as well as hardware, due to greater penetration of the PlayStation 4 home video game console and the strong performance of the new Nintendo Switch game console.

In addition, “esports” (Electronic Sports), which are becoming increasingly popular in the U.S. as well as other markets, are raising hopes for further market growth, driven by games coming to be recognized as a new sport following esports adoption as an official event in the 2022 Asian Games.

Furthermore, the Company’s efforts to create new business domains in Japan have been gaining traction, as evidenced by the overwhelming audience response at the esports event held during the Tokyo Game Show 2017 for the Company’s popular title, *Street Fighter V*, the latest in the series many consider to be the origin of esports.

Given this situation, the Company strove to bolster its management structure, enhance its development team and improve its development environment, enabling it to focus on the development of software for home video games, which are the source of its competitiveness. It also concentrated its efforts in expanding its digital offerings, which promise recurring revenues, in addition to one-time package sales. Moreover, in an effort to shore up its stagnant mobile contents performance, the Company made organizational reforms, developed appealing titles and provided software collaborations, aiming to increase customer satisfaction. In order to diversify its revenue, the Company advanced its “Single Content Multiple Usage” strategy, utilizing popular titles across movies, animation, stationery, toys and food and beverage products. However, in the Pachinko & Pachislo sub-segment, the repercussions of recent changes in model-testing methods have forced the Company into a challenging situation.

As a result, for the nine months ended December 31, 2017, consolidated net sales were 47,740 million yen (down 10.8% from the same term in the previous year). In terms of profitability, thanks to the contribution made by licensing revenue from utilizing our intellectual property (IP), operating income was 7,009 million yen (up 36.9% from the same term in the previous year), ordinary income was 7,099 million yen (up 71.2% from the same term in the previous year), and net income attributable to owners of the parent was 4,439 million yen (up 60.7% from the same term in the previous year).

Status of business by operating segment

① Digital Contents business

In this business, *Resident Evil 7 biohazard* (for PlayStation 4, Xbox One and PC) and *Monster Hunter XX (Double Cross)* (for Nintendo Switch) performed strongly, in addition to *Ultra Street Fighter II* (for Nintendo Switch) becoming a smash hit. Meanwhile, sales of *Marvel vs. Capcom: Infinite* (for PlayStation 4, Xbox One and PC), which was launched in September 2017 targeting the European and US markets, tended to be soft.

In online games, *Monster Hunter Frontier Z*, a perennial favorite which underwent a major update commemorating its 10th anniversary, gave a solid performance. In mobile contents, amid business reforms including alliance strategies carried out by the Company to bring about a breakthrough in the business, *Monster Hunter Explore* remained steadily popular, as licensing revenue utilizing our IP also contributed to the increase in profits.

The resulting net sales were 30,844 million yen (up 8.5% from the same term in the previous year) and operating income was 6,257 million yen (up 328.2% from the same term in the previous year).

In the fourth quarter of the fiscal year ending March 31, 2018, the Company plans on an aggressive sales campaign with the release of its flagship title, *Monster Hunter: World* (for PlayStation 4 and Xbox One).

② Arcade Operations business

In this business, the market was revitalized owing to the growing number of new users, including women and inbound tourists. Under these circumstances, the Company made efforts to secure repeat customers and acquire new customers, such as families with children, through various methods. These included installing machines that meet diverse customer needs, holding events and conducting service-day campaigns, as well as reducing arcade-operating costs.

During the period under review, the Company opened two new stores and closed one bringing the total number of stores to 37.

The resulting net sales were 7,632 million yen (up 8.0% from the same term in the previous year) and operating income was 815 million yen (up 33.4% from the same term in the previous year).

③ Amusement Equipments business

In the struggling Pachinko & Pachislo sub-segment, the Company was able to secure a certain amount of profit for *Resident Evil: Revelations* by lowering its cost of sales ratio. Meanwhile, despite the Company's efforts to expand its contracted product development, the effects of the recent changes in model-testing methods could not be avoided and sales were weak. In the Arcade Games Sales sub-segment, sales of *Monster Hunter Medal Hunting G*, a consistently popular medal game remained strong. Nevertheless, sales for this business overall were soft.

