Attachment contents

1. Qualitative information regarding the consolidated business

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

In our industry, though the home video game market was affected by the consumption tax hike, year-end sales were moderately strong. Moreover, while the domestic market continues to mature, it showed some signs of recovery including the high popularity of the Tokyo Game Show 2014 held in September 2014, which attracted over 250,000 visitors, the second-highest number in its history.

Meanwhile, the social game market, which goes well with smartphones, continued to grow.

In the game arcade market, under the circumstances in which sales of existing arcades remained sluggish, industry-wide efforts were made to revitalize the market such as fan service and appreciation events held on the annual “Game Day”(November 23).

In such an environment, with regard to the home video games business, which is Capcom’s core business, sales of “Monster Hunter 4 Ultimate” (for New Nintendo 3DS and Nintendo 3DS), which is expected to be a huge success, grew steadily supported by its strong popularity. The Company also worked to streamline and reinforce its development function in order to shorten the development lead time and cut development costs for video game software by, for example, introducing a large 3D scanning system.

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

On the other hand, the Pachinko & Pachislo business was forced to delay the introduction of a new model due to the revision in pachislo testing method by the Security Communications Association starting on September 16, 2014.

Given the above, due to the delay in the introduction of a new model in the Pachinko & Pachislo sub-segment combined with the downturn in “Monster Hunter 4” (for Nintendo 3DS), a mega hit in the same term last year, consolidated sales for the nine month period ended December 31, 2014 were 47,830 million yen (down 36.4% from the same term last year).

On the other hand, as profitability improved owing to an increase in digital download sales and the successful implementation of profitability improvement measures such as cost reduction efforts, operating income was 9,727 million yen (up 14.1% from the same term last year), ordinary income was 10,114 million yen (up 9.3% from the same term last year), and net income was 6,540 million yen (up 9.8% from the same term last year).

In addition, Capcom won the Grand Award (the highest and most prestigious award) in the Game of the Year Division of the Japan Game Award 2014 sponsored by the Computer Entertainment Supplier's Association with “Monster Hunter 4” (for Nintendo 3DS) that the Company launched in the previous fiscal year. “Monster Hunter 4 Ultimate” (for New Nintendo 3DS and Nintendo 3DS), which is the main product in the period under review, also won an award in the Future Division (as a product with high potential for future success).

Status of each operational department

① Digital Contents business

In the Digital Contents business, sales of the special feature title “Monster Hunter 4 Ultimate” (for New Nintendo 3DS and Nintendo 3DS) were largely in line with the plan and sales of “Ultra Street Fighter IV” (for PlayStation 3, Xbox 360, and PC) targeting overseas markets were also solid, reflecting its strong popularity. In addition to the satisfactory sales of “Dead Rising 3” (for Xbox One and PC), which was a million seller in the previous fiscal year, an online game “Monster Hunter Mezeporuta Kaitakuki” made a robust start. Furthermore, a steady increase in the sales volume of digital download sales contributed to profits due to their high profitability.

On the other hand, sales of a major title “Gaist Crusher God” (for Nintendo 3DS) were below expectations. Moreover, there was a lack of major titles among Capcom’s mobile phone contents with certain exceptions including “Monster Hunter Freedom Unite for iOS”, although the overhaul of the profit structure contributed to profitability improvement.

The resulting net sales were 32,408 million yen (down 42.2% from the same term last year) because overall sales did not offset the aforementioned downturn in “Monster Hunter 4” (for Nintendo 3DS), however, operating income was 8,469 million yen (up 22.4% 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 acquire new visitors including female and family customers as well as to deepen the relationship with existing customers 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 fickle weather. During the period under review, one unprofitable arcade was closed, bringing the total number of arcades to 32.

The resulting net sales were 6,952 million yen (down 12.5% from the same term last year), and operating income was 763 million yen (down 38.6% from the same term last year).

③ Amusement Equipments business

In the Pachinko & Pachislo sub-segment, although the product lineup lacked variety to some extent due to the delay in the introduction of a new model caused by the revision in pachislo testing method by the Security Communications Association “Sengoku BASARA 3” introduced in the second quarter as well as highly profitable repeat sales supported the revenue stream.

In the Arcade Games Sales sub-segment, business was generally weak due to a lack of strong products as sales centered on existing products.

The resulting net sales were 7,002 million yen (down 24.0% from the same term last year), and operating income was 2,789 million yen (up 13.9% from the same term last year).

④ Other Businesses

The net sales from Other Businesses, mainly consisting of publication of game guidebooks and the sales of related goods were 1,466 million yen (down 26.3% from the same term last year), and operating income was 458 million yen (down 36.5% from the same term last year).

(2) Qualitative information regarding the financial position

Total assets as of the end of the third quarter increased by 2,264 million yen from the end of the previous fiscal year to 98,875 million yen. Primary increases were 6,611 million yen in work-in-progress for game software, 3,229 million yen in Tangible fixed assets, net of accumulated depreciation. Primary decrease was 11,792 million yen in notes and accounts receivable, trade.

Liabilities as of the end of the third quarter decreased by 6,012 million yen from the end of the previous fiscal year to 26,722 million yen. Primary increase was 5,309 million yen in short-term borrowings. Primary decreases were followings: 5,734 million yen in electronically recorded monetary obligations, 2,714 million yen in notes and accounts payable, trade, 2,218 million yen in long-term borrowings.

Net assets as of the end of the third quarter increased by 8,276 million yen from the end of the previous fiscal year to 72,152 million yen. Primary increases were 6,540 million yen in net income for the 9 months period under review and 3,683 million yen in cumulative translation adjustments which related to foreign exchange translation of the net assets of foreign consolidated subsidiaries. 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 for the current fiscal year ending March 31, 2015, which was originally announced on May 8, 2014, was revised on January 9, 2015. For the details of the revision, please refer to the “Capcom Announces Revision of Business Forecast, Non-consolidated Business Forecast and Reasons behind the Difference from Previous Year's Business Results” dated January 9, 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 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.