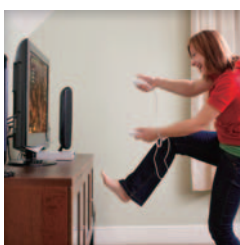
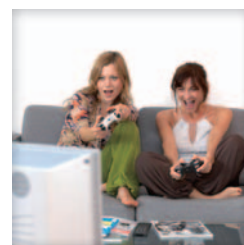
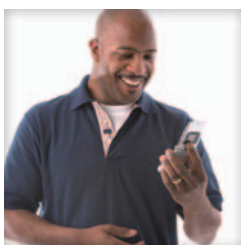
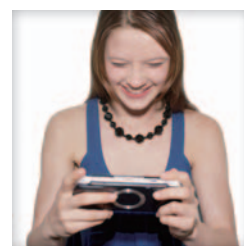
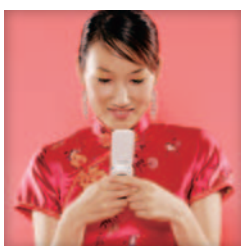
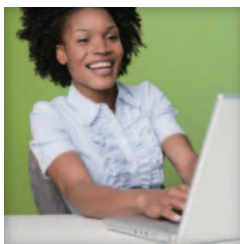
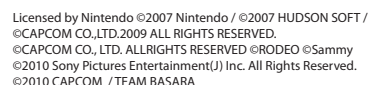


## Online. On Target.



As the ever-expanding entertainment industry becomes pervasive in our everyday lives, Capcom will continue to strive to be a unique company recognized for its world-class development capabilities by continuously creating content brimming with creativity.



# ANNUAL REPORT 2010

## Contents

### Search Index

To find out more about the  
business performance

PP3-4, PP7-8, P11(Q.1,Q.2),  
PP29-40, PP47-52, PP55-78

To find out more about the  
business or market environment

P7, P10, P11(Q.1), PP29-40

To find out more about our  
business strategy

PP13-14(Q.3,Q.4), PP19-28,  
P31, P34, P36, P38, P40

To find out more about our  
businesses

P1, PP5-6, PP25-36

To find out more about our  
R&D capabilities

P19, PP23-24, PP27-28  
separate volume The Latest  
Development Report 2010

To find out more about our  
corporate governance

PP17-18, PP42-44

- 3 11-Year Summary of Consolidated Business Performance Indicators
- 5 Introduction of Our Businesses
- 7 Business Segments Highlights

## 9 To Our Shareholders (From CEO & COO)

- 11 CEO's Discussion on the Summary of This Year's Performance and Medium- and Long-Term Business Goals



- 17 Conversation: A Journalist's Perspective on Capcom's Governance

## 19 Our Strategy for Growth

- 21 **Market Strategy** Concentrating management resources on the growing online market for further growth

- 23 **Development and Sales Strategies** Maintaining stable profitability through the planned release of popular series

- 25 **Media Strategy** Multiuse of popular content in various media



- 27 Conversation: An Analyst's Perspective on Capcom's Strategy for Growth

## 29 Overview of Capcom's Business and Outlook for the Future

- 29 Home Video Games
- 32 Contents Expansion
- 35 Arcade Operations
- 37 Arcade Game Sales
- 39 Other Businesses



## 41 To Fulfill Corporate Social Responsibility

- 41 Educational Support
- 42 Corporate Governance
- 43 Compliance
- 44 Risk Management
- 45 Directors and Corporate Auditors / External Directors' Comments / Corporate Auditors' Comments



## 47 Financial Section

- |   |   |
|---|---|
| 47 11-Year Summary of Consolidated Financial indicators | 57 Consolidated Statements of Income                |
| 49 Financial Review                                     | 58 Consolidated Statements of Changes in Net Assets |
| 52 Business Risks and Other Risks                       | 59 Consolidated Statements of Cash Flows            |
| 55 Consolidated Balance Sheets                          | 60 Note to Consolidated Financial Statements        |
|   | 79 Report of Independent Auditors                   |

### 80 Corporate Data

### 81 Corporate & Products History

83

### Stock Data

### Capcom Investor Relations Website

Back Cover

separate volume

The Latest Development Report 2010

# The Art of Play

The creative talents who hold the keys to the future





# 11-Year Summary of Consolidated Business Performance Indicators

## Financial Index

	2000	2001	2002	2003	2004
<b>For the Year:</b>	Millions of yen				
Net sales ①	¥ 51,574	¥ 49,082	¥ 62,742	¥ 62,036	¥ 52,668
Operating income ②	9,061	7,155	9,727	6,680	1,402
Net income (loss) before income taxes	8,712	7,126	7,420	(30,049)	(6,900)
Net income (loss) ③	9,700	6,007	4,912	(19,598)	(9,158)

<b>Financial Index:</b>	%				
Operating margin ②	17.6	14.6	15.5	10.8	2.7

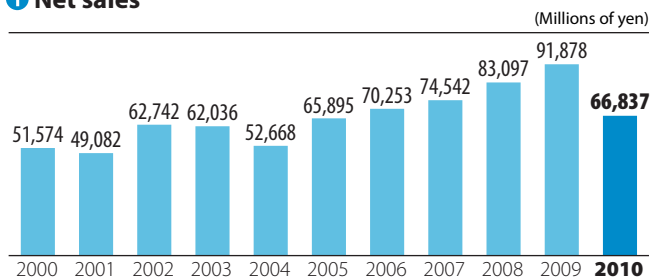
<b>Business Segments Net sales:</b>	Millions of yen				
Home Video Games ④	¥ 35,752	¥ 31,727	¥ 47,769	¥ 48,090	¥ 33,949
Arcade Operations	—	—	8,327	9,242	9,830
Arcade Games	5,370	7,531	3,954	1,113	4,511
Contents Expansion	—	—	—	—	—
Other Businesses	10,812	10,246	3,082	3,743	4,447

<b>Business Segments Operating income:</b>	Millions of yen				
Home Video Games ④	¥ 12,150	¥ 7,404	¥ 11,257	¥ 6,760	¥ (971)
Arcade Operations	—	—	1,174	2,141	2,326
Arcade Games	(2,027)	(57)	(456)	(534)	1,424
Contents Expansion	—	—	—	—	—
Other Businesses	827	1,797	205	351	939

<b>Number of home video games sold:</b>	Thousands				
Total number of units	12,500	11,100	15,000	16,300	11,600

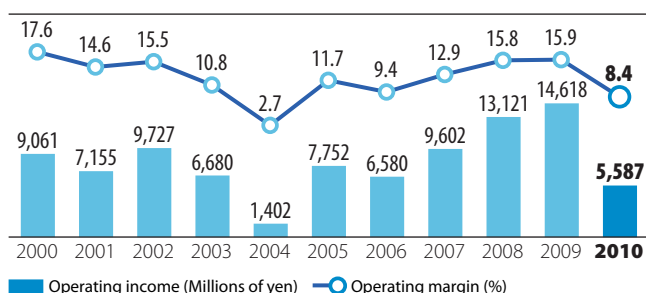
<b>Sales of Major titles</b>	Resident Evil 3	3,520	Onimusha	1,350	Devil May Cry	2,070	Devil May Cry 2	1,400	Mega Man Battle Network 4	950
	Dino Crisis	2,240	Dino Crisis 2	1,230	Onimusha 2	1,070	Resident Evil 0	1,130	Onimusha 3	630
	Resident Evil Code: Veronica	730	Breath of Fire IV	460	Mobile Suit Gundam: Federation vs. Zeon	890	Mega Man Battle Network 3	850	Resident Evil Out Break	430

### ① Net sales



Structural reforms enacted in the fiscal years that ended in March 2003 and 2004 set the stage for stable growth in sales starting in the fiscal year that ended in March 2005. In prior years, there were big differences in sales from year to year depending on whether or not any products became major hits. Most of the reforms took place the home video games business. The primary objective was to establish an efficient game development framework capable of launching highly profitable new games and more titles in popular game series in each fiscal year. However, sales are expected to decline in the most recent fiscal year, which ended in March 2010, because introductions of major titles were pushed back for strategic reasons.

### ② Operating income/Operating margin



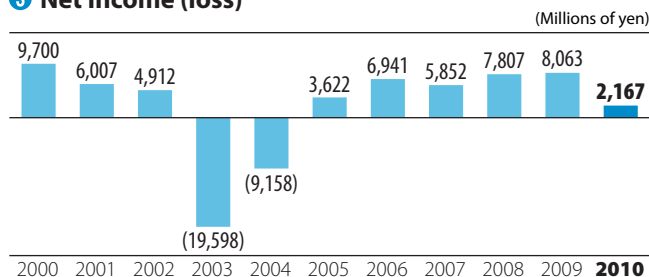
Structural reforms have enabled Capcom to sustain consistent growth in operating income. In the past, operating income varied greatly each year depending on the number of major hits, just as with sales. However, operating income started benefiting from structural reforms a few years after sales because about two years is normally required to develop new games. Starting in the fiscal year that ended in March 2007, Capcom has been using a new game development framework to improve operating income by focusing activities on the most profitable titles. However, operating income is expected to decline in the most recent fiscal year, which ended in March 2010, because introductions of major titles were pushed back for strategic reasons.



CAPCOM CO., LTD. AND ITS CONSOLIDATED SUBSIDIARIES. YEARS ENDED MARCH 31

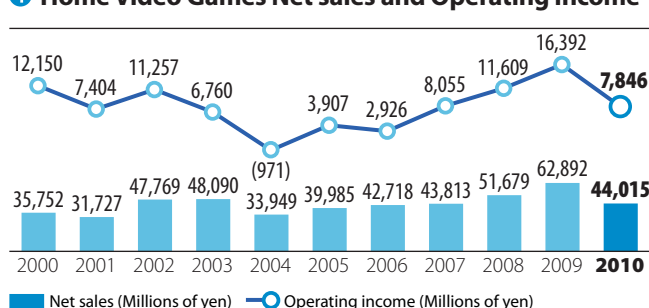
2005	2006	2007	2008	2009	2010	2010
Millions of yen						Thousands of U.S. dollars
¥ 65,895	¥ 70,253	¥ 74,542	¥ 83,097	¥ 91,878	¥ 66,837	\$ 718,681
7,752	6,580	9,602	13,121	14,618	5,587	60,078
7,006	6,912	9,986	11,962	12,448	1,124	12,089
3,622	6,941	5,852	7,807	8,063	2,167	23,308
%						
11.7	9.4	12.9	15.8	15.9	8.4	
Millions of yen						Thousands of U.S. dollars
¥ 39,985	¥ 42,718	¥ 43,813	¥ 51,679	¥ 62,892	¥ 44,015	\$ 473,282
10,934	11,568	13,043	13,406	13,509	11,985	128,876
7,450	6,995	8,060	6,574	8,031	2,280	24,520
—	5,742	7,102	8,525	4,628	5,819	62,576
7,563	3,268	2,561	2,947	2,824	2,736	29,424
Millions of yen						Thousands of U.S. dollars
¥ 3,907	¥ 2,926	¥ 8,055	¥ 11,609	¥ 16,392	¥ 7,846	\$ 84,375
2,296	2,438	2,009	753	224	590	6,351
1,944	1,116	1,369	1,182	1,758	(203)	(2,184)
—	2,362	1,624	2,633	(230)	509	5,478
1,977	197	(439)	468	1,053	1,097	11,795
Thousands						
13,500	13,400	12,200	15,600	17,300	12,500	
Resident Evil 4 (GC)	Resident Evil 4 (PS2)	Lost Planet Extreme Condition	Devil May Cry 4	Resident Evil 5	Monster Hunter Freedom Unite (Best Price included)	1,350
Devil May Cry 3	Onimusha DAWN of DREAMS	Dead Rising	Resident Evil 4 Wii edition	Street Fighter IV	Monster Hunter Tri	1,150
Resident Evil Out Break	Monster Hunter Freedom	Monster Hunter Freedom 2	Resident Evil: The Umbrella Chronicles	Monster Hunter Freedom Unite (Best Price included)	Resident Evil 5	950

### 3 Net income (loss)



There was a big increase in net income in the fiscal year that ended in March 2000 because of a contribution to earnings from an adjustment to corporate and other taxes resulting from a reexamination of a valuation allowance associated with deferred tax assets. In the fiscal years that ended in March 2003 and 2004, Capcom posted large net losses because of special losses. One cause was valuation losses on land, buildings and structures and losses from termination game development projects, both associated with structural reforms. Provisions for the allowance for doubtful accounts were also responsible for the net loss in these two fiscal years. In the March 2006 fiscal year, there was a prior-year tax liability due to a notice of tax assessment based on transfer pricing adjustments. But net income increased because of an adjustment to corporate and other taxes resulting from a reexamination of a valuation allowance associated with deferred tax assets. In the fiscal year that ended in March 2010, net income is expected to decline despite a corporate tax refund for prior-year tax liabilities because of an agreement on transfer pricing taxation between Japanese and U.S. tax authorities. This refund will be more than offset by restructuring expenses resulting from a reexamination of the arcade game development system.

### 4 Home Video Games Net sales and Operating income

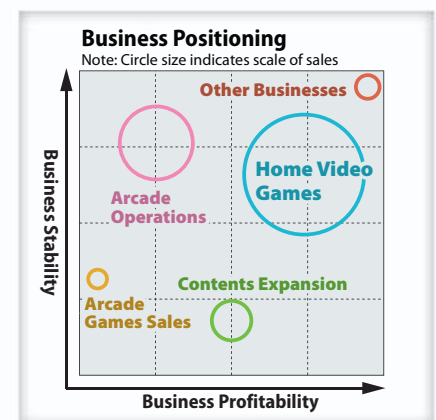


Our core business, accounting for approximately 70% of net sales. Performance in this segment is significantly affected by the presence or absence of hit titles, which has resulted in repeated erratic fluctuation. However, structural reforms in pursuit of higher quality and profitability implemented in the fiscal year ended in March 2003, including a 60-month title development plan, a "two-step authorization process" and the introduction of a common development engine, resulted in more efficient title distinction and development. These efforts enabled Capcom to turn out three million-seller titles since the fiscal year ended in March 2006 and increase earnings for three straight years, until the fiscal year ended in March 2010, when sales and profits declined on the strategic postponement of major game software.

# Developing five businesses centered on original contents



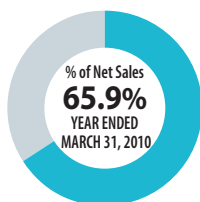
Capcom's core competence is its world-class development capability to produce original content, which we make use of in our Home Video Games Business (home and online), our core business and the driver of our growth. Our Contents Expansion Business develops home video game content for use in mobile games and gaming machine cabinets. Our Arcade Games Sales Business focuses on arcade games for amusement facilities, and our Arcade Operations Business operates "Plaza Capcom" where these machines are installed. Our Other Businesses focus on the licensing of game content for multimedia development. These five businesses comprise the scope of Capcom's business activities.





## Products released in this fiscal year

### Home Video Games



In addition to the development and distribution of home video games, this business distributes PC online games, constituting the core business of Capcom, with sales accounting for approximately 70% of total sales. By concentrating our management resources in this field, we have developed game software for a wide range of consumers. We consider action and adventure games our forte, and have released many creative million-seller titles worldwide.

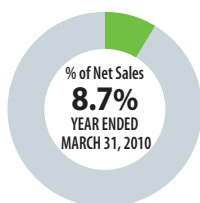


"Monster Hunter Tri"

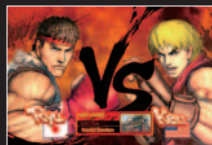
"Ace Attorney Investigations: Miles Edgeworth"



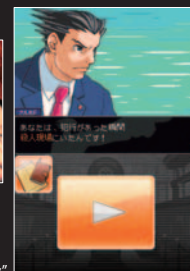
### Contents Expansion



We are expanding two other businesses based on the content used for our home video games making it possible for different businesses to create a synergetic effect. For example, Pachinko & Pachislo Business is involved in the development, manufacture and sales of frames and LCD devices for gaming machines as well as software, whereas Mobile Content Business deals with the development and distribution of game content for mobile phones.



"Street Fighter IV"

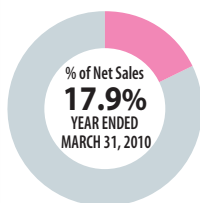


"Phoenix Wright: Ace Attorney"



"Beautiful Joe"

### Arcade Operations



We operate "Plaza Capcom" amusement facilities in Japan. These arcades are predominantly in large commercial complexes and host various events designed to attract families and female customers. We have diligently followed a scrap-and-build policy to maximize our efficiency in arcade operations.

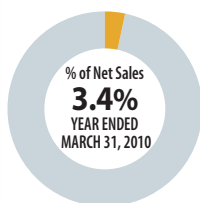


Plaza Capcom Kichijoji



Plaza Capcom Kyoto

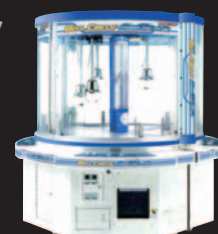
### Arcade Games Sales



We develop, produce and distribute arcade games for amusement facilities. We concentrate our efforts on the development of coin-operated and prize-winning games, which are in high demand, and supply software for arcade video games to secure a stable customer base.



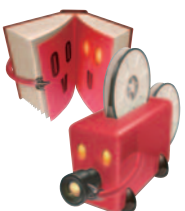
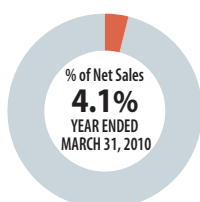
"Mario party Fushigi no Korokoro Catcher"



"Bell Circle Sparkling Blue"

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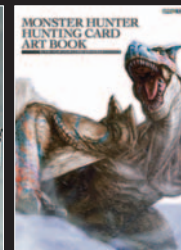
### Other Businesses



Based on a "Single Content Multiple Usage" strategy of developing game content for various media, we will pursue a variety of copyright-related business opportunities including publishing (walkthrough and strategy guides as well as game settings collections) and licensing (music CDs and licensed merchandise). Furthermore, we are concentrating on developing game content into movie and TV animation programs.



Character goods



Book



## Market Trends

### Home Video Games



- For the first time in four years, the home video game (package) software market contracted as a result of lower average unit prices and flat new video game console sales.
- Overall market scale leveled off as a result of sales format diversification, including online downloadable content sales and digital distribution.
- New demand was generated by Nintendo 3DS sales and the introduction of new game consoles such as the Kinect and PlayStation Move.

#### Game Software Markets (\$ Billion)

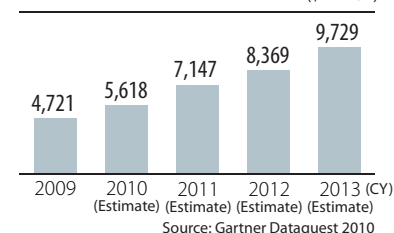


### Contents Expansion



- In the Pachinko machine market, relaxation of regulations in 2004 increased flexibility in designing and developing innovative Pachinko machines and encouraged launches of new products appealing to users. In the Pachislo machine market, a decrease in the number of both machines and customers due to a tightening of regulations caused companies to struggle.
- The mobile content market grew worldwide. This market is expected to continue to expand steadily in the future through new users of mobile phones and smartphones.

#### Mobile Content Market (\$ Million)

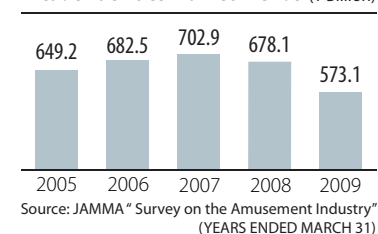


### Arcade Operations



- The market contracted significantly on the decrease in customer per-unit sales and flat online game console sales.
- The number of major arcades operated by game companies closed continued to increase as the overall number of arcades continued its diminishing trend.
- Time will be required to address structural issues afflicting the market, where gradual contraction is expected to continue.

#### Arcade Facilities Market Trends (¥ Billion)

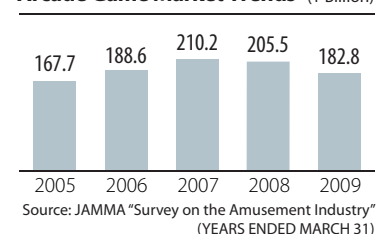


### Arcade Games Sales



- The market continued to shrink as the arcade operators reduced their level of investment for the first time in five years as a result of the flagging economy.
- Prize-winning and coin-operated games, which represent 40.1% of the market, experienced a downward trend as a result of low activity at shopping malls.
- Arcade operators are extremely cautious with regard to capital expenditure, and therefore, sluggishness in the sales market is expected to continue.

#### Arcade Game Market Trends (¥ Billion)

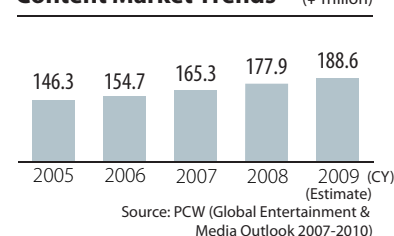


### Other Businesses



- The market for the global contents industry was worth 1.3 trillion dollars and the Japanese contents industry was worth 14 trillion yen, second only to the United States.
- The Japanese movie, video and publishing market remained on track and was worth 10 trillion yen. Overseas expansion is the key to growth in this market.

#### Content Market Trends (¥ Trillion)



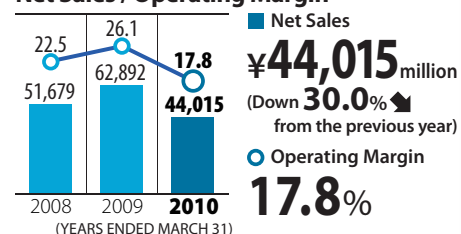
## Capcom's Strength and Strategy

- We own numerous "intellectual properties with universal market appeal", the key to our "Single Content Multiple Usage" strategy.
- We maintain an advanced ability to develop original game content. We also possess a high level of technology, assisted by the "MT Framework", an integrated development environment built to provide common software development tools for a variety of video game consoles.
- Our overseas development capabilities include solid local sales structures and title lineups that match overseas preferences.

## Operating Result for This Fiscal Year

- Core game "Monster Hunter Tri" was the first third party game to achieve one million sales.
- Last year's big hit "Resident Evil 5" and "Monster Hunter Freedom Unite", including sales of the low-priced edition, continued to do well.
- All new overseas titles were bearish, failing to achieve sales targets.
- The delay of the sales launch of core titles "Lost Planet 2" and "Super Street Fighter IV" in the United States and Europe resulted in lower revenues overall.

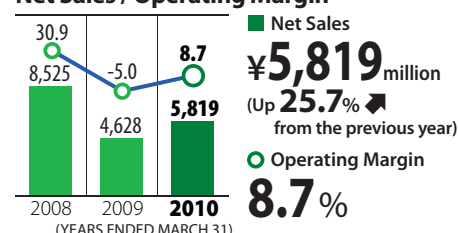
### Net Sales / Operating Margin



- We can secure new profit opportunities by making multiple uses of our wealth of intellectual properties in a variety of areas.
- In the Pachinko & Pachislo Business, we aim to maximize profits through the in-house development and production of cabinets and outsourcing the use of proprietary and third party content for gaming machine software.
- In the Mobile Content Business, we utilize expertise and content gained through developing home video games to deliver our popular home video game titles for mobile phones worldwide. We also supply some of our game titles actively for new devices, such as the iPhone.