The resulting net sales were 7,711 million yen (down 53.5% from the same term in the previous year) and operating income was 2,128 million yen (down 60.7% from the same term in the previous year).

④ Other Businesses

The net sales from Other Businesses, mainly consisting of royalty income from the licensing and sale of character merchandise, were 1,552 million yen (up 9.5% from the same term in the previous year) and operating income was 758 million yen (up 34.8% from the same term in the previous year).

(2) Overview of the consolidated financial position for the period under review

Total assets as of the end of the third quarter decreased by 7,034 million yen from the end of the previous fiscal year to 111,863 million yen. The primary increase was 10,454 million yen in work in progress for game software. The primary decrease was 14,037 million yen in notes and accounts receivable, trade.

Total liabilities as of the end of the third quarter decreased by 9,790 million yen from the end of the previous fiscal year to 31,332 million yen. The primary decreases were as follows: 4,176 million yen in electronically recorded monetary liabilities, 1,850 million yen in short-term borrowings and 1,296 million yen in accrued bonuses.

Net assets as of the end of the third quarter increased by 2,756 million yen from the end of the previous fiscal year to 80,531 million yen. The primary increase was 4,439 million yen in net income attributable to owners of the parent. The primary decrease was 2,737 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, 2018 remains the same as what was projected at the financial results announcement on April 27, 2017.

2. Summary of consolidated financial statements

(1) Consolidated balance sheets

(Unit: Millions of yen)

	Previous fiscal year (as of March 31, 2017)	Current fiscal year (as of December 31, 2017)
Assets		
Current assets		
Cash on hand and in banks	24,537	22,871
Notes and accounts receivable - trade	20,175	6,137
Merchandise and finished goods	1,583	3,160
Work in progress	2,040	1,783
Raw materials and supplies	2,040	1,948
Work in progress for game software	30,150	40,604
Other	4,973	5,304
Allowance for doubtful accounts	(21)	(13)
Total current assets	85,480	81,798
Fixed assets		
Tangible fixed assets, net of accumulated depreciation		
Buildings and structures, net	11,004	11,376
Other, net	9,763	9,524
Total tangible fixed assets	20,768	20,901
Intangible assets	2,843	1,472
Investments and other assets		
Other	9,877	7,715
Allowance for doubtful accounts	(72)	(25)
Total investments and other assets	9,804	7,690
Total fixed assets	33,417	30,064
Total assets	118,897	111,863

(Unit: Millions of yen)

	Previous fiscal year (as of March 31, 2017)	Current fiscal year (as of December 31, 2017)
Liabilities		
Current liabilities		
Notes and accounts payable - trade	2,288	3,374
Electronically recorded monetary obligations	4,886	710
Short-term borrowings	9,323	7,473
Accrued income taxes	1,580	763
Accrued bonuses	2,263	966
Other	9,651	7,314
Total current liabilities	29,994	20,602
Long-term liabilities		
Long-term borrowings	6,788	5,890
Liabilities for retirement benefits for employees	2,596	2,771
Other	1,743	2,067
Total long-term liabilities	11,128	10,729
Total liabilities	41,122	31,332
Net assets		
Shareholders' equity		
Common stock	33,239	33,239
Capital surplus	21,328	21,328
Retained earnings	45,402	47,104
Treasury stock	(21,448)	(21,451)
Total shareholders' equity	78,521	80,220
Accumulated other comprehensive income		
Net unrealized gain or loss on securities, net of tax	107	203
Cumulative translation adjustments	(541)	397
Accumulated adjustments for retirement benefits	(313)	(290)
Total accumulated other comprehensive income	(747)	310
Total net assets	77,774	80,531
Total liabilities and net assets	118,897	111,863

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

(Unit: Millions of yen)