- The severe business environment surrounding the Pachinko & Pachislo Business was a factor in the lackluster performance of "Vampire", which continues to do poorly. However, "Beautiful Joe", which was released in the fourth quarter achieved a certain degree of success. Consigned development business product "Onimusha: Dawn of Dreams" performed well and shows signs of improvement.
- In the Mobile Content Business, the aggressive provision of "Resident Evil: Degeneration", "Street Fighter IV" and other popular content for new handsets including the iPhone continued to achieve favorable results.

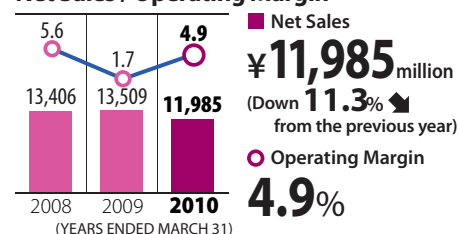
### Net Sales / Operating Margin



- We specialize in opening mall-based large-scale facilities which secure a long-term, stable number of customers.
- We have built an organizational structure to design and operate sales venues supported by customers.
- We also maintain relatively higher profitability than the competition by either selling or closing unprofitable facilities in an attempt to secure a better return on investment.

- Sluggish consumption and fewer outings by "nesting consumers" has lowered customer visits, resulting in net sales at our existing facilities reaching only 86% of the previous year's sales amid a continued declining trend.
- We focused efforts on improving profitability and reviewing our profit structure, including postponing the opening of new arcades, reducing arcade operation costs and closing two unprofitable arcades.

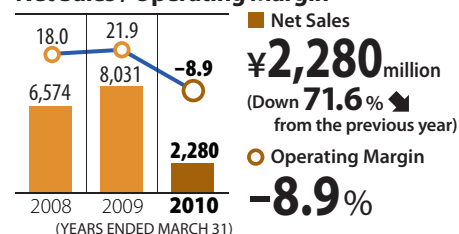
### Net Sales / Operating Margin



- We retain the ability to provide high-quality arcade video games by making use of development capabilities for home video game software. In particular, combat-based fighting games, our flagship genre, allow us to maximize profits by launching the same content as home video games.
- We own company-managed facilities, enabling us to grasp real-time market trends such as in-store information of popular games. We gather and make use of opinions of both users and facility operators to develop popular game machines.

- We focused efforts on pursuing the expansion of existing and new customers with new games including coin-operated game "Mario party Fushigi no Korokoro Catcher".
- We aimed to expand sales through a business partnership with NAMCO BANDAI Games Inc. and were forced to restructure the development of our main existing products business.

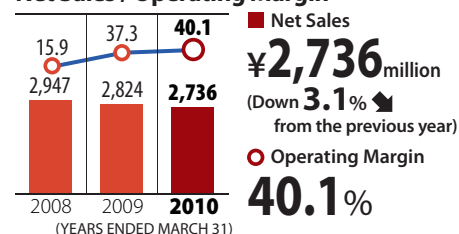
### Net Sales / Operating Margin



- We create a strong synergy with our Home Video Games Business by making multidimensional use of our wealth of intellectual properties "Single Content Multiple Usage".
- Particularly, in the movie-related business, the brand value has been elevated by the high exposure provided by the media. This leads to greater sales expansion in video game software, completing an ideal sales cycle.

- We aimed to maximize profits by strengthening our contents branding and developing projects around various titles based on our "Single Content Multiple Usage" strategy.
- We sought to improve brands, focusing on home video game "Sengoku BASARA", through the development of various media including TV animation program, travel packages, and stage productions. Furthermore, these characters were used for PR activities surrounding the Miyagi Prefecture gubernatorial election, the realization of content development beyond the game category.

### Net Sales / Operating Margin





**We will maximize profits through the execution of our “Single Content Multiple Usage” strategy and the further strengthening of our proprietary development and technical capabilities in the contents industry, which continues to grow globally.**

The global economy is beginning to show signs of a moderate recovery from the recession that began in September 2008. At the same time, the contents market continues to expand despite the recession. Capcom, which has a substantial role in the contents industry, will further strengthen its proprietary development and technological capabilities while advancing the development of its “Single Content Multiple Usage” strategy to maximize profits.



辻本 憲三

**Kenzo Tsujimoto**

Chairman and Chief Executive Officer (CEO)



辻本春弘

**Haruhiro Tsujimoto**

President and Chief Operating Officer (COO)



## The content industry will continue grow, benefiting from promotional policies instituted by individual nations that have positioned this as a “priority industry”.

In 2009, the global economy was headed toward a moderate recovery, aided by the effect of large-scale economic stimulus measures instituted by major industrial nations and a round of global inventory adjustments. In Japan, despite the continued high unemployment rate, wage restraints and other deflationary pressures, exports and individual consumption improved and declines in capital expenditure slowed as the economy experienced a seesawing yet upward trend.

Given these conditions, the global content market (games, animation, movies, music, etc.) continued to grow steadily and was worth 188.6 trillion yen (up 6.0% from the previous year) in 2009, expanding by approximately 22% in the three years since 2006 (See Diagram 1). This is a result of the expansion emerging markets in China and other nations, the acceleration of horizontal and vertical development resulting from digitalization and networking, as well as the promotional policies instituted by individual nations that have positioned this as a priority industry.

At the same time, the Japanese contents market, second only to that of the United States, was worth 14 trillion yen. This is the largest domestic market after the automobile market (approximately 20 trillion yen), Japan's largest industry. To support the competitive strength of the contents industry, the Japanese government moved quickly to institute a number of measures with the aim of “expanding the scale of the Japanese content market to 20 trillion yen by 2015”, demonstrating high expectations for the scale and growth potential of the contents industry.

In point of fact, the game industry, which is part of the content industry as well as the largest export industry, demonstrates the “soft power” of Japanese contents overseas, where sales are growing quickly (See Diagram 2). In addition, the development of content digitalization has accelerated the fusion of games, animation, music and movie, enabling game software manufactures to develop game contents in multiple areas, prompting the expectation for further growth of profits.

## Capcom is targeting further growth based on its “Single Content Multiple Usage” strategy in the expanding contents market.

To achieve our medium-term targets of “10% growth in annual net sales” and an “operating margin of 15% or higher” in the continuously growing content industry, regardless of current business conditions, we will advance the development of our basic strategy of “Single Content Multiple Usage”.

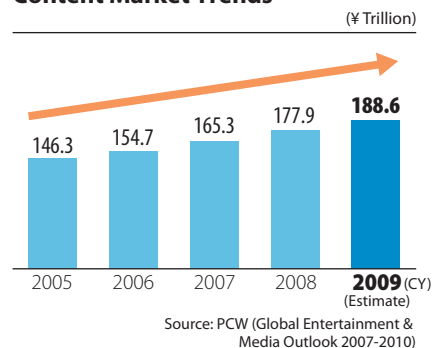
This strategy, based on our strengths in “world-class development and technical capabilities and give rise to “many global million-selling titles and popular characters”, makes use of a wide range of businesses in the entertainment domain (See Diagram 3 and “Our Strategy for Growth” on P. 19).

In particular, development in a wide range of areas such as mobile games, Hollywood movies, pachislo machines, comic books and arcade games, including the home video game sales of our popular title “Street Fighter”, is extremely effective for creating new profit opportunities and increasing home video game users from among customers acquired through other businesses.

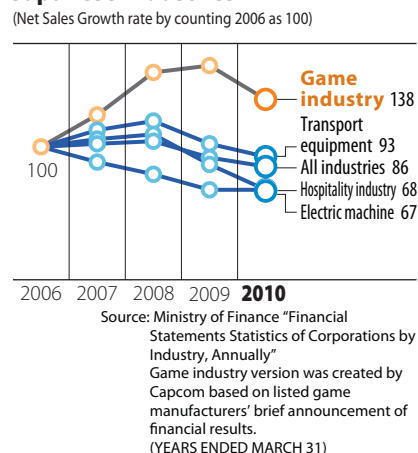
As previously mentioned, the fusion of business areas is accelerating in the contents industry, which is an effective strategy for maximizing profits through the multiple usage of individual titles or characters. For Capcom, which owns several leading titles, this is a big competitive advantage with the potential for global growth.

Accordingly, Capcom will focus management resources on the development of home video game software, our core competence. Furthermore, we will introduce software that accommodates diverse domestic and overseas user preferences, expanding the online game and mobile contents distribution business in response to the expansion of the network game market. As a result, we can improve customer satisfaction and secure a competitive advantage to ensure our survival in this fiercely competitive environment.

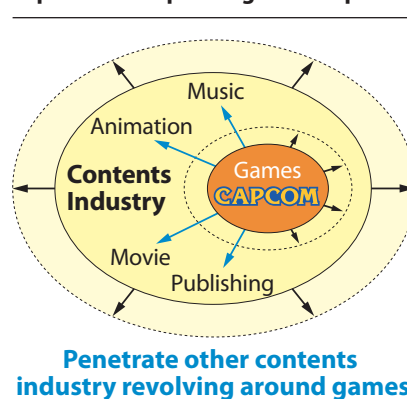
**Diagram 1**  
Content Market Trends



**Diagram 2**  
Net Sales Growth Rate of Japanese Industries



**Diagram 3**  
Expansion of the Contents Industry and Capcom’s Multiple Usage Development



**Earnings this fiscal year were lower than in the previous period, but Capcom is now ready to get back on a growth trajectory once again.**

**Kenzo Tsujimoto**

Chairman and Chief Executive Officer (CEO)

**We have established the cornerstone of future sustainable growth.**

In 2009, amid the expansion of the overall content industry, the home video game market contracted while the double-digit growth of the online game and mobile content markets continued. Game manufacturers questioned the steering and allocation of management resources in a market where growth potential and market size differ, which will be a decisive point in the competitive battle between firms.

This fiscal year, Capcom recorded the first declines in sales and profits in four years, but we are already implementing measures to get back onto a growth trajectory.

In this section, Chairman and CEO, Kenzo Tsujimoto discusses the company's overall performance during the current fiscal year and answers questions regarding Capcom's management plan, medium- and long-term goals and financial policies.

We hope this discussion will provide all our stakeholders with a deeper understanding of how the company is managed.

**Understanding of Business Climate and Performance in This Fiscal Year**

**Q.1** What factors contributed to the significant decline in sales and profits in the fiscal year ended March 31, 2010?

**A.** The main factors were the strategic postponement of main title sales and the drastic overhaul of poorly performing businesses. We are aiming for a V-shaped recovery during the next fiscal year.

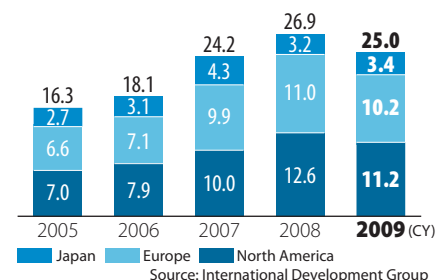
**1. Market Environment**

In 2009, the home video game (package) market was worth 25 billion dollars (down 7.1% from the previous year), representing the first negative growth in four years.

Reasons for this include (1) a decline in game console annual unit sales as manufacturers have not introduced new hardware for four years, (2) lower average unit sales prices of game software as a result of intensified competition, (3) the diversification of sales into digital distribution and other

**Game Software Markets**

(¥ Billion)



forms and (4) a decline in the number of overall core users relative to the development of the light user segment by Wii and Nintendo DS. Also, the game market, traditionally unaffected by economic conditions, weakened slightly as a result of the global economy.

## 2. Factors Contributing to Declines in Sales and Profits

Given these conditions, Capcom's net sales were 66,837 million yen (down 27.3% from the previous year), operating income was 5,587 million yen (down 61.8% from the previous year), and ordinary income came to 5,530 million yen (down 59.9% from the previous year), resulting in a net income of 2,167 million yen (down 73.1% from the previous year).

The strategic postponement of main title sales and the drastic overhaul of poorly performing businesses were the two main factors underlying the decline in sales and profits.

First, I would like to explain the "strategic postponement of main title sales". Our Home Video Games Business faced a quickly changing market environment in the fourth quarter that included the expected release of several major titles by other companies. In overall consideration of factors such as the direct competition with these titles, maximizing the number of Capcom main titles sold and maintaining our brand value, we decided to postpone the sales launches of "Lost Planet 2", "Super Street Fighter IV" and "Monster Hunter Tri" (overseas edition) to the next quarter. We will continue to develop our business model of providing "high-quality products" developed at a "reasonable cost" through our "global sales network" to resume a growth trajectory.

Next, I will explain the "drastic overhaul of poorly performing businesses". We restructured our gaming-related businesses to "select and concentrate management resources" and "improve management efficiency" by shifting the focus from profitability to development and rigorously reevaluating owned assets. As a result of these efforts, we booked special losses of 4.6 billion yen, which include business restructuring expenses.

Capcom takes the decline in sales and profits very seriously. At the same time, we must pursue the medium-term maximization of income, rather than only achievements this period. In fact, regarding the next year's performance, as indicated in item 4 of Q.3, "Earnings Outlook", we expect a major recovery. We will attain stable growth next fiscal year as well.

## Q.2 What were the operating conditions surrounding business segments in this fiscal year?

### A. Our mobile phone content distribution business and "Single Content Multiple Usage" strategy are bearing fruit.

In the Home Video Games Business, domestic sales of core software "Monster Hunter Tri" increased steadily as its brand power lent stability to the sales of low-priced edition "Monster Hunter Freedom Unite". However, as already explained, business was weakened by the strategic postponement of three main title sales.

In Arcade Operations Business, although sluggish demand weakened business conditions, fixed expense reductions and measures to improve profitability resulted in an increase in profits.

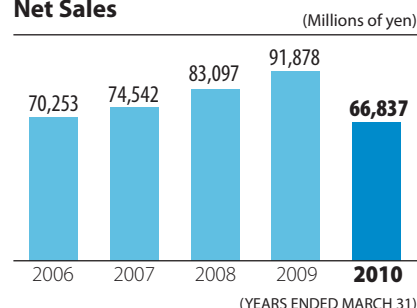
In the Arcade Games Sales Business, despite our business partnership with NAMCO BANDAI Games Inc. performance was lackluster due to product shortages and market stagnation.

In the Contents Expansion Business, we acquired many new users in the game distribution for the Mobile Content Business through our offering of titles for smartphones. However, while some titles in the gaming machine-related segment did well, dragging products and limited lineups weakened performance, requiring us to conduct a drastic overhaul of this business.

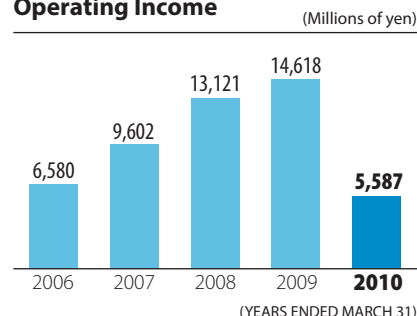
Also, as part of our multi-faceted content development, "Sengoku BASARA" has been made into TV animation programs and game characters were used for the Miyagi Prefecture gubernatorial elections in line with our continuing appeal to customers other than game users.

These factors resulted in the sales and operating income previously noted. Furthermore, business restructuring expenses arising from the overhaul of the development structure of the game machine-related segment forced us to record a special loss. At the same time, as a result of an agreement between U.S. and Japanese taxation authorities regarding transfer pricing tax regulations, net income amounted to 2,167 million yen (down 73.1% from the previous year) (See P. 29 "Overview of Capcom's Business and Outlook for the Future" for details).

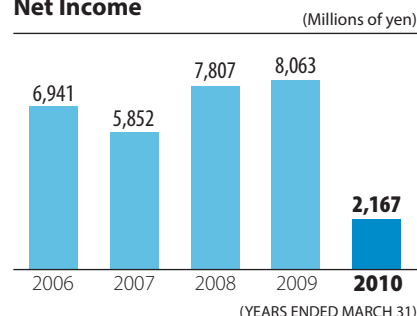
## Net Sales



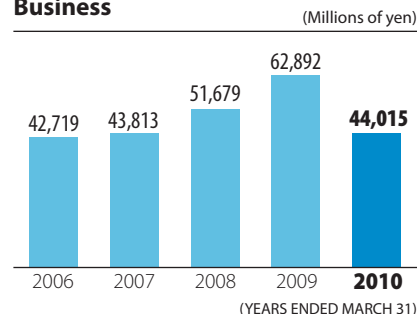
## Operating Income



## Net Income



## Net Sales of Home Video Games Business





## Outlook for the Next Fiscal Year

**Q.3** What is the outlook for the next fiscal year and what issues need addressing?

**A.** By addressing two issues that arose during the fiscal year under review, we aim for a 42.1% increase in sales and a 168.5% increase in operating income.

### 1. Market Outlook

We expect the value of the home video game (package) market to decline for the second straight year in 2010, falling to 23 billion dollars (down 8.0% from the previous year), as a result of a drop in average sales unit prices and muted sales of next generation portable game consoles. At the same time, if the rise of digital distribution and other new sales formats is added to the equation, the overall market should be at about the same level as last year.

In addition, given the acceleration of structural changes as a result of the quickening of our business model, which is different from package software sales, we expect the network game market to expand, and predict a mobile content market worth 4.7 billion dollars (up 19.0% from the previous year); while the online game market is expected grow even more (See P. 29 "Overview of Capcom's Business and Outlook for the Future" for more details).

### 2. Issues to be Addressed

Two significant issues arose from the results of this year's performance. The first is the strategic postponement of main title sales. As explained in item 2 of Q.1, "Factors Contributing to Declines in Sales and Profits", we believed this to be in our best interest from the perspectives of maximizing the number of main Capcom titles sold and maintaining our brand value. We recognize that the fundamental problem was partiality toward the "title portfolio during a certain time of year (fourth quarter)". By launching sales of core titles in the fourth quarter, we are able to avoid a certain degree of direct competition with competitor titles, thereby dispersing risk (See P. 23 "Our Strategy for Growth" for more details).

The second issue is the improvement of poorly performing businesses. We entered the gaming machine-related business in 2008, and have yet to turn a profit. The crucial factors surrounding this business are (1) good contents, (2) high technical and development capabilities and (3) a strong sales network. In addition to providing popular content, going forward we will strengthen our sales network and promote business alliances with major sales companies nationwide (See P. 32 "Overview of Capcom's Business and Outlook for the Future" for more details).

### 3. Strategic Outlook

While addressing the aforementioned issues and minimizing profit fluctuation risk, we will formulate the optimal medium-term lineup by promoting each business to ensure sustainable growth.

To this end, we will focus management resources our core Home Video Games Business and increase the ratio of overseas sales, which possess significant growth potential, from 50% at present, steadily to 65%.

Specific measures will include shortening the development period through the in-house development of a core portion of each title and the outsourcing of other portions to external development companies (hybrid development), as well as further improving development efficiency and filling out our title line up by making use of past resources and overseas developers.

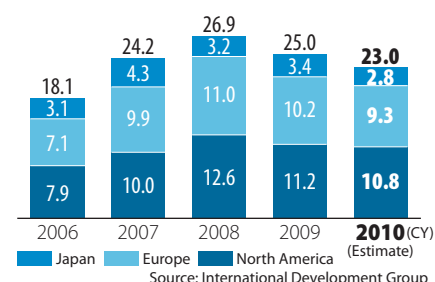
Also, we will strengthen our overseas marketing organization and localization (translation) in an attempt to increase customer satisfaction. Furthermore, we will aggressively develop our download business for the package game software and PC online game markets (See P. 21 "Our Strategy for Growth" for more details).

### 4. Earnings Outlook

During the next fiscal year, we will release several major titles in the home video game market and focus management resources on the Online Games and Mobile Contents businesses. We will go back onto the offensive to achieve growth, and accordingly we forecast net sales of 95 billion yen (up 42.1% from the previous year), and operating income of 15 billion yen (up 168.5% from the previous year).

### Game Software Markets

(¥ Billion)



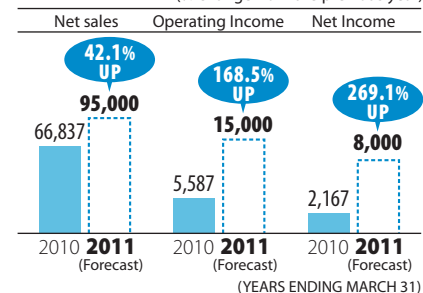
### Significant Issues to be Addressed

- 1 Optimizing the portfolio of titles in the Home Video Games Business
- 2 Turning a profit in the gaming machine-related business as soon as possible

### Forecast for the Next Fiscal Year

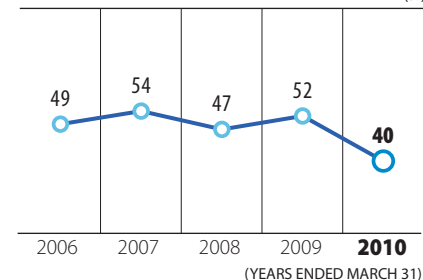
(Millions of yen)

(% change from the previous year)



### Overseas Sales Ratio of Home Video Games Business

(%)



## Medium- and Long-Term Goals

### Q.4 What are your medium- and long-term business goals? What kind of company are you aiming to become?

**A. We are targeting profit stability, “increasing sales each year by 10%” and “achieving an operating margin of 15%” in our quest to become a multiple content developing comprehensive entertainment company.**

#### 1. Corporate Philosophy and the Direction of Management

Our corporate philosophy is to create “entertainment culture” through the development of highly creative software contents that “excite” our customers and “stimulate” their senses.

To realize this, our world-class R&D capabilities will serve as the basis for delivering globally popular titles and a multitude of content brimming with creativity in the home video game area. Furthermore, by developing our content further for various facets in a range of entertainment areas, we will be able to get more exposure and expand our fan base. We aim to become a comprehensive entertainment company that demonstrates steady growth and has a commanding presence in every business line in which we are involved. We will continue to pursue this ideal.

#### 2. Medium- and Long-Term Business Goals

To achieve the abovementioned goals in response to corporate philosophy and management direction, Capcom has set two clear business targets: to “increase sales by 10% each year” and “maintain an operating margin of 15%”.

Three straight years of increased sales and profits ended with a significant drop in sales and profits in this fiscal year (See item 2 of Q.1, “Factors Contributing to Declines in Sales and Profits” for more details). In the next fiscal year, we will promote the “allocation of management resources to growth businesses” while “enhancing our title lineup and development efficiency through further structural improvements” to achieve ongoing medium- to long-term growth.

#### 3. Medium- and Long-Term Strategies

These past few years, the PC online game and mobile content markets have grown rapidly as a result of global network infrastructure improvements and the adoption of smartphones, both of which have made possible the online playing and digital distribution of games. As a company in possession of many leading titles in the Home Video Game Business, Capcom believes it is important to increase profits in the three markets where scale and growth potential are largest. To this end, we will strengthen our home video game development capabilities and add to our title lineup while focusing on the PC Online Game and Mobile Content businesses, allocating 85% of our management resources to these three businesses.

In particular, we will promote the “strengthening of the Asian development of PC online games”, “comprehensive download content for home video games” and the “increase of smartphone game titles”.

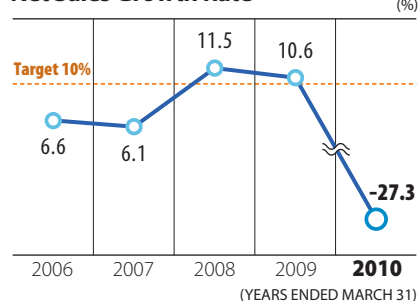
In this fiscal year, we anticipate significant growth in online content sales, amounting to 10 billion yen (up 42.9% from the previous year) and accounting for approximately 15% of consolidated net sales as a result of the launch of additional, premium home video game content distribution, as well as the advancement of PC online games into Taiwan.

Also, the development of our “Single Content Multiple Usage” strategy to acquire multifaceted profit opportunities is critical to maximizing profits. As indicated in the “Resident Evil” example on P. 26, in addition to game contents, we are constructing a mechanism to maximize the profitability of one content across the entire Group through our the development of applications for the entertainment business. Accordingly, the creation of hit titles will expand the profitability of the Home Video Game Business and other businesses as well. We have positioned these as peripheral businesses to which we will allocate 15% of management resources in an effort to ensure stable earnings.

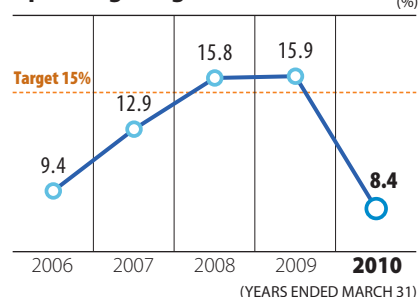
#### Medium- and Long-Term Business Goal

- Maintain an annual sales growth rate of **10%**
- Achieve an operating margin of **15%**

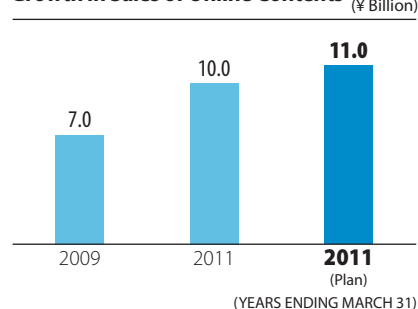
#### Net Sales Growth Rate



#### Operating Margin



#### Growth in Sales of Online Contents



## Development Investment and Capital Policies

**Q.5** To achieve your medium- to long-term goals, which areas will you focus on terms of investment, and how do you intend to procure funding?

**A.** We will focus investment in the Home Video Game and Online Game businesses, and procure funds through debt financing.

### 1. Purpose of Loans

At present, Capcom is formulating and executing growth strategies in each business in the pursuit of stable medium- to long-term growth.

We recognize that priority must be given to ensure sufficient investment in the Home Video Game and Online Game businesses (see item 3 of Q.4, "Medium- and Long-Term Strategies" for details), where significant growth in the size of each market is expected. Additionally, to cultivate the Mobile Content and other future core businesses, we must strengthen our partnerships with development companies, the recruitment of developers and investment in network facilities.

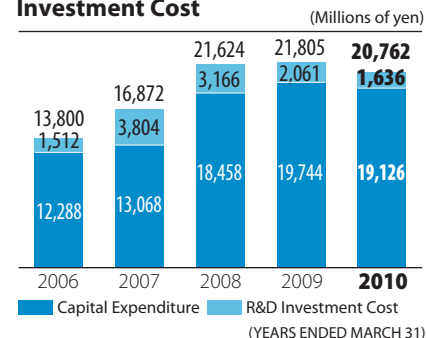
Accordingly, we will invest 85% of our management resources (development investment funds and capital expenditures amounting to 30 billion yen), or 27 billion yen (up 41.2% from the previous year) on growth businesses.

### 2. Fund Procurement

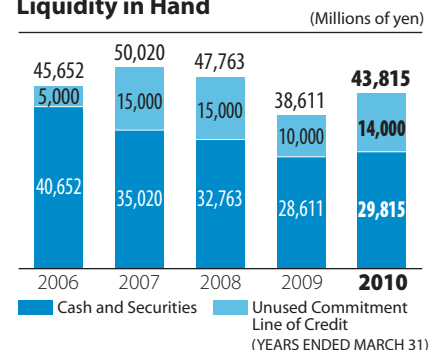
Major home video game titles require more than two years from development to sales, making the return on investment a long-term prospect. Furthermore, we must maintain a certain level of cash and cash equivalents, as online games require regular upgrades after initial sales, and network infrastructure maintenance requires ongoing investment. We recognize as a priority issue the need to understand the global economic situation, paying attention to the risk of not recovering receivables and the resultant need to ensure funding.

To address these funding procurement issues, we determine the level of cash and cash equivalents that needs to be maintained using reserves from the investment plan and risk management. This amount will then be supplemented with cash on hand (29.8 billion yen) as well as an unused 14 billion yen commitment line of credit to maintain an appropriate range. We will continue with our financial strategy to raise funds mainly through debt financing within the commitment line for a period of time, while paying close attention to changes in the financial markets.

### Capital Expenditure and R&D Investment Cost



### Liquidity in Hand



## Our Views on M&amp;A

**Q.6** What does Capcom think about the acquisition of leading content?

**A.** We engage in amicable acquisitions and partnerships that contribute to our overseas business and "Single Content Multiple Usage" development.

### 1. Basic Position on Acquisitions and Partnerships

Capcom's stable future growth depends on our ability to increase our sales overseas, where the significant home video game software market still has ample room for growth. Acquisitions and partnerships are important strategies to realize this goal. We actively pursue acquisitions and partnerships that will allow us to "create gaming content with universal market appeal" and "gain technologies and know-how required for Single Content Multiple Usage strategy". However, we have no plans to merge with any major Japanese video game publishers or toy manufacturers in the foreseeable future, as it is unlikely to contribute to sales expansion overseas. Such a merger could also restrict our licensing business opportunities.

We also have no plans to make any Take Over Bids (TOBs) as we recognize that the human resources that create content are the most important assets in the entertainment industry. With a



TOB, it is possible that the value of the acquired company will be drastically reduced as a result of employee departures. We believe choosing a partner company that complements our strengths will lead to a successful acquisition and contribute to the growth of our business. Our first objective, therefore, is to form partnerships that meet mutual needs.

## 2. Aims and Effects of Acquisitions and Partnerships During This Fiscal Year

In this fiscal year, we reexamined all the game titles developed in collaboration with partnership companies and acquisitions as well as the effects of these relationships.

Also, aiming to improve the technical development video production, we entered into a partnership with Advanced Telecommunications Research Institute International to introduce the first new voice recognition technology into the gaming industry and promote efficient and high quality content production.

Upon examination of the effects of acquisitions and partnerships, we identified accomplishments including the primarily overseas sales of approximately 500,000 multiple titles. However partnership title projects were left unrealized, necessitating a review of tactics within our basic strategy (See P. 19 "Our Strategy for Growth" for details).

In the next fiscal year, we plan on releasing more than 10 titles targeting the overseas market based on a new partnership model in an attempt to achieve an overseas sales ratio of 65% or higher.

## Dividend Policy

**Q.7** Will you lower the dividend as a result of the decline in sales and profits?

**A.** We will continue our policy of providing stable dividends.

### 1. Basic Policy Regarding Dividends

One of our management priorities is to share profits with all our shareholders. Our basic policy is to provide stable and continuous dividends that take into account our financial condition and future business strategies.

### 2. Allocation of Business Investment Results (Dividend and Internal Reserve Ratios)

As I indicated in item 1 of Q.5, "Purpose of Loans", we believe that now is the time to invest in our future growth.

For this reason, we feel that the free cash flows generated by businesses during this fiscal year should first and foremost be allocated to business investment focused on the future.

Therefore, our shareholders will continue to receive stable dividends while we increase our corporate value through growth achieved by new investment.

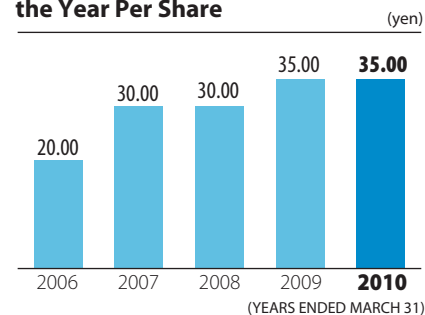
### 3. Dividends for This Fiscal Year and the Next

In accordance with the above dividend policy and the decline in sales and profits for this fiscal year, we maintained the level of the annual dividend at 35 yen. As a result, the dividend ratio was 98.0%. Also, we repurchased 2,974,600 shares of treasury stock.

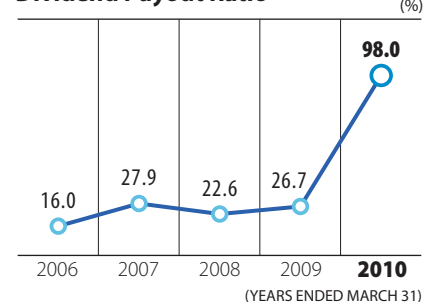
We forecast an annual dividend of 35 yen for the next fiscal year. While ensuring resources for investment, we will continue to enhance the return of profits through an incremental increase in dividends in proportion to profit growth and the repurchase of treasury stock.

I would like to express my gratitude to all our shareholders for your encouragement and guidance. We will continue striving to be worthy of your ongoing support.

### Cash Dividends Applicable to the Year Per Share



### Dividend Payout Ratio



**Kenzo Tsujimoto**

Chairman and Chief Executive Officer (CEO)

# Capcom's Corporate Governance Ideal

Management strengths, the separation of management and execution according to the founder and the steady progress of preparations for management's transition to the next generation — Founder, Chairman and CEO, Kenzo Tsujimoto engages in a frank discussion about "corporate governance" as well as Capcom's current and future direction with Asahi Shimbun AERA Journalist Atsushi Yamada.

### Management Decisions Based on Experience Accumulated Since Capcom's Founding are CEO's Strength

**Yamada:** Capcom has developed into the company it is today under the strong leadership of its founder, Kenzo Tsujimoto. Starting out as a venture company focused on sales of arcade games, in 20 some years you have achieved net sales of 100 billion yen, and I think the key to your growth into a global corporation lies in your "strength" as an owner-manager. To what do you attribute your success?

**Tsujimoto:** I think one of the biggest merits of being an owner-manager is "rational management decisions" based on the accumulation of long years of experience. Capcom's history until now includes over 40 million-seller titles and numerous other successes, as well as plenty of mistakes and difficulties. Seven years ago we executed organization reforms that created a state of emergency when many of our creators left the company. However, in times of crisis such as these, the issues and risks faced by the company become clear, enabling the development of reforms, rationalization and risk hedging to overcome these challenges. I think taking time to assimilate experiences accumulated since our founding has enabled me to make rational management decisions.

**Yamada:** So your long-time position as the leader and the accumulation of management expertise has enabled you to command the direction of your company? Even in times of difficulty, have you relied on this experience to get the company back on track?

**Tsujimoto:** That's right. But rather than simply a function of being at the company for all those years, the most significant factor is that, as the owner-manager, I have been at the center of all our corporate management.

### Strengths of Corporate Governance

**Tsujimoto:** For an organization like Capcom to become as big as it has become required more effort than I could have possibly mustered on my own. Three years ago, we created a governance framework capable of executing "systemic management".

**Yamada:** In 2007, your oldest son, Haruhiro Tsujimoto, was appointed President and Chief Operating Officer (COO), and you became Chairman and Chief Executive Officer (CEO). Was this a significant turning point for Capcom?

**Tsujimoto:** Yes, we were focused on a clear separation of "management" and "execution". By separating the CEO and COO, we wanted to clarify the role and responsibilities of each while realizing speedier management decision-making. At present, as CEO, I formulate management policies, and the responsibility for executing those policies lies with COO Haruhiro Tsujimoto and managers of the related business divisions.

**Yamada:** I see. In Japan, when someone "becomes chairman", it is typically a precursor to retirement or merely a change of the posts without transfer of real management power, and there are more than a few cases where there is no clear separation of CEO and COO roles, but at Capcom you have achieved an obvious separation.

**Tsujimoto:** Yes, and I think that those kinds of ambiguities tend to slow down management decision-making, leading to bad decisions. Having several people with the same authority slows down decision-making and requires unnecessary coordination. Diarchies never work.

**Yamada:** Without a doubt, even at large corporations, governance is weakened when responsibilities are not clearly separated.

**Atsushi Yamada**

Reporter for AERA,  
AERA Editorial department,  
Asahi Shimbun Publications Inc.



**Kenzo Tsujimoto**

Chairman and Chief Executive Officer (CEO),  
Capcom Co., Ltd.



**Tsujimoto:** The worst thing is when, out of kindness, someone gets involved in another person's job. If, while half-heartedly helping with someone else's job, a problem arises, there is no way to assess responsibility. That's why, since I became chairman, I don't spend much time onsite, nor do I attend division meetings. At the same time, to make accurate judgments as a member of management, it is necessary to always be aware of the entire organization. This is why I always read the minutes from the executive meetings carefully, and if I see any problems, I correct them. We also assess penalties if any activities are conducted that were not decided on at the business manager's meetings. Similarly, in terms of budgets, as long as expenditures are within the scope of the plans approved at the beginning of the year, I won't say anything, but all changes must be reported to managers when necessary to receive approval. The Japanese game industry began full-scale investment in the online game market rather early, and I think this is a reflection of the speedy management decisions possible within a system such as this.

**Yamada:** You introduced a "system of appointing external directors" (See "Corporate Governance" on P. 42 for more details). As a result, the "freedom to make management decisions", the benefit of being an owner-led corporation, is now limited, and there are concerns that Capcom might become a less interesting company.

**Tsujimoto:** No, in fact, the external directors are not here to delve into details and argue every point. If anything, this system makes the most of the positive aspects of being an owner-manager. This is because the addition of "third-party judgments" enables more correct management decisions. All our external directors have been individuals with superior knowledge and good sense, and I have the utmost confidence in them. For example, in the past we have been presented with project proposals from the business divisions whose viability was difficult to determine, and the external directors, after carefully examining various data, decided that "a project was too risky" or that "the timing wasn't right". Their opinions and guidance are accurate and contribute significantly to the formulation of balanced strategy.

### Carrying Experience and Expertise into the Next Generation

**Yamada:** By separating the execution of duties, you have begun to pass the baton to the next generation; what is your thinking with respect how you will transition into the next generation?

**Tsujimoto:** We must execute transition of management responsibility in

stages. Systemic management through the separation of management and execution is the first stage, which is basically beginning to function as planned. Although the COO must make many difficult decisions regarding the creation of long-term game development planning, the formulation of online business strategy and overseas development, the present COO is advised by specialists in each area while steadily moving forward. Despite the pressure, this is how a manager grows and builds a career.

**Yamada:** The next stage, "management", is the role of the CEO. While delegating authority, you must also pass on your high-level management expertise cultivated over many years to the next generation. I think this is the most important aspect of your role. How do you feel about it?

**Tsujimoto:** For "management" to be entrusted to the CEO, we must have a system that enables me to correctly ascertain all the numbers for the entire group. To this end, beginning in 2007, we spent two years creating a unified group-wide management database that incorporates data from our North American and European subsidiaries. As a result, I can quickly check the status of cash flows and other critical information, providing me with an overview that enables me to easily understand how the company is positioned at any given time.

**Yamada:** So, the "visualization" of group-wide data has resulted in more precise management decisions? What else is necessary for the transition to the next generation?

**Tsujimoto:** In the next few years, I want to clarify the "objectives" and "authorities" of our executive's duties, and devise a system that quantifies their skills. I think that, by clarifying "objective" and "value", we can create an even stronger organization where the CEO can leave the company in the hands of the next generation.

**Yamada:** Will you retire once that objective has been achieved?

**Tsujimoto:** No, even if I step down as CEO, I will continue to play an active role in the company as chairman. I want to continue doing what I can to contribute to the growth of the company.

**Yamada:** I look forward to watching Capcom move ahead toward the future guided by the experience and expertise of its most valuable management resource.



### After the Conversation

During our conversation, Chairman Tsujimoto repeatedly emphasized that "video games are a cultural and emotional industry", and he struck me as a manager who was unusually adamant about manufacturing and quality. He is a true success story, having worked hard in his younger years, and growing Capcom into one of a handful of global game corporations from the beginning days of Japan's game industry, and I had the distinct impression that his strong personality is what continues to lead Capcom forward.

However, Mr. Tsujimoto will not be Capcom's top manager forever. I think the company needs to steadily transition toward a future management that maintains Capcom as established and cultivated by the founder. It appears that these preparations are already underway.



**Atsushi Yamada**

Journalist for Asahi Shimbun AERA Editorial department. Born in 1948 in Tokyo. Joined Asahi Shimbun Publications Inc. in 1971. Career highlights include being dispatched to offices in London and Bangkok, and works as a guest researcher at Harvard University, an economic editorial committee member and a commentator on TV Asahi. He has held his current position since 2010. He is the author of "Ginko Wa Doh Naru?", "Nihon Keizai Shindan" (Iwanami Shoten) and "Nihon Saihaiboku" (co-authored with Soichiro Tahara, Bungei Shunju).



# Attempting to maximize profitability through three strategies for growth by making use of the “world-class development capabilities” and “leading contents”

**Haruhiro Tujimoto**

President and Chief Operating Office (COO)



For the past few years, Capcom has achieved success and stable growth through our growth strategy centered on our core Home Video Games Business. This year, profits declined for the first time in four years, but this in no way reflects problems with the direction of our “multi-platform” and “Single Content Multiple Usage” basic strategies. We are confident that by strengthening our tactical efforts will be able to once again get back on a growth track.

As COO, I would like to explain our business strategies to achieve medium-term business goals.

## **M**aintaining our competitive advantage for global success

In the contents industry, generation of new content is the source of a company's competitiveness. One of the reasons Capcom has continued to grow is due to our core Home Video Games Business' “ability to provide superior content” through the utilization of strong development capabilities for creating original game content.

The strength of our development capabilities requires “developer creativity” and an “organizational structure that enables developers to hone their skills”, two factors we have successfully realized through structural reforms.

To promote the development of our multi-platform development, we are focusing efforts on basic research in game development. 80% of Capcom's proprietary integrated development environment “MT Framework” development process is common to the Xbox 360, PS3 and PC platforms, realizing development efficiency that significantly reduces costs and shortens time to completion to one-third of the traditional time required for development.

As a result, Capcom is building its competitive advantage for global success based on content that is (1) of high quality, (2) overflowing with originality and (3) developed at a reasonable cost.

## Numerous game awards won



Japan Game Awards 2009 announcement and ceremony





## Extensive collection of leading content (intellectual properties)

The originality of content created by Capcom using the world-class development capability is, naturally, held in high esteem by users. We attempt to secure stable earnings by creating million-seller titles once every two or three years, and introducing the sequels of these titles regularly, such as "Street Fighter" and "Resident Evil", which have sold over one million copies worldwide. We possess the most popular contents among Japanese game software manufactures, and development capabilities

### Capcom's collection of leading content



#### "Street Fighter" series

First appearing as an arcade game in 1991, "Street Fighter" has grown to become the world's premier fighting game. The Super Famicom (SNES) version of the game, which made its debut in 1992, became a megahit that sold 6.3 million units worldwide. In April 2010, "Super Street Fighter IV", the latest version, was released.



#### "Resident Evil" series

The first "Resident Evil" title appeared in 1996 for PlayStation. This game requires players to manipulate the main character with the goal of using various weapons and other items to escape from zombies. By skillfully creating a sense of "horror", "Resident Evil" quickly became a hit around the world. "Resident Evil 5 Gold Edition", the latest version, was released on February 2010.



#### "Monster Hunter" series

This action game allows players to enjoy the "experience of hunting monsters". Since the first version appeared in 2004, this game has attracted an increasing number of fans. The version for the PlayStation Portable (PSP) was highly successful. The sequel, called "Monster Hunter Freedom Unite", recorded shipments of more than 4 million units (includes Best Place), proving the solid popularity of the series.



#### "Sengoku BASARA" series

The "Sengoku BASARA" series features the Warring States period of Japanese history. Historical warlords of the time are portrayed with an anime twist in this fast-paced action game. This helps to make the material accessible to younger players. Since the first game's release in 2005, the series has expanded into other media, including various related events, character goods, and an animated TV series, maximizing the property's cross-media appeal.

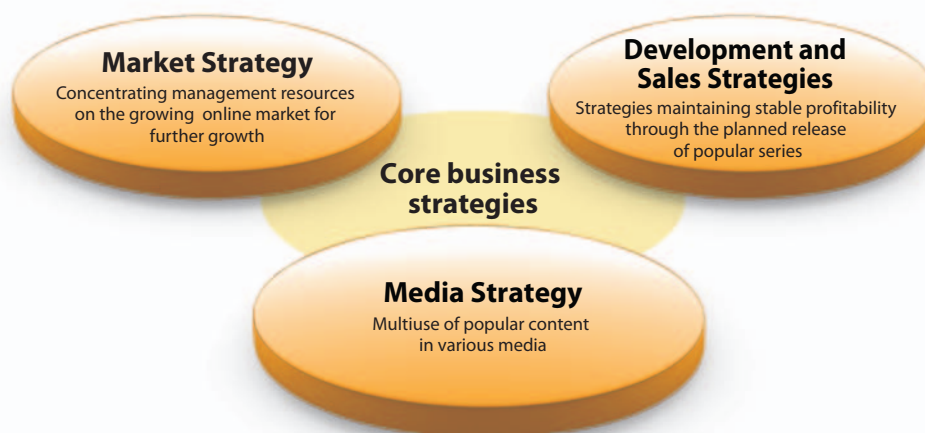
## Further strengthening of our unshakeable strategy

Upon analyzing the change in performance in this fiscal year, and to ensure further growth, Capcom has formulated three strategies for growth: "expanding our title line-up through development efficiency and the reorganization of Capcom's development structure", "strengthening our Online Business", and the expansion of "Single Content Multiple Usage".

To correct our "partiality toward a particular timing in terms of our title portfolio", the main factor behind our decision to postpone the sales launch

of major titles in this fiscal year, we will attempt to reorganize our development structure and shorten the sales cycle of major titles. To increase titles for overseas markets, we will promote business partnerships with overseas developers. We will also strengthen our Online Business while aggressively developing our download business in the PC online and mobile markets. Furthermore, we will continue to focus efforts on the development of "Single Content Multiple Usage", which is at the core of our business development.