	Previous 9 months From April 1, 2016 to December 31, 2016	Current 9 months From April 1, 2017 to December 31, 2017
Net sales	53,507	47,740
Cost of sales	37,305	28,686
Gross profit	16,201	19,054
Selling, general and administrative expenses	11,081	12,044
Operating income	5,119	7,009
Non-operating income		
Interest income	33	41
Dividend income	13	14
Exchange gains, net	—	95
Other	79	102
Total	126	253
Non-operating expenses		
Interest expense	106	78
Commission fees	34	49
Exchange losses, net	716	—
Other	242	36
Total	1,098	164
Ordinary income	4,147	7,099
Special losses		
Loss on sales and/or disposal of fixed assets	50	83
Total	50	83
Net income before income taxes	4,096	7,015
Income taxes - current	1,366	1,870
Income taxes - deferred	(32)	705
Total	1,334	2,576
Net income	2,762	4,439
Net income attributable to owners of the parent	2,762	4,439

Consolidated statements of comprehensive income

(Unit: Millions of yen)

	Previous 9 months From April 1, 2016 to December 31, 2016	Current 9 months From April 1, 2017 to December 31, 2017
Net income	2,762	4,439
Other comprehensive income		
Net unrealized gain or loss on securities, net of tax	109	95
Cumulative translation adjustments	484	938
Adjustments for retirement benefits	33	23
Total other comprehensive income	627	1,057
Comprehensive income	3,389	5,497
Comprehensive income attributable to:		
Owners of the parent	3,389	5,497
Non-controlling interests	—	—

(3) Consolidated statements of cash flows

(Unit: Millions of yen)

	Previous 9 months From April 1, 2016 to December 31, 2016	Current 9 months From April 1, 2017 to December 31, 2017
Cash flows from operating activities		
Net income before income taxes	4,096	7,015
Depreciation and amortization	4,400	3,537
(Decrease) increase in allowance for doubtful accounts	33	(56)
Decrease in accrued bonuses	(1,168)	(1,302)
Interest and dividend income	(47)	(54)
Interest expense	106	78
Exchange gains, net	(7)	(38)
Loss on sales and/or disposal of fixed assets	50	83
Decrease (increase) in accounts receivable, trade	(6,637)	14,140
Increase in inventories	(461)	(1,202)
Increase in work in progress for game software	(4,927)	(10,356)
(Decrease) increase in notes and accounts payable, trade	4,478	(3,141)
Other	(153)	(1,476)
Subtotal	(236)	7,226
Interest and dividends received	47	55
Interest paid	(88)	(63)
Income taxes paid	(6,533)	(1,661)
Net cash provided by (used in) operating activities	(6,810)	5,556
Cash flows from investing activities		
Payment for acquisition of tangible fixed assets	(1,584)	(2,175)
Proceeds from sales of tangible fixed assets	5	0
Payment for acquisition of intangible assets	(100)	(87)
Other	(36)	188
Net cash used in investing activities	(1,716)	(2,073)
Cash flows from financing activities		
Net (decrease) increase in short-term borrowings	8,500	(2,000)
Repayments of long-term borrowings	(765)	(747)
Payment for repurchase of treasury stock	(3,302)	(3)
Dividends paid by parent company	(2,796)	(2,741)
Other	(398)	(397)
Net cash (used in) provided by financing activities	1,236	(5,889)
Effect of exchange rate changes on cash and cash equivalents	(225)	941
Net decrease in cash and cash equivalents	(7,515)	(1,465)
Cash and cash equivalents at beginning of year	28,429	24,337
Cash and cash equivalents at end of year	20,913	22,871

(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 9 months (From April 1, 2016 to December 31, 2016)

Information on net sales and segment 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
Segment income (loss)	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. Segment income is adjusted on operating income of the consolidated statements of income.

II Current 9 months (From April 1, 2017 to December 31, 2017)

Information on net sales and segment 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	30,844	7,632	7,711	46,188	1,552	47,740	—	47,740
(2) Inter-segment	—	—	—	—	—	—	—	—
Total	30,844	7,632	7,711	46,188	1,552	47,740	—	47,740
Segment income (loss)	6,257	815	2,128	9,202	758	9,960	(2,950)	7,009

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

2. Adjustments of segments (-2,950 million yen) include unallocated corporate operating expenses (-2,950 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.