Next, I will explain each of our three growth strategies in detail.



## Market Strategy

# Concentrating management resources on the growing online market for further growth

## Changes in the Game Market

Package software dominated the game market until the mid-90s, but the development of information and communication technology has spawned a new online market.

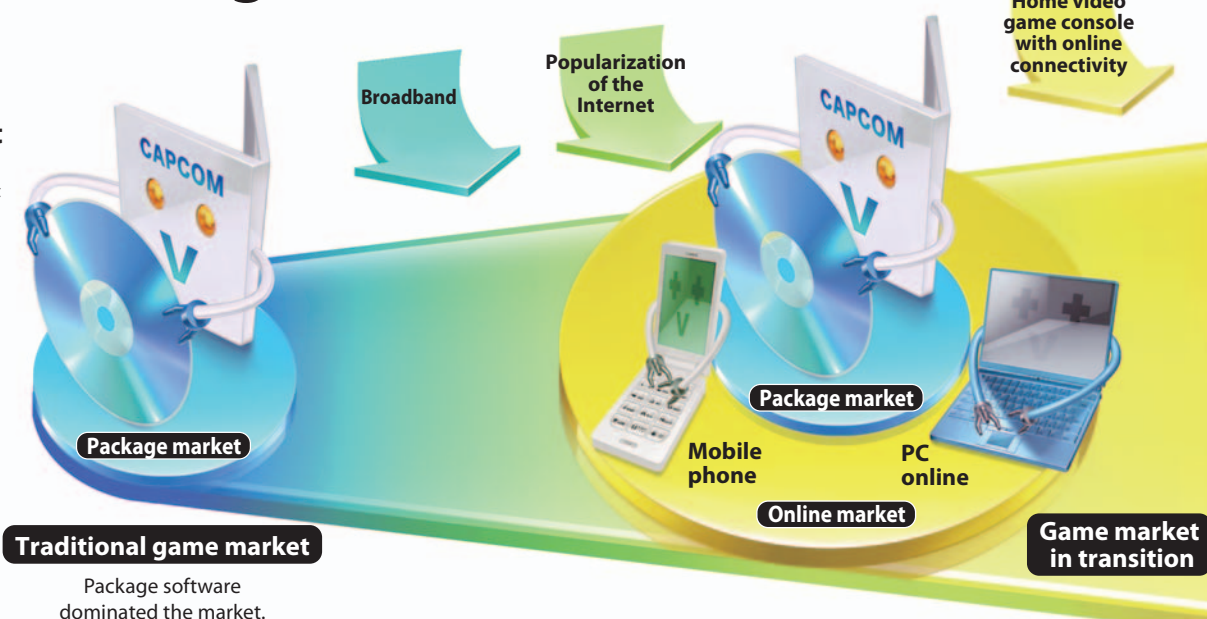
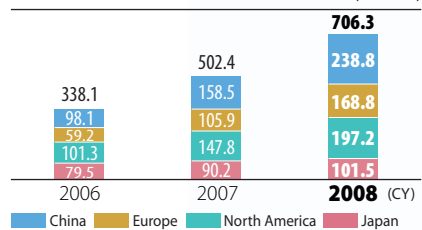


Diagram 4

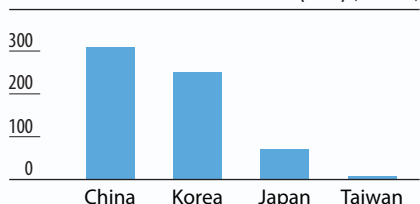
### PC Online Game Market (¥ Billion)



Source: ScreenDigest/GBC/IDC/ファミ通ゲーム白書  
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Diagram 5

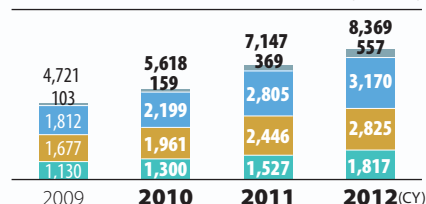
### Online Game Market in Asian Countries (2009) (¥ Billion)



Source: f-ism/中村彰憲/GBC(中国)/MIC(台湾)/KOCCA(韓国)  
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Diagram 6

### Mobile Content Market (\$ Million)



Source: Gartner Dataquest 2010

## Continued rapid expansion in the online market

Since the Nintendo Entertainment System (NES) first went on sale in 1983, the home video game market has continued to expand, and game software manufacturers have focused development efforts on home video games, namely, package software.

However, in recent years, the development of broadband networks has led to (1) high-speed PC and mobile phone communications, (2) the spread of mobile PCs and portable game consoles, (3) mobile phones with a diverse array of high functionality and (4) the expansion of social networking services (SNS). As a result, PCs, smartphones, iPads and other devices equipped with multi-functional online communications have transformed the game platform and begun to cause rapid expansion in the online game market.

In the Asian region, where problems related to piracy and package sales have been mitigated due to online ID authentication requirements, the PC online game market has expanded to 706.3 billion yen (See Diagram 4 and Diagram 5).

Additionally, in the mobile content market, the spread of mobile phone

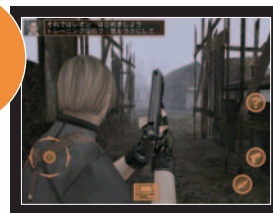
usage due to the growing global population and the rise of multi-functional devices such as the iPhone have been the drivers of significant growth in the number of mobile game players, which totaled 546 million people (up 85.8% from the previous year). As a result, the mobile contents market was worth 4.72 billion yen in 2009 (up 15.5% from the previous year) (See Diagram 6). In particular, three companies are providing social game services in Japan. Each boasts approximately 20 million registered members and employs a business model based on providing basic game play for free and charging for additional items used in the game, which has resulted in the acquisition of women in their thirties, a heretofore unreachable user segment, which has contributed to the expansion of the game population.

At the same time, the home video game market, which is the focus of Capcom's core business, was worth 25 billion dollars this year (down 7.1% from the previous year), experiencing negative growth for the first time in four years. However, the addition of an online function to home video games that facilitates content download led to an increase in online sales.

The rapidly expanding online game market is quickly becoming an important growth area on par with the package market.

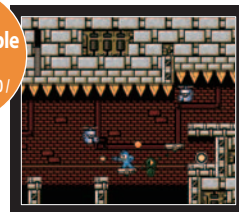


For iPad



"Resident Evil 4 iPad Edition"

Sales of downloadable content for PS3 / Xbox360 / Wii



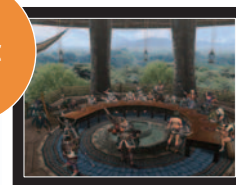
"Mega Man 10"

For iPhone (smartphone)



"Resident Evil 4 for BEGINNERS"

For PC



"Monster Hunter Frontier Online"

## **S**trengthening the online download business as our strategy for growth

Amid these dramatic changes in the market environment, we have established the "strengthening of our Online Business" as our growth strategy to achieve our medium-term business goals. Accordingly, we will allocate 85% of management resources to the Consumer Online Game Business.

The essential elements of the strategy include (1) expanding downloadable content for traditional home video games, (2) strengthening the Asian development of PC online games and (3) increasing the number of smartphone and SNS game titles.

First, with respect to home video games, we will provide online connectivity for all major titles. We will attempt to increase the amount of time users play online games, attract new (package game) users and acquire revenue from the sales of additional items through the introduction of a global online combat-based system and the ongoing addition of new items.

We will also promote the sale of downloadable game software that makes use of existing titles.

Second, in terms of online games, we will promote developments the Asian region by making use of popular home video games with a global

appeal. Currently, we are distributing "Monster Hunter Frontier Online" in Japan, Korea and Taiwan, and in the future, we plan to widen our focus to include China, the world's biggest market, as we expand distribution sequentially in each region. Moreover, to avoid country risks and acquire management experience in these regions, we will develop business partnerships with leading local companies.

Third, regarding games for smartphones, we will improve "sales prices" and the "number of downloads" by introducing popular Capcom titles for the core user segment where average purchase prices are high, as well as by making use of TV program content and copyrighted content from other companies in the large casual user segment.

As for SNS games, we will engage in wide variety of initiatives aimed at the diverse home video game and mobile game segment, including the a distribution of our "Monster Hunter" series through a business partnership with DeNA Co., Ltd., to provide service fusing contents and communication.

As of March 31, 2010, online game content net sales have surged to 10 billion yen (up 42.9% from the previous year). Our growth strategy seeks to achieve growth in excess of the rate at which the market is growing.



Development  
and Sales  
Strategies

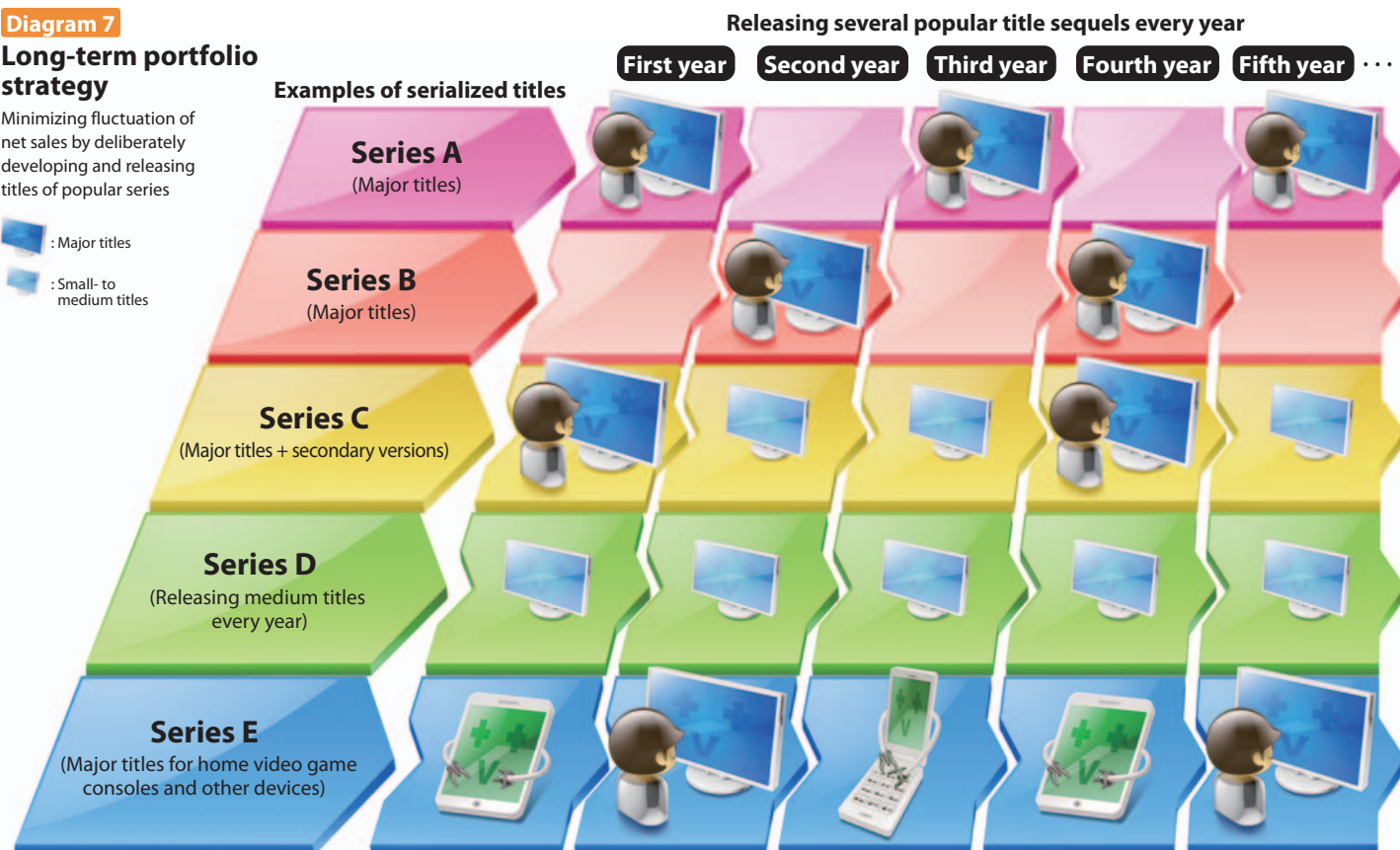
# Maintaining stable profitability through the planned releases of popular series

Diagram 7

## Long-term portfolio strategy

Minimizing fluctuation of net sales by deliberately developing and releasing titles of popular series

■ : Major titles  
■ : Small- to medium titles



## Maintaining stable profitability through the planned release of popular series

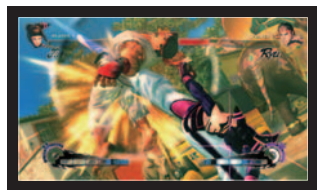
For Capcom to achieve sustainable and stable growth in the game software industry, where the presence or absence of hit products dictates performance, we mapped out a 60-month title development plan that lays out a medium- and long-term development schedule for multiple major titles. By organizing development teams according to this map, we are able to invest in sequels to multiple popular games each year, which contributes to stable growth in the Home Video Games Business. Also, we must steadily increase single-year sales of major software to achieve sustainable growth. To this end, we have formulated a growth strategy focused on “expanding our title line-up through development efficiency and the reorganization of Capcom’s development structure”, which promotes (1) maintaining and increasing the number of popular titles and (2) creating a development structure with a shorter sales cycle for sequels of popular titles.

The first reason for this is, because popular titles—including series—tend to accumulate diehard fans, there is a high potential for stable orders and purchases of sequels based on the user interest and retailer sales performance of previous titles, resulting in the high likelihood of a hit sequel. However, 3-4 years are typically required for the development of a major title, and many companies with a few hit titles find it difficult to invest each year in a series, which creates uneven performance. Accordingly, it is important to maintain several popular titles to ensure stable performance. In addition to a number of major titles owned by Capcom, including “Monster Hunter”, “Street Fighter” and “Resident Evil”, we are expanding small- to medium titles, including “Sengoku BASARA” and “Ace Attorney”. Furthermore, we are increasing our line up by allocating 20-30% of investments in development to new titles as well as reusing existing titles.

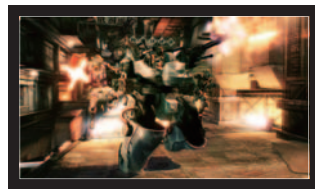
The second reason is that because the development of major titles requires the involvement of more than 100 developers, the simultaneous



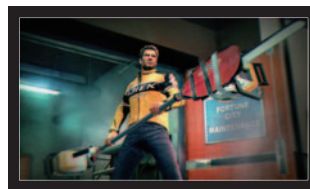
## Major titles scheduled for releases in the fiscal year ending March 31, 2011



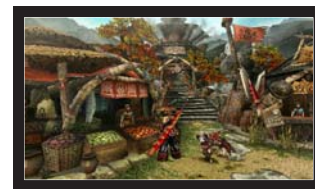
"Super Street Fighter IV"



"Lost Planet 2"



"Dead Rising 2"



"Monster Hunter Freedom 3"

development of multiple title sequels and shortening of the development process requires the creation of a large-scale development structure. To this end, Capcom promotes (1) the strengthening of developer recruitment, (2) aggressive use of outsourcing and (3) business partnerships with overseas developers to maintain development resources. Above all, with respect to (2), Capcom is responsible for the core aspects of title development, leaving all secondary development to outside developers (i.e. hybrid development), reducing the time required for development. Also, regarding (3), in an attempt to maintain development resources and expand sales overseas, the development of popular series titles, such as "Dead Rising 2", is outsourced to promote product development that blends "overseas tastes" with the "Capcom taste".

In this way, Capcom continuously invests in each series title at the appropriate time, while maximizing the use of in-house and external development resources to shorten the sales cycle and organize a long-term portfolio to enable sustainable growth over the medium- and long-term (See Diagram 7).

## Avoiding risks by investing in major titles each quarter

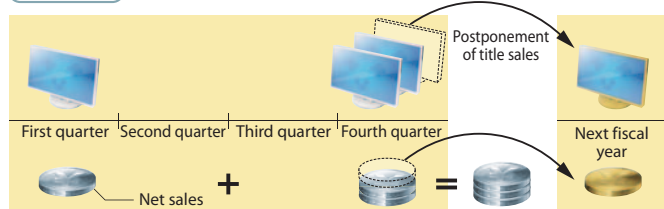
At Capcom, it is our intention to stabilize performance in the short-term, not over the long-term. Our decision to postpone sales of major titles in consideration of market conditions and competitor titles contributed to our lower performance in this fiscal year, but the most significant factor was our "partiality toward a particular timing in terms of our title portfolio".

Traditionally, the demand for other companies' major software peaked during the Christmas season, which corresponds to the third quarter of the Japanese fiscal year. For this reason, Capcom followed a strategy whereby we launched multiple major titles in the comparatively slow fourth quarter. However, in recent years, other companies began following the same strategy, making the release of multiple titles in the fourth quarter a risky proposition.

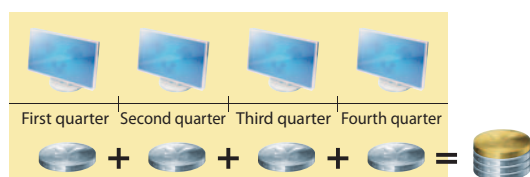
Accordingly, we will further refine our long-term portfolio by deploying major titles in each quarter of the fiscal year, diffusing the adverse effects of head-to-head competition with competitor titles and other risks (See Diagram 8 and Diagram 9).

**Diagram 8** Short-term portfolio improvement

**Before** Major software launches peaked in the fourth quarter, and postponement of title releases caused net sales to fluctuate.

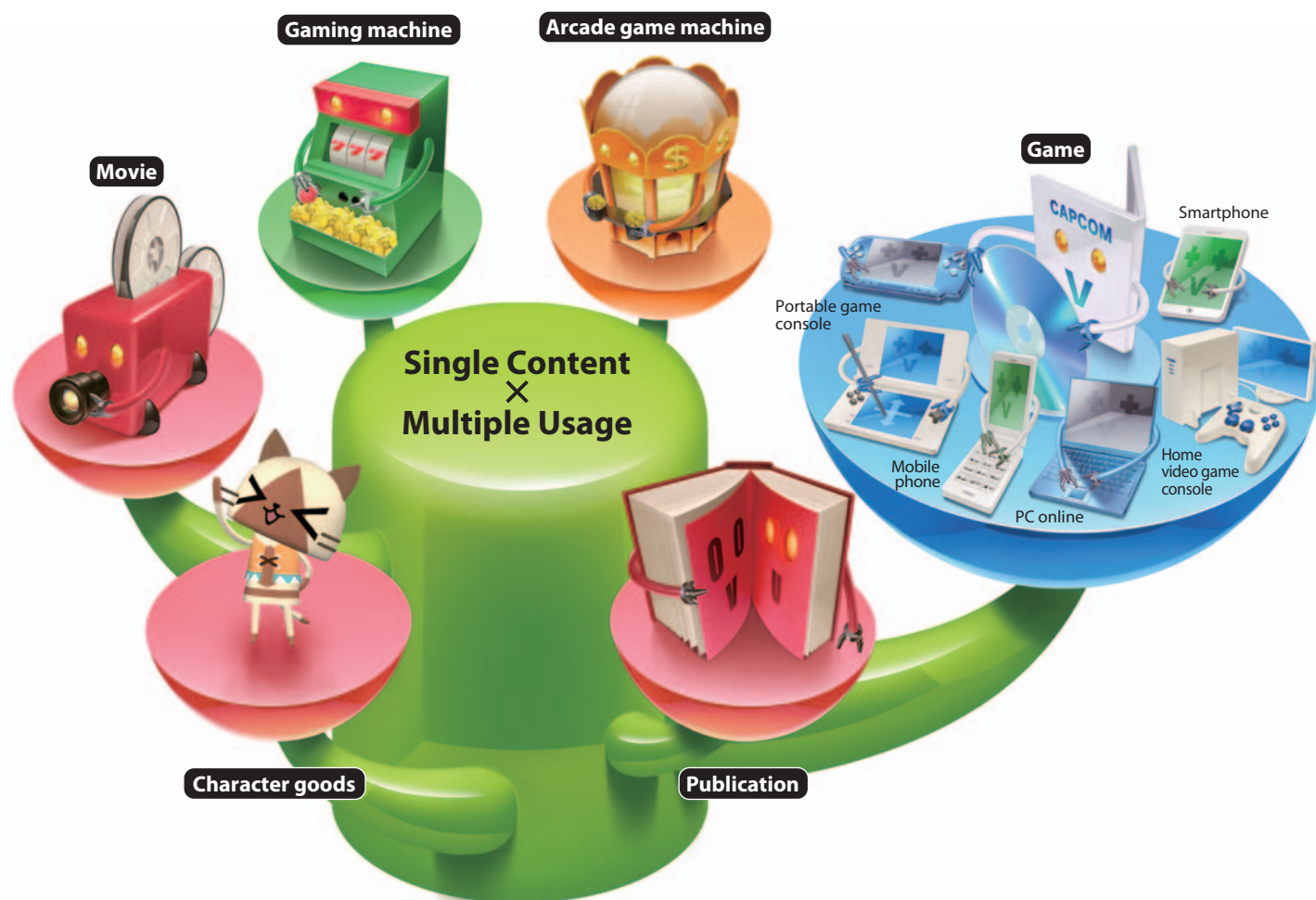


**After** Spreading out the releases of major software in each quarter stabilizes net sales.



**Diagram 9** Game Software Sales Forecast for the Fiscal Year Ending March 31, 2011

Title	Area	Release period
PS3 Xbox 360 Super Street Fighter IV	Japan North America Europe	First quarter
PS3 Xbox 360 Lost Planet 2	Japan North America Europe	First quarter
PS3 Xbox 360 Dead Rising 2	Japan North America Europe	Second quarter
PSP Monster Hunter Freedom 3	Japan	Third quarter
PS3 Xbox 360 MARVEL VS. CAPCOM 3 Fate of Two Worlds	Japan North America Europe	Fourth quarter

Media  
StrategyMultiuse of popular content  
in various media

### **P**utting income from individual contents to multiple uses

A “home video game” is an artistic media product that consists of highly creative, multi-faceted elements such as images, storyline, a worldview, music and interactive gameplay. This is exactly why each of these constituent elements can be individually developed into an attractive product through different facets of media.

Therefore, we can expect the following four effects by developing each of these elements into different business fields: (1) creating new profit opportunities other than the Home Video Games Business; (2) creating heightened excitement through increased exposure by simultaneous multiple-field development (promotional effects); (3) absorbing customers obtained from other business segments as home video game users; and (4) reducing profit fluctuations through business portfolio creation (risk hedge). We own scores of intellectual properties based on popular content.

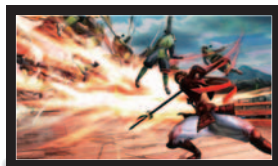
By pushing the “Single Content Multiple Usage” strategy to utilize them in several applications, we can enjoy multiple profits.

This strategy allowed us to leverage the success of our Home Video Games Business to the success of other businesses.

### **S**trengthening the development of multiple forms of media including theme park attractions

During this fiscal year, we focused efforts on primarily theatrical tie-up events in Japan, implementing a “Sengoku BASARA” stage performance and JTB travel tour “Sengoku BASARA Date Bus Tour”. In addition to sales of local products using Capcom characters through a tie-up with regional municipalities, we contributed to regional activities through the use of a Capcom character for PR activities in support of the Miyagi Prefecture gubernatorial elections. Also, the Takarazuka Revue Company performed a

### “Sengoku BASARA” Series



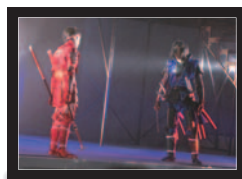
Home Video game

Book  
©CAPCOM/TEAM BASARA

Tour



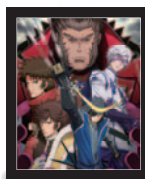
Election promotion poster



Theatrical production



User event

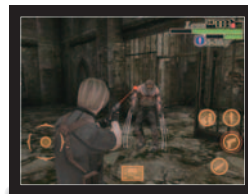
TV animation  
©CAPCOM/TEAM BASARA

Arcade video game

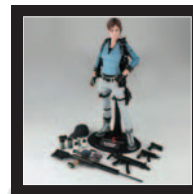
### “Resident Evil” Series



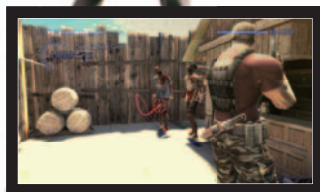
Strategy guidebook



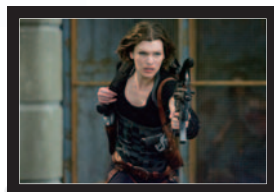
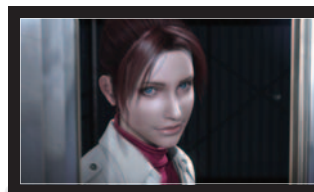
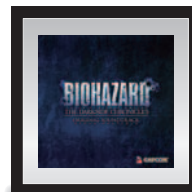
Mobile game



Character goods

Pachislo machine  
©YAMASA Co., Ltd.  
All Rights Reserved.

Home video game

Hollywood movie  
©2010 Sony Pictures Entertainment(J) Inc.  
All Rights Reserved.CG movie  
©CAPCOM CO., LTD. / Resident Evil CG Film Partners

Soundtrack

play “Phoenix Wright: Ace Attorney 2” and the “Monster Hunter 5-Year Anniversary Orchestra Concert: Hunting Music Festival” was held in collaboration with the Tokyo Philharmonic Orchestra. Both events attracted series fans and appealed to non-traditional users such as women and seniors, contributing to improved title recognition. As a result, sales of home video games “Sengoku BASARA Battle Heroes” and “Ace Attorney Investigations: Miles Edgeworth” were bigger hits than expected, with sales of character-related products performing favorably.

In the next fiscal year, we will attempt to develop multiple forms of media around the sales of new editions to the “Sengoku BASARA” and “Monster Hunter” series. We will introduce a “Sengoku BASARA” themed attraction at Fuji-Q Highland in addition to the stage production, TV animation and second JTB tour planned in commemoration of the fifth anniversary of this popular title. Furthermore, accelerating our connection with regional municipalities, we are attempting to make use of Capcom’s

appeal as a driving force behind regional revitalization. Also, we will attempt to develop various kinds of content timed with the year-end release of home video game titles, including “Monster Hunter” TV animation, an attraction at the Greenland theme park in Kumamoto Prefecture and related products for social games and arcade facilities.

By appealing to a wide array of customers through the ongoing development of multiple forms of media, we will create another boom among “Sengoku” and “Monster Hunter” fans while improving brand value and profitability.



## Capcom's Strengths and Issues Regarding Growth Centered Around an Online Strategy

Strengthening the "online games business" and "development structure", Capcom is setting out on a new growth trajectory. Where are they focusing, and how will they hold in the drastically changing game market? Analyst Yuta Sakurai, an expert on the world of video games, discusses "Capcom's growth strategy" with President and COO Haruhiro Tsujimoto.

### Fighting Global Competition with three capabilities of "Development", "Marketing" and "Sales"

**Sakurai:** Looking at the overall movement of the global video game market, up until a few years ago, Japanese game software manufacturers were the clear competitive leaders, but recently Europe and North America have become much stronger. I think that "development", "marketing" and "sales capabilities" are important for survival amid intensifying global competition. As the president, where does Capcom stand in terms of these three capabilities?

**Tsujimoto:** First, regarding our "development capabilities", they are at a high level even by global standards. This is due to our "MT framework", which enables the simultaneous development of multi-platforms, and the promotion of other efficiencies in the development environment, as well as a result of our cultivation of excellent development personnel who are at the top of their field and are aware of risks. The fruits of their labor are evident in "Resident Evil 5", which has gained quite a following overseas.

**Sakurai:** I certainly think you are right. However, on the other hand, titles like "Bionic Commando" and "Dark Void" have fallen short of expectations. Why do you think that is?

**Tsujimoto:** These projects were brought to us by an overseas development company, who was solely responsible for their development. We were not able to thoroughly manage the work done by the outside development company, and we were unable to ensure the same level of quality as our

in-house projects. This is why I believe Capcom must determine the direction of projects and maintain leadership in terms of developing the core aspects of new titles and progress control.

**Sakurai:** Clearly, outsourcing, and the management of overseas development companies in particular, are priority issues for Capcom. Moving on, how do you rate your "marketing" and "sales capabilities"?

**Tsujimoto:** Frankly speaking, I think we have several issues to address concerning these areas. Regardless of the fact that the game market continues to grow more overseas than in Japan, our sales organization is located in Japan, and we have yet to achieve a balance between the size of the market and the scale of our sales organization. Of course, enhancing our overseas sales organization is urgent business, and as a matter of fact we are in the process of allocating sales personnel to better address the scale of the market. The reason we have been unable to do this until now is that we have always thought that "well made products would sell themselves". On reflection, I think that we relied too much on our "development capabilities" and did not focus enough effort on "marketing", which caused problems in terms of our ability to sell.

### Online Games Are a Totally New "Member-Only Business"

**Sakurai:** Speaking of your overseas "marketing capabilities", you are developing your online game business for the East Asian market.

Yuta Sakurai

Senior Analyst,  
Nomura Securities, Co., Ltd.,



Haruhiro Tsujimoto

President and Chief Operating Officer (COO),  
Capcom Co., Ltd.





However, Japanese corporations are engaged in heated competition in all areas of that market, with many companies unable to maintain their positions. How does Capcom plan on winning in this market?

**Tsujimoto:** The East Asian market is behind the rest of the world in terms of the diffusion of game consoles, and as piracy countermeasure, our market entry has been focused on PC online games. Our first successful foray in this market was with PC online game “Monster Hunter Frontier Online”, which as you know, was also very successful in Japan. Our operations are supported by partner companies in Korea and Taiwan, where we have established structures that reflect the special characteristics of each market. We also have our eyes on future developments in China.

**Sakurai:** In the Japanese game market, social networking services (SNS) have become a hot topic in recent years, with companies like Gree and DeNA raking in the profits from games developed for the mobile phone. Don't you feel threatened by these developments?

**Tsujimoto:** Certainly, we do feel threatened by the SNS business model, but at the same time, it is attractive too. Up to now, video game company business models were based on the package games in what was essentially a “B2B” business. The SNS business model provides a “service to group of members who gather together to play”, and is a “B2C” members-only business. This scheme enables a company to identify user needs and trends on an ongoing basis while securing stable profits. Contents are delivered in beta format during the development process, incorporating user feedback into the final product and enabling a high degree of development freedom. There are many things to be learned from this kind of business.

**Sakurai:** Although you feel threatened, doesn't Capcom's development of a multi-platform strategy provide you with an inroad to distribute SNS games?

**Tsujimoto:** Yes, that is one strategy for providing content to an SNS platform. As a matter of fact, from August 2010 we will begin distributing the “Monster Hunter” game series through DeNA's “Mobage-Town”. However, members-only business requires leadership to attract more users to the service, and we think an independent Capcom mechanism will enable us to attract more members.

**Sakurai:** The growth of SNS is due in large part to the close proximity to the sales company felt by users—which is so close they can practically feel the each other's body heat. Don't you think their emerging power is rather vexing to major video game companies?

**Tsujimoto:** Of course, in terms of game creation expertise and quality, we are proud of our superiority. Capcom has many titles with loyal fans, and our online game “Monster Hunter Frontier Online” has over 1.5 million registered users. Our ability to satisfy users without making them bored, as well as our ability to turn a profit from this, is linked to the culmination of our expertise. This is also applied to sales of additional downloads of package games.

## Capcom's New Growth Engine for the Future

**Sakurai:** It seems your involvement in the online game market is proceeding on track. On the other hand, taking the long view, as user preferences and platforms continue to diversification in the rapidly changing game world, what do you think about realizing further growth as business manager? What will the future direction of your management be?

**Tsujimoto:** Up to now, Capcom's growth has been supported by a corporate culture that “exerts its wits to realize interesting games”. The development section is at the core of these efforts, and for the past several years we have made a solid contribution to the continuation of this corporate culture through the cultivation of our human resources. Moreover, to realize further growth, it will be necessary to cultivate a second and third growth engine in

addition to our package game business, and my duty is to provide an environment in which these new businesses can be created.

**Sakurai:** When you talk about creating new businesses using Capcom corporate culture, is one of those the members-only B2C business you mentioned earlier?

**Tsujimoto:** Yes, I think the online business has the extremely high potential to transform Capcom's business model. By shifting to a business involving close interaction with the users, I am confident we will proceed to a new stage of growth.



## After the Conversation

My impression upon meeting Capcom President Haruhiro Tsujimoto was that he is an extremely strong and spirited individual who is doing his best to anticipate and respond to the changes taking place in the video game world. His spiritedness is linked to management decisions regarding the concentration and allocation of management resources in the fiercely competitive and expanding online game market. However, success in this B2C member business will not come easy for a large organization like Capcom, which has followed a different business plan up to now. Furthermore, in terms of outsourcing management and marketing structure, it will take some time before Capcom achieves the position as a top manufacturer overseas. I have high expectations for Capcom in terms of the Company's sheer will as well as its ability to get things done. It will be interesting to watch as Capcom establishes itself in this new market, making use of its “development capabilities” and other strengths.



**Yuta Sakurai**

Senior analyst, Information & Telecommunication Industry Research Group, Equity Research Dept. II Financial & Economic Research Center, Nomura Securities Co., Ltd. Chartered member of the Security Analysts Association of Japan. Born in Tokyo. As a knowledgeable analyst of the video game and gaming machine industry, his critiques and writings are widely followed.

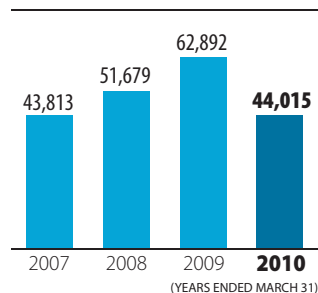


## Home Video Games

In addition to the development and distribution of home video games, this business distributes PC online games, constituting the core business of Capcom, with sales accounting for approximately 70% of total sales. By concentrating our management resources in this field, we have developed game software for a wide range of consumers. We consider action and adventure games our forte, and have released many creative million-seller titles worldwide.

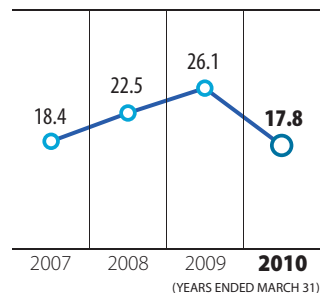
### Net Sales

(Millions of yen)



### Operating Margin

(%)



### Market Trends

**As the market continued to contract, the growing demand for PC online games and downloadable content leveled off.**

The home video game (package) market in 2009 was worth 25 billion dollars (down 7.1% from the previous year), the first negative growth in four years (For more details, please refer to "CEO Interview", item 1 of Q.1, "Market Environment" on P. 11).

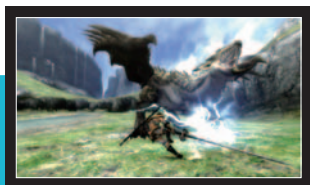
The market mainly consists of three regions: North America, Europe and Japan. While the ratio of each region's share was 5:3:2, respectively, around 2000, our overseas sales ratio is increasing every year due to the maturation of the Japanese market, caused by a falling birthrate and various other social factors, as well as the increase in the global gaming population combined with the growth of emerging gaming nations. In 2009, sales were 11.2 billion dollars (down 11.1% from the previous year) in North America, 10.2 billion dollars (down 7.3% from the previous year) in Europe, and 3.4 billion dollars (up 6.3% from the previous year) in Japan, showing that the foreign markets make up approximately 90% of this market (See Diagram 10). Only the Japanese market experienced an increase because of the domestic release of multiple major titles by all companies.

At the same time, as discussed in "Our Strategy for Growth" on P. 19, improvements in the global network infrastructure have led to rapid

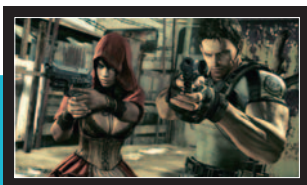
### SWOT Analysis

<ul style="list-style-type: none"> <li>World-class development and technological capabilities</li> <li>Own a great number of original popular titles</li> <li>Ability to develop content that matches overseas user preferences</li> </ul>	<ul style="list-style-type: none"> <li>Overseas marketing capabilities</li> <li>Dependence on specific genres</li> <li>Shortage of developers</li> </ul>
<ul style="list-style-type: none"> <li>Expanding online game market in the Asian region</li> <li>Improved network infrastructure expanding download distribution market</li> <li>New generation game consoles signal beginning of new platform cycle</li> </ul>	<ul style="list-style-type: none"> <li>Game presence diminished by diversity of play</li> <li>Rise of social games and other new markets</li> <li>Falling average sales price of package games</li> </ul>

S: Strength W: Weakness O: Opportunities T: Threats



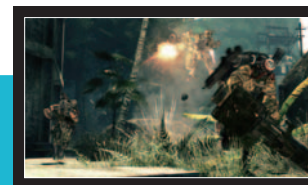
"Monster Hunter Tri"



"Resident Evil 5: Gold Edition"



"Ace Attorney Investigations: Miles Edgeworth"



"Lost Planet 2"

expansion in the PC online game and home video game markets. This growth sufficiently compensates for the contraction in the package market, and the speed at which software manufactures can respond to this market will certainly have a significant impact on their earnings (See Diagram 11).

The outlook for 2010 is for continued contraction of the package market, which is expected to worth 23 billion dollars (down 8.0% from the previous year). Despite the stimulation of new demand expected from the upcoming sales launch of Nintendo 3DS and new controllers for the Kinect and PlayStation Move, the impact of sales form diversification and lower average retail prices are expected to adversely affect the market until 2013. At the same time, additional contents including new scenarios and items in the premium download distribution business will provide advantages including (1) enabling the acquisition of additional profits by continuously adding new offerings and (2) extending the length of time users play by making use of online community features to acquire new users (package sales). Taking into account the premium download distribution business, the home video game (package and download) market in 2010 is expected to maintain the same level as in 2009.

However, the ability to reap benefits from additional downloads will be dependent on the popularity of major titles as well as the "presence or absence" and "number of hit titles", which will create a significant disparity in profit among game software manufactures in what will clearly be a struggle for existence.

### Operating Results for This Fiscal Year

**Despite the excellent performance of domestic titles, delay in sales of leading titles for Europe and the United States resulted in lower revenues and profits.**

Capcom's strength in the Home Video Games Business is threefold. First, we

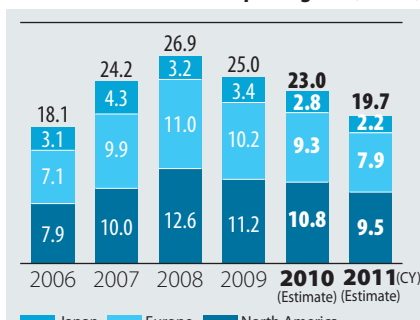
have scores of "long-lasting intellectual properties with universal market appeal" such as million-selling titles and popular characters (See Diagram 12). Second, we maintain an "advanced ability to develop original game content" without relying on licenses obtained from external sources. We also possess a "high level of technology", assisted by the "MT Framework", an integrated development environment built to provide common development tools for Xbox 360, PS3 and PC platforms. Lastly, we have "strong overseas marketing capabilities" as represented by effective sales operations in overseas markets, which are the majority of our markets, with a proper understanding of regional preference for game titles, market characteristics and business practices.

Major titles performed well, including "Monster Hunter Tri" for Wii with sales exceeding 1.1 million copies, "Ace Attorney Investigations: Miles Edgeworth" for Nintendo DS, which sold 400,000 copies, and "Resident Evil 5: Gold Edition" for PS3 and Xbox 360, which sold 500,000 copies. In addition, sales of "Monster Hunter Freedom Unite" for PSP were steady, achieving 900,000 units (accumulated total: 4.6 million units) on the brand power of this popular edition.

However, overseas sales of "Bionic Commando" for PS3 and Xbox 360, "Resident Evil: The Darkside Chronicles" for Wii and "Dark Void" for PS3 and Xbox 360 were weak, failing to achieve sales targets. Furthermore, earnings were lower overall as a result of the decision to delay the release of leading titles in Europe and North America, including "Lost Planet 2" for PS3 and Xbox 360 and "Super Street Fighter IV" for PS3 and Xbox 360, until the next fiscal year.

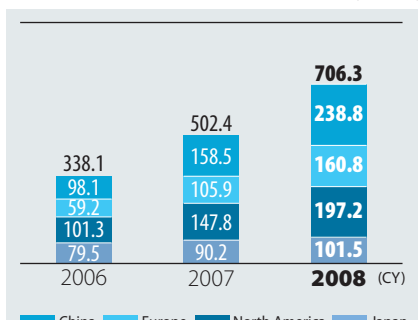
Our market share in Japan, North America and Europe was 6.1% (down 1.2% from the previous year), 2.6% (up 1.6 from the previous year) and 2.1% (up 1.3% from the previous year), respectively, which illustrates an increase in our overseas share (See Diagram 13 on next page). This is due to the fact that no major titles were released within the calendar year, and demonstrative of our establishment of a presence overseas.

**Diagram 10 Home Video Game Software Markets (package)** (\$ Billion)



Source: International Development Group

**Diagram 11 PC Online Game Market** (¥ Billion)

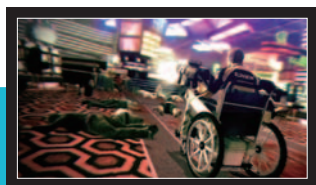


Source: ScreenDigest/GBC/IDC/ファミ通ゲーム白書  
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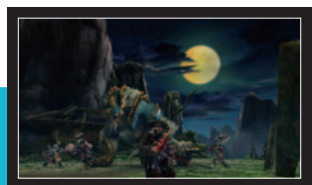
**Diagram 12 Total Number of Units of Major Titles Sold (As of March 2010)**

Major Titles	Number of Products	Total Number of Units Sold (Thousands)
Resident Evil	63 titles	44,000
Mega Man	126 titles	28,000
Street Fighter	63 titles	28,000
Monster Hunter	13 titles	11,000
Devil May Cry	13 titles	10,000
Ace Attorney	13 titles	3,900
Lost Planet	8 titles	2,800
Sengoku BASARA	13 titles	1,600

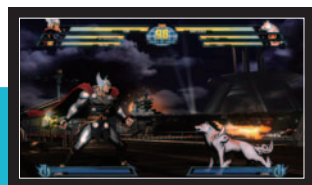




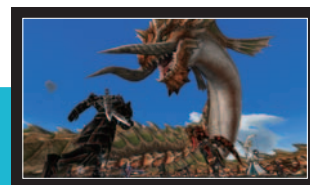
"Dead Rising 2"



"Monster Hunter Freedom 3"



"MARVEL VS. CAPCOM 3 Fate of Two Worlds"



"Monster Hunter Frontier Online"

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As a result, we released 72 new game titles, and shipped a total of 12.5 million units (down 27.7% from the previous year). Net sales were 44,015 million yen (down 30.0% from the previous year) and operating income was 7,846 million yen (down 52.1% from the previous year).

### Outlook for the Next Fiscal Year

**Targeting overseas sales ratio of 65% through more efficient development and the expanded online functionality of all major titles.**

As a medium-term business goal, we give priority to growth in North America and Europe in an effort to respond to the size of each market. Ideally, our overseas market share should be 80-90%, equivalent to the market segment size. However, since the domestic market share is increasing, the goal for our overseas sales ratio is currently set at 65%. In order to achieve this medium-term business goal, we will be implementing business strategies mainly centered on (1) expanding support for multi-platforms, (2) shortening the major titles sales cycle, (3) promoting the development of titles for overseas markets and (4) strengthening our online business (See P.19 "Our Strategy for Growth" for more details).

With regard to (1) and (2), we are forming our domestic development

structure in an attempt to strengthen our lineup through more efficient development and reorganization. Through hybrid development, which involves outsourcing the labor-intensive aspects of core content developed in-house by Capcom to outside development companies, we can shorten the development period, increase the number of titles released in a single year, and expand profitability. Furthermore, we are strengthening our lineup by allocating 20-30% of funds set aside for investment in development toward new titles, while reusing past assets (titles). The sales launch of new titles including "Lost Planet 2", "Dead Rising 2", "Monster Hunter Freedom 3" and "MARVEL VS. CAPCOM 3 Fate of Two Worlds" are scheduled for the next fiscal year.

With regard to (3), we are proactively pursuing partnerships with overseas development companies to expand overseas sales and secure development resources. Outsourcing the development of "Dead Rising 2" and other popular series enables us to promote product development that combines "overseas tastes" with "Capcom tastes".

Finally, with regard to (4), we are aggressively developing the PC online game and download businesses. We are aiming for synergy between "Monster Hunter Frontier Online" for the PC, which is on track in Taiwan, with the domestic release for Xbox 360. With these initiatives, we expect to release of 75 new game titles and the shipment of 20 million units in the next fiscal year, and forecast net sales of 71.5 billion yen and operating income of 15.3 billion yen.

**Diagram 13 Market Share by Region (CY2009)**

#### Japanese Market

Company name	Sales (¥ Million)	Share (%)
1. Nintendo	68,000	20.9
2. Square-Enix	38,000	11.5
3. Namco Bandai	34,000	10.3
4. Pokemon	21,000	6.4
5. Konami	21,000	6.3
<b>6. Capcom</b>	<b>20,000</b>	<b>6.1</b>
7. Sega	13,000	4.1
8. Level Five	10,000	3.1
9. SCE	8,000	2.6
10. Koei	7,000	2.3
Others		26.4
<b>Total</b>		<b>100.0</b>

Source: Enterbrain, Inc.

#### North American Market

Company name	Sales (\$ Thousand)	Share (%)
1. A		
2. B		
3. C		
4. D		
5. E		
6. F		
7. G		
8. H		
⋮	⋮	⋮
<b>10. Capcom</b>	<b>252,559</b>	<b>2.55%</b>
Others		
<b>Total</b>		<b>100.0</b>

Source: "The NPD Group / Retail Tracking Service"  
Data concerning our competitors are not disclosed  
by request of the market research company.

#### European (UK) Market

Company name	Sales (\$ Thousand)	Share (%)
1. Nintendo	437,654	16.5
2. Electronic Arts	432,257	16.3
3. Activision	398,115	15.0
4. Ubisoft	239,148	9.0
5. SCE	126,593	4.8
6. Sega	124,598	4.7
7. Microsoft	119,208	4.5
8. THQ	113,397	4.3
⋮	⋮	⋮
<b>15. Capcom</b>	<b>54,958</b>	<b>2.1</b>
Others		22.8
<b>Total</b>		<b>100.0</b>

Source: Chart-Track, copyright ELSA (UK) Ltd.

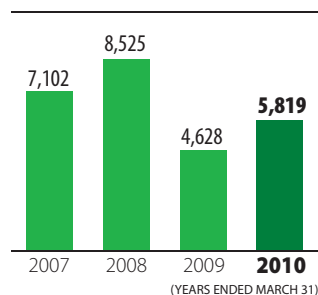


## Contents Expansion

We are expanding two other businesses based on the content used for our home video games making it possible for different businesses to create a synergetic effect. For example, Pachinko & Pachislo Business is involved in the development, manufacture and sales of frames and LCD devices for gaming machines as well as software, whereas Mobile Content Business deals with the development and distribution of game content for mobile phones.

### Net Sales

(Millions of yen)



### Operating Margin

(%)



### Market Trends

**The Pachinko & Pachislo market remained sluggish, decreasing 15.8% from the previous year.**

**The Mobile content market continued to expand, increasing 15.5%.**

The Contents Expansion Business consists of two businesses that develop the content of our home video games, the Pachinko & Pachislo Business and the Mobile Content Business.

The size of the Pachinko & Pachislo (gaming machines) market, including sales at Pachinko parlors, was 21,716 billion yen in 2008. Despite being the biggest entertainment market, it shrank by 1,264 billion yen (down 5.5% from the previous year) from its record low last year. Although the decrease itself is an improvement over last year, the overall market contraction has yet to be restrained. The market for Pachinko & Pachislo machines where we operate our business remained soft, worth 1,142.8 billion yen (down 15.8% from the previous year) in 2008 (See Diagram 14 on next page).

These sluggish conditions are mainly due to the amendments to the "Regulations on the Entertainment and Amusement Trades Rationalizing Act" (hereinafter called the "Entertainment and Amusement Trade Regulations") that were enacted in July 2004. As the gaming aspect of Pachislo machines has been further restricted, the number of core users continues to dwindle.

### SWOT Analysis

<ul style="list-style-type: none"> <li>Multiple usage of abundant proprietary content</li> <li>High degree of development technology capabilities</li> </ul>	<div>S W</div>	<p><b>P&amp;S</b></p> <ul style="list-style-type: none"> <li>Fragile Company sales network</li> <li>Shortage of acquired titles</li> </ul>
<p><b>Mobile Content</b></p> <ul style="list-style-type: none"> <li>High-performance smartphone handsets</li> <li>Rise of social games and other new markets</li> <li>Expanding demand for mobile phones in emerging markets</li> </ul> <p><b>P&amp;S</b></p> <ul style="list-style-type: none"> <li>Market recovery from relaxation of regulation on business affecting public morals</li> </ul>	<div>O T</div>	<p><b>Mobile Content</b></p> <ul style="list-style-type: none"> <li>Barriers to entry are low, significant competitor presence</li> </ul> <p><b>P&amp;S</b></p> <ul style="list-style-type: none"> <li>Continued sluggishness in the gaming machine market</li> </ul>

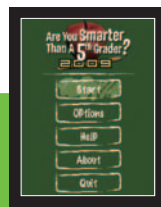
S: Strength W: Weakness O: Opportunities T: Threats



Pachislo machine  
"Vampire"

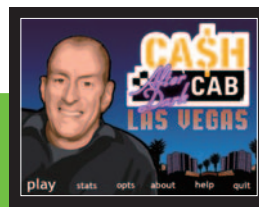


Pachislo machine  
"Beautiful Joe"

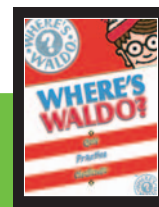


"Are You Smarter  
Than A 5th Grader?"

Game Code ©2008 CAPCOM.  
Produced under license Fox  
Broadcasting Co. Are You Smarter  
Than A 5th Grader?™ and ©2008 JM, Inc.



"Cash Cab After Dark: Las Vegas"  
Cash Cab © 2010 & TM Discovery  
Communications, LLC. All rights reserved.



"Where's Waldo?"

Where's Waldo?  
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At the same time, with respect to Pachinko machines, these amendments to the Regulations gave hardware manufacturers greater flexibility in designing and developing innovative products, encouraging the launch of new products appealing to users. As a result, sales were steady.

The outlook for the Pachislo market calls for a shift to the development of machines with a greater emphasis on entertainment so that users can play for a long period of time with a small amount of money in an effort to develop the beginning users segment. This is expected to result in the gradual appearance of machines more aligned with market needs in preparation for the eventual recovery trend. The outlook for the pachinko (new machine sales) market is for a leveling off resulting from the expansion of the low-cost game machine market, including one yen Pachinko machines.

The mobile content market has been growing worldwide and was worth 4.72 billion dollars (up 15.5% from the previous year) in 2009 (See Diagram 15). Factors underlying this growth include the spread of mobile phones driven by a growing world population and the rise of smartphones such as the iPhone, both of which contributed to the significant increase in the number of users who play mobile games to 546 million people (up 85.8% from the previous year).

By region, the North American market was worth 1.13 billion dollars (up 20.0% from the previous year) and the European market was worth 1.68 billion dollars (up 46.3% from the previous year) as a result of significant expansion of the smartphone market. Despite an increase in users in China and other developing countries in Asia, declining numbers of users in Japan resulted in an Asia-Pacific market including Japan worth 1.81 billion dollars (down 6.1% from the previous year).

The outlook for this market is for an increase in "application stores" that

sell downloadable application software for smartphones, as well as an increase in smartphone users (see Diagram 16), which are expected to represent 38% of mobile phone sales by 2013. In addition, newly released operating systems enable software companies to develop games that maximize hardware functionality, enabling the provision of games that appeal to a wide segment, from light users to core game fans. As a result, significant growth is forecast for the global mobile content market, which is expected to reach 11.42 billion dollars in 2014 (an average annual growth rate of 19.4%).

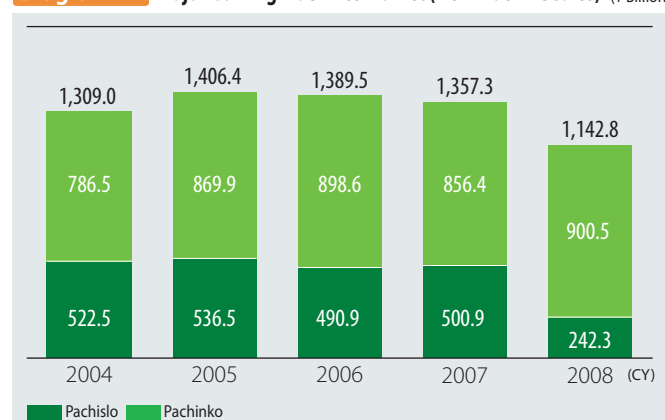
## Operating Results for This Fiscal Year

### Despite a slowdown in the Pachinko & Pachislo Business, the Mobile Content Business maintained steady sales and returned to profitability.

Capcom's strength in this business is our ability to maintain high profitability through the multiple usage of our wealth of intellectual properties in a variety of areas.

In the Pachinko & Pachislo Business, Capcom develops attractive software featuring our proprietary content along with that of third-party developers, using our technological expertise in high-resolution image processing cultivated through the development of home video games. Also, we have been supplying LCD devices to machine manufacturers. Moreover, we have been supplying LCD devices to machine manufacturers. Moreover, we acquired Enterise CO., LTD., a manufacturer of equipment related to Pachislo machines, as a subsidiary in November 2008. This allowed us to start our own frame business using Enterise's main board development capabilities (program for controlling the number of balls dispensed).

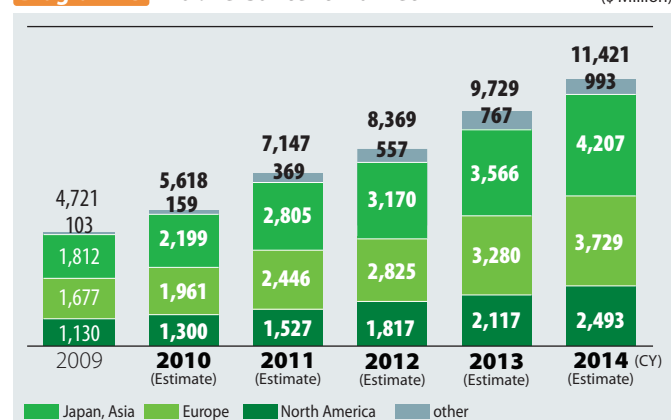
**Diagram 14 Major Gaming Machines Market (New Machine sales) (¥ Billion)**



Source: Figures by Capcom, based on "Research Results of the Pachinko-Related Machine Markets 2008" and "Research Results of the Pachinko-Related Machine Markets 2009" from Yano Research Institute Ltd.

**Diagram 15 Mobile Content Market**

(\$ Million)



Source: Gartner Dataquest 2010





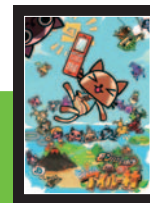
"Apollo Justice: Ace Attorney"



"Resident Evil: Degeneration"



"Street Fighter IV"



"MONHAN NIKKI  
MOBILE AIRU MURA"

During this fiscal year, the market for equipment related to gaming machines remained in a slump as a result of the difficult business environment, the of unfavorable performance of "Vampire". However, "Beautiful Joe", which was introduced in the fourth quarter, sold 2,500 units and continues to demonstrate steady sales. Entrusted development product "Onimusha: Dawn of Dreams", part of our collaborative development, firmly established its brand power, selling 28,000 units. Despite these glimmers of hope, performance was sluggish from beginning to end.

In the Mobile Content Business, as part of our "Single Content Multiple Usage" strategy, we utilize expertise and content cultivated through the development of home video games to deliver our popular home video game titles for mobile phones worldwide.

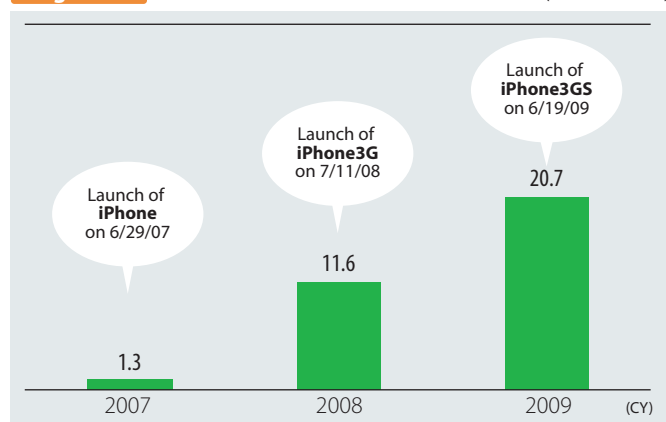
In the overseas business, we introduced the latest the series of casual games linked with popular TV programs "Who Wants to Be a Millionaire?" and "Are You Smarter Than A 5th Grader?" while "Cash Cab After Dark: Las Vegas" and "Where's Waldo?" which make use of copyrights from another company, became best sellers for all mobile phone companies, providing stable sales composition as a new series for the light user segment. As a result, our share in the North American mobile content market was 3.3% (a fifth place ranking) in 2009.

At the same time, sales of the "Apollo Justice : Ace Attorney", which has been the domestic profit engine, continued growing steadily. We acquired new users through the release of "Resident Evil: Degeneration" and "Street Fighter IV" for the iPhone, results that were roughly as planned.

As a result of these factors, net sales were 5,819 million yen (up 25.7% from the previous year) and operating income was 509 million yen (compared to an operating loss of 230 million yen at the previous year), reflecting a return to profitability.

**Diagram 16 Sales Volume of iPhone**

(Millions of units)



Source: Information announced by Apple

## Outlook for the Next Fiscal Year

**We will strengthen consigned development and sales in our Pachinko & Pachislo Business.**

**We will focus efforts on smartphones in our Mobile Content Business.**

In the next fiscal year, we predict that a rebound in the Pachinko & Pachislo business will be difficult as no revisions are expected to the amendments made to the Entertainment and Amusement Trade Regulations. However, we will reduce risks by strengthening our consigned development business and introducing major titles

"Beautiful Joe", which was released in the previous period and surpassed sales expectations, is the result of various improvements, including (1) the promotion of efficient development by consolidating the development departments at the Headquarters and our subsidiary Enterrise, and (2) the strengthening of our distribution network through consignment of sales to a major sales company. To improve the overall profitability of this business next year, we will (1) expand the consignment business which is expected to contribute stable profits, (2) improve development quality through business partnerships with major sales companies, and (3) introduce major popular home video game contents. In addition to the promotion of these initiatives, we are scheduled to release two new machines.

In the Mobile Content Business, we will focus efforts on developing content for smartphones, a market where high growth is expected both in Japan and overseas. We aim to improve "sales price" and the "number of downloads" by introducing popular Capcom titles to the high average purchase price core user segment, while making use of copyrighted content from other companies focused on the large casual user segment. Also, with respect to the remarkable growth of the social game market, we will fuse Capcom content with communication systems to provide service that makes use of our strengths. For example, through a tie-up with DeNA Co., Ltd., we will deliver "Monster Hunter" on Japan's largest platform. In this way, we can engage a wide range of diverse home video game and mobile user segments, differentiate ourselves in the mobile game market and move closer to our objective of becoming the frontrunner in social gaming.

Moreover, next year we will move the Pachinko & Pachislo Business segment from "Contents Expansion" to "Arcade Equipments Business (currently Arcade Game Sales)", and spin-off the high growth potential Mobile Content Business as an independent segment.

We project net sales for the next fiscal year will be 4 billion yen with an operating income of 900 million yen.

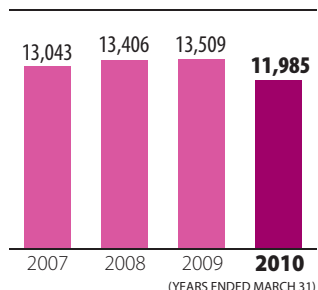


## Arcade Operations

We operate "Plaza Capcom" amusement facilities in Japan. These arcades are predominantly in large commercial complexes and host various events designed to attract families and female customers. We have diligently followed a scrap-and-build policy to maximize our efficiency in arcade operations.

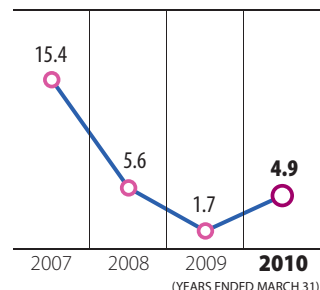
### Net Sales

(Millions of yen)



### Operating Margin

(%)



### Market Trends

**The market continues to contract as a result of fewer customers and the absence of popular game machines.**

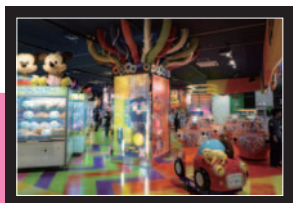
The domestic arcade facility market shrank for the second year in a row, with its value decreasing to 573.1 billion yen (down 15.5% from the previous year), reflecting the negative effect of the economic downturn on per customer sales of prize-winning games and the peaking of demand for multiplayer online games, which until now had led the market (See Diagram 17). In addition, the number of facilities run by major game center operators came to 21,688 (down 4.6% from the previous year), continuing the downward trend that began a few years ago. At the same time, the growth rate of shopping malls and other large-scale facilities was higher than last year, despite signs of slowing. The number of arcades with more than 100 game machines grew to 6,885, comprising more than one-third of all facilities (See Diagram 18).

During the period under review, the market remained weak, with existing arcade net sales declining by approximately 10% throughout the industry, forcing companies to restructure. Major contributors to this situation were (1) fewer customers at shopping centers, caused by the sluggish economy and concerns over new strains of influenza, (2) a declining number of customers at arcade facilities as a result of the huge success of home video games and (3) the

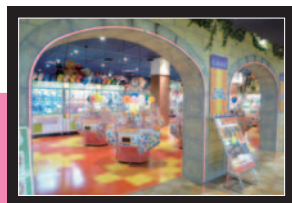
### SWOT Analysis

<ul style="list-style-type: none"> <li>Specialize in opening mall-based large-scale facilities which secure a stable customer base</li> <li>Thorough scrap and build focused on investment efficiency ensure sustainable earnings</li> </ul>	<ul style="list-style-type: none"> <li>Low profitability compared to other businesses</li> <li>Little synergy with proprietary contents</li> </ul>
<ul style="list-style-type: none"> <li>Expanded ability to attract customers through sales of new machines</li> <li>Hedges risks through inverse relationship to home video game market</li> </ul>	<ul style="list-style-type: none"> <li>Long-term market stagnation</li> <li>Decline in number of suburban mall-based large-scale facilities</li> </ul>

S: Strength W: Weakness O: Opportunities T: Threats



Plaza Capcom Inazawa



Plaza Capcom Omagari



Plaza Capcom Hanyu



Plaza Capcom Kyoto

absence of a popular new game genre to follow multiplayer online games.

Looking ahead, we forecast improved annual net sales on a per-store basis as a result of industrywide, large-scale arcade adjustments and investment in new products using 3D technology. However, we also believe it will take time to solve the structural problems mentioned above, with sluggish market conditions continuing for some time.

### Operating Results for This Fiscal Year

**Despite a decline in existing arcade net sales to 86% of the previous year's figure, income was 162.9% of the previous year's figure on the successful implementation of measures to improve earnings.**

Capcom's strengths in this business category are: (1) specialization in opening mall-based large-scale facilities that quickly secure a long-term stable customer base, (2) the planning and operation of sales venues popular with customers and (3) the ability to maintain higher profitability than the competition by selling or shutting down unprofitable facilities to raise return on investment (See Diagram 19).

During the period under review, we focused on retaining core users and expanding the number of female and family users by hosting various events, conducting promotions and creating comfortable environments to stimulate demand amid a sluggish market recovery. However, weak consumption and "nesting consumers" adversely affected our ability to draw in customers, resulting in existing arcade net sales of 86% of the previous year's figure.

We also strove to improve profitability by reducing arcade operating costs, closing two unprofitable arcades and other structural revisions that

reduced the number of arcades in operation to 38 as of March 31, 2010.

As a result of these factors, while net sales declined to 11,985 million yen (down 11.3% from the previous year), the successful implementation of measures to improve earnings resulted in operating income of 590 million yen (up 162.9% from the previous year).

### Outlook for the Next Fiscal Year

**We have frozen the opening of new arcades, as we concentrate on improving earnings at existing facilities. We forecast an operating margin of 5.5%.**

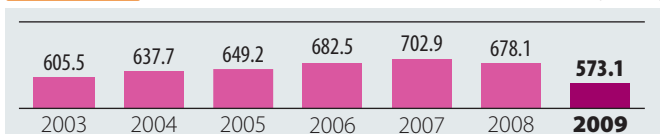
In the next fiscal year, despite signs that declines in the amusement market have bottomed out we believe a self-sustained recovery amid the continued sluggish economy will require more time, so for the time being, we are freezing the opening of new arcades to concentrate on improving the earnings of existing facilities. We will attempt to enhance the efficiency of our operating structure with a thorough review of all expenses, starting with rent and the depreciation of prizes and components with high fixed cost ratios, while controlling capital expenditure through carefully selected investments in machines to reduce depreciation and amortization expenses.

Having completed the closing of unprofitable facilities this year, to stabilize earnings we will suspend the opening of new facilities until market conditions improve. Accordingly, in the fiscal year ending March 31, 2011, we will open no new facilities and plan to close one.

We forecast net sales of 11 billion yen and operating income of 600 million yen in the fiscal year ending March 31, 2011.

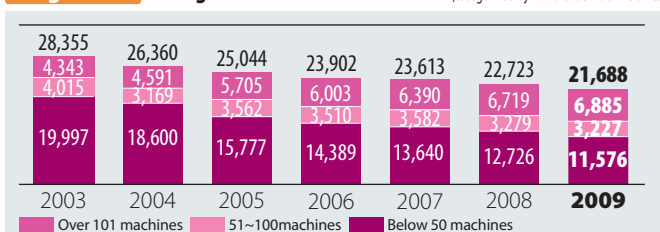
**Diagram 17 Arcade Facilities Market Trends**

(¥ Billion)



Source: JAMMA "Survey on the Amusement Industry" (YEARS ENDED MARCH 31)

**Diagram 18 Change in Number of Storefronts** (categorized by # of arcade machine units)



Source: JAMMA "Survey on the Amusement Industry" (YEARS ENDED MARCH 31)

**Diagram 19 Comparison of Arcade Operation Performance (March 2010)**

	Net sales (¥ Million)	Share (%)	Operating income (¥ Million)	Operating margin (%)	Year-on-year rise (%)
Aeon Fantasy	43,706	21.6	2,514	5.8	89.9
<b>Capcom</b>	<b>11,985</b>	<b>5.9</b>	<b>590</b>	<b>4.9</b>	<b>88.7</b>
Adores	26,034	12.9	848	3.3	94.7
Namco Bandai Holdings	65,362	32.4	284	0.4	84.6
Sega Sammy Holdings	54,835	27.2	-1,338	-2.4	76.9
<b>Total</b>	<b>201,922</b>	<b>100.0</b>	<b>-</b>	<b>-</b>	<b>-</b>

Source: Financial Results FY 2009 by respective company and support documentation (Aeon Fantasy fiscal end in February 2010)



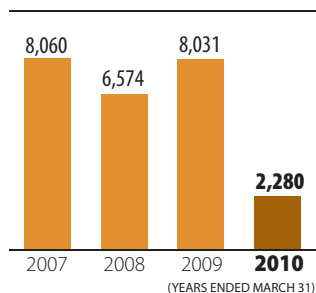


## Arcade Game Sales

We develop, produce and distribute arcade games for amusement facilities. We concentrate our efforts on the development of coin-operated and prize-winning games, which are in high demand, and supply software for arcade video games to secure a stable customer base.

### Net Sales

(Millions of yen)



(YEARS ENDED MARCH 31)

### Operating Margin

(%)



(YEARS ENDED MARCH 31)

### Market Trends

**The market continued to shrink for the second straight year, as the number of visitors to mall-based facilities declined.**

After growing for the five consecutive years through 2007, the market for arcade machines, which took a slight downward turn in 2008, remained adversely affected by the global recession. The domestic market was worth 182.8 billion yen (down 11.0% from the previous year), while the overseas market amounted to 11.3 billion yen (down 1.6% from the previous year). The combined market was worth 196.2 billion yen (down 10.5% from the previous year) (See Diagram 20).

As for market trends by product category, prize-winning games accounted for 19.8% of the market, with sales totaling 36.2 billion yen (down 10.0% from the previous year) due to this segment's particular sensitivity to business conditions. Coin-operated game accounted for 20.3% of the market, with sales totaling 37.1 billion yen (down 15.7% from the previous year), reflecting the peak in demand for large game machines and sluggish pachislo coin-operated game sales (See Diagram 21). During the period under review, a significant number of mall-based facilities managed by major game software companies, which comprise a large percentage of this segment, were closed.

The current trends in the arcade game market are focused on network game machines targeting the core user segment, which has a high percentage

### SWOT Analysis

<ul style="list-style-type: none"> <li>High quality video game machines make use of home video game development capabilities</li> <li>Maximize profits through link with home video game consoles</li> <li>Ability to observe real time market movements through company-owned arcades</li> </ul>	<ul style="list-style-type: none"> <li>Lack of title lineup</li> <li>Low profitability</li> </ul>
<ul style="list-style-type: none"> <li>Market recovery via introduction of popular machines</li> <li>Market expansion through network and 3D and other new technologies</li> </ul>	<ul style="list-style-type: none"> <li>Declining operator investment appetite</li> <li>Long-term market stagnation</li> </ul>



S: Strength W: Weakness O: Opportunities T: Threats



Coin-operated game "Mario party Fushigi no Korokoro Catcher"

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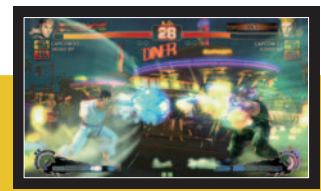


Coin-operated game "Chibi Maruko Chan"

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日本アニメーション  
CAPCOM CO., LTD. 2008  
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Prize-winning game "Bell Circle Sparkling Blue"



Arcade video game "Super Street Fighter IV"

of sales per customer and repeat users. Efforts are being made to earn additional profits and reduce operator investment with respect to network game machines by introducing content billing and shared sales models designed to provide mutual benefits. At the same time, investment in the development of products appealing to families, couples and other members of the casual user segment has been shifted to small- and medium-sized game machines due to a major decline in the number of these customers.

The outlook for the foreseeable future is the continued stagnation of the sales market, as facilities operators remain cautious about capital expenditure owing to signs that the facilities market has bottomed out. The facilities operations business will continue to struggle in the face of declining numbers of customers at shopping malls due to the sluggish economy and concerns over swine influenza, the repercussions of a prosperous home video game market on the number of customers visiting amusement facilities and the absence of popular new machines to follow in the footsteps of multi-player online games.

### Operating Results for This Fiscal Year

#### A cooling of the market resulted in business restructuring and major declines in sales and profits.

One strength in this business category lies in our ability to provide high-quality arcade video games by making use of development capabilities for home video game software. In particular, combat-based fighting games, our flagship genre, allow us to maximize profits by launching the same content as for home video games.

Another strength comes from the fact that we own company-managed facilities, enabling an awareness of market trends in real-time, such as in-store information related to popular games. We introduce trial game machines at company-based facilities to gather opinions of users and facility operators that are then used to develop popular game machines. In light of the sluggish market environment in fiscal 2009, we made an effort to expand our existing customer base and create new customers through the release of "Mario Party

Fushigi no Korokoro Catcher" and other medal game machines. Also, despite a business partnership with NAMCO BANDAI Games Inc. in an attempt to break the market deadlock and an all-out effort to expand sales, we faced an uphill battle in terms of the business development surrounding repeat main products, and were ultimately forced to restructure this business.

As a result, net sales were 2,280 million yen (down 71.6% from the previous year), while operating income was 203 million yen (compared to 1,758 million yen in the previous year).

### Outlook for the Next Fiscal Year

#### We will take decisive actions on organizational reforms and focus efforts on market-oriented product development.

In the next fiscal year, facility operators' investment "selection and concentration" will continue despite indications that the market decline has stopped. We will ensure profitability by investing in video game machines, focusing on popular machines with proven track records.

At the same time, in consideration of our significant losses in the previous fiscal year, we will conduct major organizational reforms. By combining our Arcade Operations and Arcade Game Sales businesses, we will be able to focus on market-oriented product development. In addition, we will strengthen our title lineup through the implementation of our "Single Content Multiple Usage" strategy.

Furthermore, we will integrate our Development Department, which is currently divided between Tokyo and Osaka, as well as consolidate our manufacturing sites to accelerate the speed at which we introduce products.

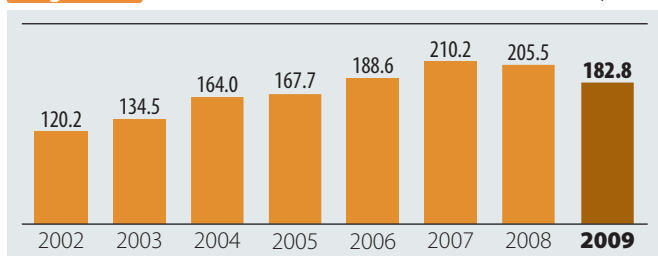
We plan to concentrate on the highly profitable "Super Street Fighter IV" as our core product, in addition to the release of one other coin-operated video game.

From the next fiscal year, we will move the Pachinko & Pachislo Business (currently part of Contents Expansion) to Arcade Games Sales as the "Amusement Equipments Business".

As a result of these measures and changes, we forecast segment net sales of 5 billion yen and operating income of 1.2 billion yen.

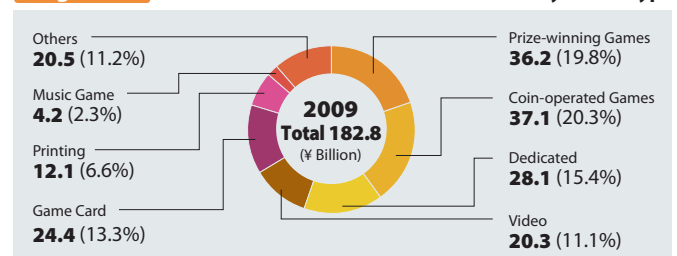
Diagram 20 Arcade Game Market Trends

(¥ Billion)



Source: JAMMA "Survey on the Amusement Industry" (YEARS ENDED MARCH 31)

Diagram 21 Breakdown of the Arcade Game Market by Game Type



Source: JAMMA "Survey on the Amusement Industry" (YEARS ENDED MARCH 31)



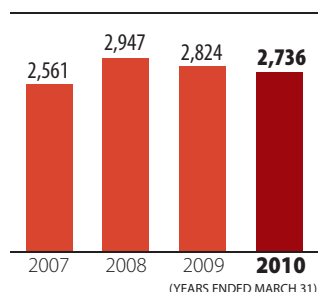


## Other Businesses

Based on a "Single Content Multiple Usage" strategy of developing game content for various media, we will pursue a variety of copyright-related business opportunities including publishing (walkthrough and strategy guides as well as game settings collections) and licensing (music CDs and licensed merchandise). Furthermore, we are concentrating on developing game content into movie and TV animation programs.

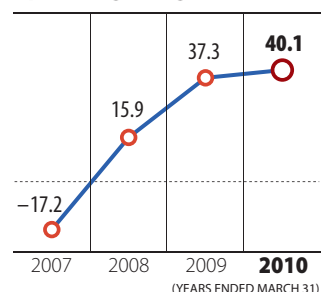
### Net Sales

(Millions of yen)



### Operating Margin

(%)



### Operating Results for This Fiscal Year

The successful development of our "Single Content Multiple Usage" long-term strategy resulted in higher profits despite lower revenues.

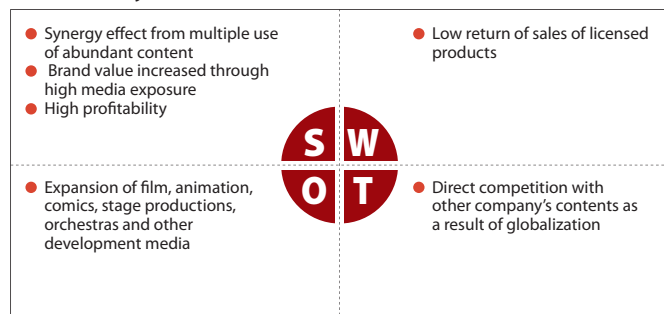
Capcom's strength in this category is its ability to take advantage of the strong synergy with the Home Video Games Business by making multifaceted use of its abundant intellectual properties. In particular, the brand value of our movie-related business has risen through extensive media exposure. This leads to greater sales of video game software, completing a virtuous sales cycle.

During this fiscal year, we continued to execute our "Single Content Multiple Usage" strategy (see "Our Strategy for Growth" on P. 25), conducting various projects based on each game title to enhance the branding of our game content and maximize profits.

These projects were implemented across all business segments, with each division involved in the launch of arcade games, mobile content, walkthrough and strategy guides and character goods, as well as movie and TV animation programs and other events in connection with the release of our home video games (See Diagram 22).

Specifically, we focused on increasing the "adaptation of our game content into Hollywood movies", which strengthens the promotion and sales of home video games.

### SWOT Analysis







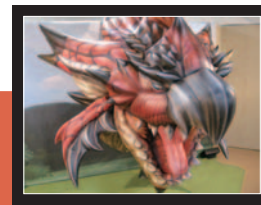
Election promotion poster  
"Sengoku BASARA"



Movie "Resident Evil: Afterlife 3D"  
©2010 Sony Pictures Entertainment(J) Inc. All Rights Reserved.



Movie "ZOMBREX  
DEAD RISING SUN"



Event "Monster Hunter World"

Although other Japanese software manufacturers have made similar moves, the number of Capcom game titles adapted into movies and the attendant box-office revenues demonstrate our clear competitive advantage in this area.

This success is a result of (1) our strength in creating original content, underpinned by owning more proprietary content than our competitors and (2) the global popularity of our titles, which are suitable for adaptation into Hollywood movies for global distribution (See Diagram 23).

For example, we timed the April 2009 sales launch of home video game "Sengoku BASARA Battle Heroes" to coincide with the start of the TV animation broadcast, and in June we began offering a related package tour through a tie-up with the Japan Travel Bureau (JTB) Corporation. In July, we began stage performances and launched a merchandise series and printed materials. Furthermore, the character was used in PR activities conducted for the Miyagi Prefecture gubernatorial election in an attempt to go beyond the gaming framework and develop content over the long-term.

Such ongoing projects are successful at creating trends like the "Rekijo" (women who like history) and "Sengoku", increasing the brand value of "Sengoku BASARA".

We also promoted several multi-development projects, including those involving "Street Fighter", "Resident Evil", "Ace Attorney", "Monster Hunter" and "Dead Rising".

As a result of these efforts, net sales during the period under review declined to 2,736 million yen (down 3.1% from the previous year), while

operating income increased to 1,097 million yen (up 4.1% from the previous year).

### Outlook for the Next Fiscal Year

#### We will engage in multi-development projects including Hollywood movie adaptations and new theme park attractions.

Looking ahead, we will continue to execute our "Single Content Multiple Usage" strategy.

In the movie-related business, global titles for movie adaptation will include "Resident Evil: Afterlife 3D", "Onimusha", "Lost Planet" and "Clock Tower". We will also test a new promotional development by streaming a movie adaptation of "Dead Rising" on the Internet. "Sengoku BASARA" will be adapted for the second round of the stage, TV animation and package tour offered by JTB. Also, a new attraction based on "Sengoku BASARA" is scheduled for installation at Fuji-Q Highland in Yamanashi Prefecture. Other content development includes a new attraction based on "Monster Hunter" that is scheduled to be installed at an amusement park, Greenland in Kumamoto Prefecture, with the distribution of goods for amusement facilities slated to coincide with the year-end sales launch of software for home video games.

Functioning as multimedia development for game content, these cross-industry collaborations enable our products to reach a wider audience and enhance our brand value.

In light of these efforts, we forecast net sales in the next fiscal year of 3.5 billion yen and operating income of 1 billion yen.

**Diagram 22 List of our content that has been adapted into movies and theatrical productions**

Movie	Aug. 1994	Animated movie	Street Fighter II
	Dec. 1994	Hollywood movie	Street Fighter
	Mar. 2002	Hollywood movie	Resident Evil
	Sep. 2004	Hollywood movie	Resident Evil: Apocalypse
	Mar. 2005	Animated movie	Mega Man Battle Network
	Nov. 2007	Hollywood movie	Resident Evil: Extinction
	Oct. 2008	CG movie	Resident Evil: Degeneration
	Feb. 2009	Hollywood movie	Street Fighter: The Legend of Chun-Li
	Aug. 2010	Movie	ZOMBREX DEAD RISING SUN
	Sep. 2010	Hollywood movie	Resident Evil: Afterlife 3D
TV animation	Apr. 1995	TV animation	Street Fighter II V
	Mar. 2002	TV animation	Mega Man Battle Network
	Oct. 2006	TV animation	Mega Man Star Force
	Jun. 2007	TV animation	Devil May Cry
	Apr. 2009	TV animation	Sengoku BASARA
	Jul. 2010	TV animation	Sengoku BASARA2
	Aug. 2010	TV animation	MONHAN NIKKI GIRIGIRI AYRU MURA AIRU KIKI IPPATSU
	Aug. 2010	TV animation	MONHAN NIKKI GIRIGIRI AYRU MURA AIRU KIKI IPPATSU
Theatrical production	Feb. 2009	Takarazuka Revue Company	Phoenix Wright: Ace Attorney - The Truth Comes Back to Life
	Jul. 2009	Theatrical production	Sengoku BASARA
	Aug. 2009	Takarazuka Revue Company	Phoenix Wright: Ace Attorney 2
	Apr. 2010	Theatrical production	Sengoku BASARA Stage Adaptation second stage

**Diagram 23 List of Japanese game content that has been adapted into movies**

Title	Original writer company	Box-office revenue (worldwide)
<b>1. RESIDENT EVIL: EXTINCTION</b>	<b>Capcom</b>	<b>\$147,717,833</b>
<b>2. RESIDENT EVIL: APOCALYPSE</b>	<b>Capcom</b>	<b>\$129,394,835</b>
<b>3. RESIDENT EVIL</b>	<b>Capcom</b>	<b>\$102,441,078</b>
<b>4. STREET FIGHTER</b>	<b>Capcom</b>	<b>\$99,423,521</b>
5. SILENT HILL	Konami	\$97,607,453
6. FINAL FANTASY: THE SPIRITS WITHIN	Square	\$85,131,830
7. SUPER MARIO BROS.	Nintendo	\$20,915,465
8. HOUSE OF THE DEAD	Sega	\$13,818,181
<b>9. STREET FIGHTER: THE LEGEND OF CHUN-LI</b>	<b>Capcom</b>	<b>\$12,764,201</b>
10. DOA: DEAD OR ALIVE	Tecmo	\$7,516,532
- TEKKEN	NAMCO BANDAI Games	Unpublished

As of June, 2010  
(Capcom figures)

## Educational Support

### Fostering a Better Understanding of Video Games through Educational Support

Video games are a comparatively new cultural phenomenon about which there is little academic research. Rather than examining the educational aspects, theories about the detrimental effects resulting from violent content have been persistently trumpeted to the general public. Nevertheless, the idea of a “future career” as a video game creator is very popular among children, and some schools have even begun to incorporate portable video game consoles into the classroom in recent years. As a game software manufacturer, we believe that fostering an understanding about video games is our corporate social responsibility (CSR). As part of our educational support activities, and in concurrence with the Ministry of Education, Culture, Sports, Science and Technology’s new guidelines regarding “integrated courses”, we welcome student visits to the company and participate in classroom activities at schools.

In the period under review, we conducted two highly acclaimed programs. The “Career Education Support program” provided an overview of the company, focusing on the rewards and challenges of developing video game software. The “Game Literacy Education Support program” taught students how to develop a healthy relationship with video games. As of March 31, 2010, 711 students from 119 institutions (primarily elementary and middle schools) had visited the company. In the same period, we also visited four schools, including the Naniwa Juvenile Reformatory, where we conveyed the value of work and the importance of being a productive member of society through an overview of the company to approximately 290 students. In addition, we exchanged opinions regarding our future CSR activities and educational support programs with a university specialist.

We aim to assist students with their careers and provide lifestyle guidance by fostering an understanding of the value of work and a healthy relationship with video games.



On-site class at school



Students visit the Company

### Free Distribution of Educational Comic “Secrets of Video Games”

Capcom publishes educational comic “Secrets of Video Games” in cooperation with Gakken Co., Ltd. The comic offers insights into the game development process, promotes healthy relationships with video games and provides information on what to study to become a video game creator.

The comic is distributed free of charge to 24,000 elementary schools and 2,700 public libraries across Japan, as well as to students as an educational material in advance of a Capcom visit to their school. It is also recommended by the National Congress of Parents and Teachers Association of Japan for use as a secondary teaching material in integrated courses and other classroom settings.

### Promoting Observance of the CERO Ratings System for the Healthy Development of Young People

The video game industry voluntarily restricts game content and sales methods to limit access to sexual and violent content for the healthy development of young people who frequently play home video games. Age-based ratings are displayed on game software packages, which are useful for making appropriate purchases. The industry voluntarily prohibits the sale of software intended for users 18 years or older (category Z) to consumers who are under 18, with 99% of retailers\* separating game displays by ratings category and checking purchaser identification to confirm age. In addition, the latest home video game consoles include a parental control function that enables parents to limit the purchase and use of certain games according to their ratings. The industry is making a concerted effort to promote the adoption of this ratings system and improve its efficacy.

In the period under review, Capcom made an effort to promote a greater understanding of this ratings system through detailed explanations in “Secrets of Video Games” and on its corporate website, as well as during student visits to the company and presentations at schools.

Note: From the results of the 4th CERO Age-Based Ratings System Field Survey.



Gakken’s “Understanding” Series:  
“Secrets of Video Games”



Rating Symbol

#### Expert Comments

##### Yoh Nanami

Lecturer, Department of Education and Child Studies,  
Faculty of Arts and Sciences, Sagami Women's University

##### Expectations for Education Support Consisting of Game Manufacturers, Guardians and Teachers



The development and spread of information media such as computers, the Internet, video games and cell phones contribute to significant changes in the environment surrounding our children. Unseen risks and issues that need to be resolved spring up one after the other as information media becomes ever more essential in children’s lives, play and education. Children must understand the special qualities of information media so they can use these tools to their advantage.

Capcom’s CSR activities, which directly address these issues, have earned a well-deserved reputation as game manufacturer support. We propose one point of improvement, namely, to separate the “Career Education Support” and “Game Literacy Education Support” components of our classroom support program into separate programs, providing more content for both. As we continue to expand our dialogue with guardians and teachers, we have high expectations for this three-pronged approach to supporting children’s education.

# Corporate Governance

## Clear Separation of Management Monitoring and Business Operation Functions

Capcom has adopted a corporate auditor system consisting of four members, two of whom are external auditors. In addition to formulating auditing policies and providing consultation regarding audit results, members of the Board of Corporate Auditors submit items identified in the audit to the president and exchange opinions and information with accounting auditors when appropriate. Furthermore, with the introduction of a Corporate Officer System, we established a clear separation between the Board of Directors, which determines management policy, and the corporate officers, who implement and execute the day-to-day operations of the company, in an attempt to facilitate faster decision-making and more flexible execution of operations.

Capcom adopted the corporate auditor system over a company with committees because, in addition to the introduction of a Corporate Officer System, we had already introduced the company with committees concept of separating the monitoring and business operation functions through the appointment of three external directors and the establishment of a Remuneration Committee.

## Strengthening the Management Monitoring Function to Improve Transparency and Reliability

The Board of Directors consists of nine members, meets regularly once a month and holds extraordinary meetings when necessary. Three of the nine members are external directors, whose opinions, advice and feedback invigorate and improve the transparency and reliability of the Board of Directors while strengthening the management monitoring function. Moreover, we established a Remuneration Committee chaired by an external director to determine fair and appropriate compensation for directors.

During the period under review, the Board of Directors met 15 times, engaging in lively discussions concerning reported items and matters for resolution. The Remuneration Committee recommended to the Board of Directors remuneration for each board member based on the amount agreed upon at the general shareholders' meeting (See tables at right). Also, one

external director and one external auditor appointed an independent director to avoid any conflict of interest among general shareholders in terms of decision-making.

## Board of Directors/Board of Corporate Auditors Rate of Attendance

	Name	Board of Directors/Board of Corporate Auditors Rate of Attendance
External Director	Hiroshi Yasuda	Attended all board meeting in fiscal 2009
	Makoto Matsuo	Attended all board meeting in fiscal 2009
	Koichi Hori	Attended three board meetings in fiscal 2009 until retiring on June 17, 2009
	Takayuki Morinaga	Attended all board meetings held after retiring on June 17, 2009
External Auditor	Shoji Yamaguchi	Attended all board and corporate auditor meetings in fiscal 2009
	Koji Takito	Attended all board and corporate auditor meetings in fiscal 2009

## Officer Remuneration

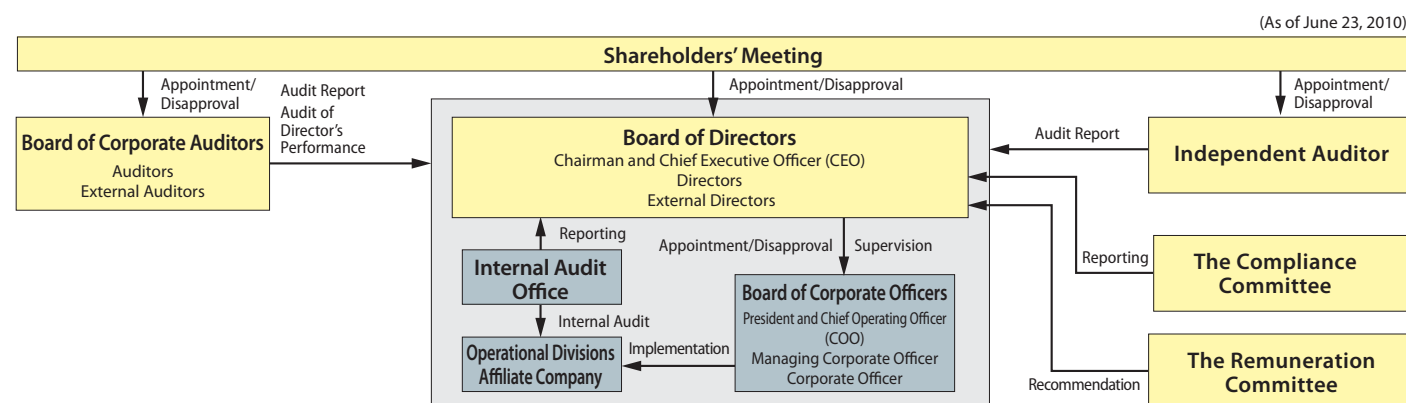
	No. of People	Remuneration Amount
Directors (External Directors)	10 (4)	¥309 million (¥32 million)
Corporate Auditors (External Auditors)	4 (2)	¥46 million (¥23 million)

Note: 1. Includes one outside director who retired at the conclusion of the 30th general shareholders' meeting on June 17, 2009.  
2. It was determined that bonuses would not be paid to directors for the fiscal year ended March 31, 2010.

## Internal Auditing and Recommendations for Improvement by the Audit Office

Capcom established an audit office independent from operations to conduct internal auditing.

The audit office conducts internal audits on all divisions of Capcom and works with corporate auditors to verify and ensure the legal compliance and efficiency of the company's operations. The audit office makes an effort to ensure that internal controls work effectively in every division and recommends improvements to audited divisions based on their findings.





# Compliance

## Striving to Ensure Legality through Compliance Committee Checks

To manage the various risks faced by the company, Capcom established a Compliance Committee that meets once every three months and is chaired by an external director who is a qualified attorney. At each of its quarterly meetings, the committee conducts a “periodic compliance check” of all divisions and departments. In accordance with the company’s internal reporting system, the results are reported via its “Compliance Hotline”. In addition, the results reported to the Board of Directors through the Compliance Committee. Warnings, recommendations and advice are given to concerned parties as circumstances demand.

Furthermore, the “Capcom Code of Conduct” was formulated to strengthen our compliance system. Capcom is dedicated to proactively preventing illegal acts and misconduct, and ensuring legal compliance through the promulgation of corporate ethics and principles.

## Thorough Protection of Personal Information

In response to the “Act on the Protection of Personal Information (Personal Information Protection Regulations)”, we formulated and provided companywide notification of a “Personal Information Protection Program” and instituted “Basic Policies on Information Security” and “Personal Information Protection Rules”.

We also disclose our privacy policies internally and to the public. We will continue to conduct training programs and awareness-raising activities for our employees to maintain the effective functioning of our privacy protection process.

## Deepening Employee Understanding of Compliance

During the period under review, the Compliance Committee met four times, conducted compliance training sessions for new employees and created a handbook using illustrations and easy to understand Q&A examples to facilitate a better understanding of the “Capcom Group Code of Conduct”, which was distributed to all employees. Also, “e-learning sessions on legal compliance and personal information protection rules” were conducted for all employees. In addition, warnings regarding procedures for customer paperwork issuance and unpaid overtime as well as questions and opinions raised during the periodic compliance check, were posted on the company intranet.

Compliance is the foundation of corporate governance and the basis for the fulfillment of corporate social responsibility. Capcom will continue to



Capcom Group Code of Conduct Handbook

instill this understanding in all its officers and employees. Furthermore, in accordance with the Whistleblower Protection Act, we have established “Corporate Ethics Hotline Usage Provisions” and set up a “Compliance Hotline”. In these ways, we are striving to create an environment that will provide flexibility for internal notification by employees and help prevent illegal or inappropriate actions and take corrective actions.

## Officer Remuneration

Activity	No. of Times	Target
Compliance training	1	New employees
Compliance education curriculum	2	All employees
Personal information protection education curriculum	3	All employees

## Philosophy and Development of an Internal Control System

As part of the director’s due diligence, Capcom developed the following internal control system based on the Companies Act and its enforcement regulations to ensure that all Group company practices comply with regulations and are executed in an efficient manner.

### 1. Creation of a Structure to Ensure Directors Perform their Duties in Accordance with Laws and Regulations

To strengthen the management monitoring function and enhance corporate value, Capcom strives to prevent illegal activities and ensure compliance through regular Compliance Committee checks while attempting to invigorate and heighten the monitoring function of the Board of Directors in accordance with advice and recommendations from the three external directors.

### 2. Measures to Ensure Business Practices are Appropriate and Compliant

#### (1) Information management and storage

The management and storage of documents and information such as the minutes from board meetings is conducted in accordance with “document management regulations”.

#### (2) Risk management

A risk management structure and “crisis management regulations” were created to proactively prevent crises and execute the appropriate actions if one occurs.

#### (3) Efficient execution of business operations

Capcom introduced a Corporate Officer System under which the duties of the Board of Directors and corporate officers are separated to enable smooth and flexible business operations and enhance management efficiency.

#### (4) Legal compliance system

The “Capcom Code of Conduct” is our guideline for legal compliance. We seek to prevent illegal activities and misconduct through employee training and monitoring programs.

### (5) Groupwide management structure

Capcom's groupwide legal compliance framework aims to ensure sound corporate governance and the appropriate management of compliance risks by maintaining close communications with subsidiaries, monthly subsidiary board meetings and the establishment of "management regulations for subsidiaries".

### (6) Operational audit structure

In accordance with auditing policies, the execution of operations by corporate officers are audited, with recommendations for improvements indicated in auditor reports as necessary to ensure internal controls function effectively. To enable auditors to perform their duties smoothly and appropriately, an employee is selected with the consent of auditors to provide assistance.

## 3. Basic Policy and Framework for the Eradication of Antisocial Forces

Capcom takes a firm stand against antisocial forces that threaten social order and the safety of citizens, and strictly prohibits any association with such groups at the organizational, employee and individual levels. If we are contacted by such groups, in addition to swift organizational measures, we will cooperate with the police and other relevant authorities to firmly refuse unlawful demands.

While Capcom attempts to remain aware of information related to these groups in order to avoid contact or involvement, if we discover that we have unknowingly become involved with them, we will immediately terminate the association with the help of the police and other relevant authorities.

# Risk Management

## Minimizing Impacts on Operations through the Creation of a Risk Management System

Capcom faces many risks that have the potential to affect operating performance and the company's financial condition (See P. 52). A risk management system has been created to minimize the impact of these risks on operating and other performance.

For example, in terms of intellectual property rights, the intellectual property rights department (composed of patent and trademark copyright teams) conducts preliminary audits and submits the required applications during the planning and production stages of development in an effort to avoid the risk of infringement in terms of the acquisition and maintenance of rights. Capcom also focuses on internal education by holding in-house intellectual property study groups on a regular basis and conducting activities to impart legal knowledge.

Furthermore, in terms of "risks related to overseas operations", in consideration of the culture, religion and customs of each country the intellectual property and quality control departments conduct game content checks in addition to those conducted by the research department, and the legal affairs division consults with local legal teams as necessary to ensure compliance with local laws. Regarding the increased task risk of expanding overseas operations, Capcom requests advanced pricing agreements to limit transfer pricing risk.

## Investor Relations

### 1. Disclosure Policies

Capcom believes that the timely and appropriate disclosure of information is the duty of every listed company, and that accountability to our shareholders and investors is indispensable from the perspective of corporate governance.

To this end, our basic policy for IR activities involves (1) the establishment of a responsible investor relations framework, (2) the thorough disclosure of information, and (3) the creation of a system for the timely disclosure of information to enhance management transparency.

### 2. Disclosure Criteria

Capcom provides timely disclosure in accordance with the Securities and Exchange Law and other regulations including the "Rules on Timely Disclosure of Corporate Information" by Issuer of Listed Security (hereinafter Timely Disclosure Rules) stipulated by the Financial Instruments and Exchange Law and the Tokyo Stock Exchange. It is our policy to disclose as much information as possible, including the disclosure of information not required by the Timely Disclosure Rules, to accommodate our investors' needs.

We also disclose information through our corporate website in an attempt to provide quick and fair disclosure. Shareholders are informed of operating results and business conditions through business reports.

### 3. Quiet Period

To prevent the unauthorized disclosure of quarterly earnings information prior to official announcements, Capcom has established a quiet period starting one month prior to the scheduled earnings announcement. During this period, we refuse all inquiries relating to our business performance. However, if significant changes to our earnings outlook are anticipated during the quiet period, we will disclose this information pursuant to the Timely Disclosure Rules.

### 4. Third-Party Assessments of IR Activities

In recognition of our ongoing pursuit of timely and appropriate information disclosure, our IR activities and various IR tools have received a number of awards from third-party organizations. In fiscal 2009, we received an award at the "Nikkei Annual Report Awards 2009", and our IR website placed first in the Gomez Consulting Co., Ltd's "Investor Relations Site Ranking 2010" and second among in the "Fiscal 2009 Listed Company Website Quality Ranking".

With an awareness of the importance of accountability, we will continue our efforts to earn the trust of investors and provide timely disclosure.

### 5. IR team

Capcom IR activities are conducted by seven staff members including the chairman, the president and the IR director on behalf of shareholders and investors in Japan and overseas.

For earnings information and other IR-related inquiries, please contact the IR team.

#### Public Relations & Investor Relations Section

PHONE: 81-6-6920-3623  
E-mail: ir@capcom.co.jp

Business Hours:  
9:00-12:00, 13:00-17:30  
(excluding weekends and public holidays)



Investor Relations Staff

# Directors and Corporate Auditors

## Directors



Kazuhiko Abe

Sumitaka Hatsuno

Kenzo Tsujimoto

Haruhiro Tsujimoto

Hiroshi Tobisawa

Tamio Oda

### Kenzo Tsujimoto

Chairman and Chief Executive Officer (CEO)

Jul 1985	President and Representative Director of the Company
Apr 2001	Chief Executive Officer (CEO) of the Company (to present)
Jul 2007	Chairman and Representative Director of the Company (to present)

### Sumitaka Hatsuno

Director

Dec 1989	Entered into the Company
Apr 1993	General Manager of Arcade Operations Dept. of the Company
Jun 1999	Officer & General Manager of Arcade Operations Dept. of the Company
Jul 2004	Managing Corporate Officer of the Company
Apr 2006	Director, Executive Corporate Officer of the Company
Jul 2007	Director, In charge of Arcade Operations, Arcade Game Sales and Pachinko & Pachislo Business of the Company
Apr 2010	Director, In charge of Arcade Business, Pachinko & Pachislo Business and Production Control Department of the Company (to present)

### Kazuhiko Abe

Director and Managing Corporate Officer

Apr 1987	Entered into The Mitsubishi Bank, Limited. (currently The Bank of Tokyo-Mitsubishi UFJ, Limited.)
Jul 1994	Deputy Manager of New York Branch, the said Bank
Nov 2000	Executive Officer, Hikari Tsushin, Inc.
Jan 2002	Executive Officer, Intuit Kabushiki Kaisha (currently Yayoi Co., Ltd.)
Mar 2003	Entered into the Company
Jul 2003	General Manager of Management Planning Dept. of the Company
Apr 2004	Corporate Officer of the Company
Apr 2006	Managing Corporate Officer of the Company (to present)
Jun 2006	Director (to present), Chief Financial Officer (CFO) of the Company
Jul 2007	In charge of Group Management of the Company
Jul 2010	In charge of Overseas Business of the Company (to present)

### Haruhiro Tsujimoto

President and Chief Operating Officer (COO)

Apr 1987	Entered into the Company
Jun 1997	Director of the Company
Feb 1999	Managing Director of the Company
Apr 2001	Senior Managing Director of the Company
Jul 2004	Director and Executive Corporate Officer of the Company
Apr 2006	Director and Executive Vice President of the Company
Jul 2007	Representative Director, President and Chief Operating Officer (COO) of the Company (to present)

### Hiroshi Tobisawa

Director

Aug 1997	Entered into the Company
Apr 1998	General Manager of Corporate Planning Dept. of the Company
Jun 1999	Officer & General Manager of Home Video Games Domestic Sales Division of the Company
Apr 2001	Managing Corporate Officer of the Company
Jun 2005	Director of the Company (to present)
Jul 2007	In charge of Overseas Business of the Company
Jul 2010	Assigned to Special Missions of the Company (to present)

### Tamio Oda

Director and Chief Financial Officer (CFO)

Apr 1969	Entered into The Sanwa Bank, Limited. (Currently The Bank of Tokyo-Mitsubishi UFJ, Limited.)
Jun 1991	Managing Director of Unicharm Corporation
Jun 1997	Branch Manager of Nakanoshima Branch of the said bank
Jun 1999	Managing Director of Daisue Construction Co., Ltd.
May 2001	Advisor of the Company
Jun 2001	Director of the Company
Jun 2003	Managing Director of the Company
Jul 2004	Director, Executive Corporate Officer, Chief Financial Officer (CFO) and in charge of Corporate Strategies, Administration, President's Office, Affiliated Companies' Management of the Company
Mar 2006	Director of the Company (to present)
Jul 2007	In charge of Corporate Management of the Company (to present)
Jul 2010	Chief Financial Officer (CFO) of the Company (to present)

## Auditors

Notes) Messrs. Shoji Yamaguchi, Koji Takito are External Auditors.



Masanao Ichika

Shoji Yamaguchi

Kazushi Hirao

Koji Takito

### Shoji Yamaguchi

Corporate Auditor (full-time)

Apr 1962	Entered into National Tax Administration Agency
Jun 1990	Nagoya Regional Tax Tribunal Chief Appeals Judge
Aug 1992	Councilor of Business Promotion Dept. of The Sumitomo Trust & Banking Co., Ltd.
Jun 2001	Corporate Auditor of the Company (full-time) (to present)

Reasons for selection of external directors:  
Selected based on overall assessment including knowledge of taxes, character, insight, experience in business operations and other factors

### Kazushi Hirao

Corporate Auditor (full-time)

Apr 1975	Entered into Hitachi Zosen Corporation
Apr 1987	Assistant Manager of the said company
Jun 1988	Entered into the Company
Apr 1997	General Manager of Overseas Business Dept. of the Company
Jul 1999	Corporate Officer, General Manager of Overseas Business Dept. of the Company
Oct 2002	General Manager of General Affairs Dept. of the Company
Apr 2004	Senior Manager of Investor Relations Section of the Company
Jun 2004	Corporate Auditor of the Company (full-time) (to present)



## External Directors (Notes) Messrs. Hiroshi Yasuda, Makoto Matsuo and Takayuki Morinaga are External Directors.



### Hiroshi Yasuda

Director

Apr 1957	Entered into the Ministry of Finance
Nov 1973	Personal Secretary to the Minister of Finance
Jan 1977	Personal Secretary to the Prime Minister
Jun 1988	Deputy Vice Minister of Finance
Jun 1990	Director-General, Budget Bureau
Jun 1991	Administrative Vice Minister of Finance
May 1994	Governor, the Export-Import Bank of Japan (Currently Japan Bank for International Cooperation)
Oct 1999	Governor, Japan Bank for International Cooperation
Sep 2001	Advisor, the Kansai Electric Power Co., Inc. (to present)
Jul 2002	Chairman, Yomiuri International Economic Society (to present)
Jun 2002	President, Japan Investor Protection Fund
Aug 2004	External Corporate Auditor, Shiseido Co., Ltd.
Jun 2007	President, Capital Market Promotion Foundation (to present)
Jun 2007	Director of the Company (to present)

Reasons for selection of external directors: Selected based on an overall assessment including character, insight, work experience and other factors



### Makoto Matsuo

Director

Apr 1975	Admitted to Japanese Bar (The Dai-ichi Tokyo Bar Association) Ozaki & Momo-o
Aug 1978	Weil, Gotshal & Manges in New York
Mar 1979	Admitted to New York Bar
Apr 1989	Partner, Momo-o, Matsuo & Namba (to present)
Apr 1997	Lecturer, Nihon University, Faculty of Law: International Transaction Law
Jun 2000	Corporate Auditor, Billing System Corporation (to present)
Jun 2003	Corporate Auditor, Yamanouchi Pharmaceutical, Co., Ltd.
Jun 2004	Corporate Director, Yamanouchi Pharmaceutical, Co., Ltd.
Apr 2005	Corporate Director, Astellas Pharma Inc.
Jun 2007	Lecturer, Hitotsubashi University Faculty and Graduate School of Law: World Business Law (to present)
Oct 2008	Director of JVC KENWOOD Holdings, Inc. (to present)
Jun 2009	Corporate Auditor, Toray Industries, Inc. (to present)

Reasons for selection of external directors: Selected as a qualified individual who can help ensure the effectiveness of corporate governance functions by providing accurate guidance and advice as a legal professional for compliance with laws and regulations



### Takayuki Morinaga

Director

Apr 1964	Entered into The Export-Import Bank of Japan (Currently Japan Bank for International Cooperation)
Apr 1992	General Manager of Personnel Division of the said Bank
Apr 1994	General Manager, Osaka Branch of the Bank
Apr 1996	Senior General Manager of the Bank
Sep 1998	Managing Director, Yazaki Corporation
Sep 2000	Senior Managing Director, Yazaki Corporation
Jun 2006	Vice Chairman, Yazaki Corporation
Jun 2007	Director and Executive Councilor, Yazaki Corporation
Jun 2008	Advisor of Yazaki Corporation (to present)
Jun 2009	Director of the Company (to present)

Reasons for selection of external directors: Selected based on an overall assessment including management experience at other companies, experience in business operations, personal accomplishments, personal relationships in the business community and other factors

#### Comments **Fostering an open and fair management culture based on a viewpoint of “looking in from outside”.**

The rules governing share listing established by the Companies Act and the stock exchange clearly stipulate disclosure of information related to corporate governance and require statements regarding external directors.

This shows that, each year, more significance has been attached to having independent outside directors on the board. It is imperative to have an internal control system work effectively in order to prevent illegal acts and misconduct and to ensure that operations of a company are conducted appropriately.

As an outside director, I was elected by an independent director determined by the Tokyo Stock Exchange and Osaka Securities Exchange, so there is no fear of a conflict of interest with general stockholders in terms of decision-making. I am in a position to voice my opinions and offer recommendations concerning issues of which insiders may not be aware, but that need to be addressed in all aspects of management from a perspective closer to external stakeholders, such as shareholders and customers. By doing so, I hope I will make a meaningful contribution in helping the Board of Directors play a more active role and to exercising effective supervision of day-to-day business operations.

#### Comments **Enhancing Oversight of Internal Control and Legal Compliance.**

The problem of inadequate internal control has been raised every time a corporate scandal came to light in recent years, giving rise to calls for the development and enhancement of systems for legal compliance. In addition, the formulation of “basic policies for an internal control system”, important for compliance and management efficiency, as well as the submission of “internal control reports” for financial reporting, is obligatory under the Companies Act and Financial Instruments and Exchange Act. Furthermore, amid the continued progression of the international convergence of accounting standards, it will be essential to establish “corporate governance” that includes strengthened management administration and information systems based on International Financial Reporting Standards (IFRS) as an internal control environment in accordance with the enforcement of IFRS implementation as early as 2015 in Japan.

I will utilize my experience and expertise accumulated in the legal profession when I voice objective and well-balanced opinions in an effort to exercise stronger management oversight of day-to-day operations, promoting internal control and legal compliance. Also, I will ensure that the company will be well prepared to take timely and appropriate actions when an unforeseeable event arises, by having systems for legal compliance and risk management firmly in place.

#### Comments **Strictly enforcing risk management by making optimal use of experience in other countries.**

For the past few years, adverse business conditions have caused significant volatility in the performance of Japanese companies. As an outside director, I feel the great responsibility and importance of improving stable earnings through healthy management.

Needless to say, the external director's role is to enhance the governance function by separating the supervision of day-to-day business operations from the execution of such operations, and of course, to prevent illegal acts, misconduct and other such incidents from arising by creating a sense of tension within the Board of Directors.

As a result of Capcom's accelerated overseas expansion in recent years, I aware that the creation of a risk management structure for addressing various country risks, including political, economic, currency exchange, legal, cultural and religious risks, as well as tax and customs regulations and the interpretation of law in countries where sales are conducted is an urgent issue.

I have many years of experience working overseas, and am particularly adept with respect to risk management. I hope to be able to meet my responsibilities and fulfill my role by making use of my international experience to suggest improvements and offer advice.

### Masanao Ichika

Corporate Auditor

Apr 1962	Lawyer (to present)
Apr 1981	Vice President of Osaka Bar Association, Director of Japan Federation of Bar Association
Mar 1988	Member of Commercial Law Committee of Judicial System and Research Dept. of Ministry of Justice
Jun 2002	Director of the Company
Jun 2004	Professor of the Konan Law School
Jun 2008	Corporate Auditor of the Company (to present)

### Koji Takito

Corporate Auditor

Apr 1967	Entered National Police Agency
Aug 1970	Chief of Foreign Affairs Section, Security Bureau, Yamaguchi Prefectural Police Headquarters
Jul 1978	Chief of Public Security First Section, Public Security Bureau, Tokyo Metropolitan Police Department
Apr 1986	Chief of Security Office, Public Security Second Section, Security Bureau, National Police Agency
Aug 1986	Head of Security Police Training Division, National Police Academy
Sep 1990	Chief, Okayama Prefectural Police Headquarters
Sep 1992	Deputy Director-General of Secretariat of the Commissioner General, National Police Agency
Apr 1994	Chief, Hyogo Prefectural Police Headquarters
Aug 1996	Deputy Superintendent-General, Tokyo Metropolitan Police Department
Jul 2004	Chairman of the Board, Horse Racing Security Association
May 2008	Advisor, Mitsubishi Motors Corporation (to present)
Jun 2008	Corporate Auditor of the Company (to present)

Reasons for selection of external directors: Selected as an individual with the skills to help ensure legal compliance based on work experience, insight, experience and other factors

#### Corporate Auditors' Comments **Stricter oversight of the internal control system to ensure appropriate business conduct.**

Capcom's Board of Corporate Auditors consists of four auditors, including two from outside the company.

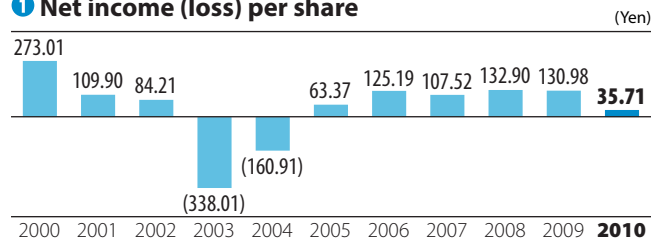
We perform our daily auditing responsibilities in accordance with the auditing policy and job descriptions established by the Board of Corporate Auditors. To do so, we maintain close communication with the Board of Directors, Office of Internal Auditing and other employees to collect relevant information and to lay the groundwork for audits. Also, we attend important corporate meetings such as board meetings to receive activity reports from directors and other key managers on their day-to-day execution of operational duties, request clarification as required, review documents of important corporate decisions, and investigate the operational and financial status of the company.

As established in the Companies Act, it is our responsibility to monitor and verify the effectiveness of the system that ensures directors' day-to-day execution of their duties is compliant with laws and regulations, as well as the internal control system designed to ensure the company's business operations are conducted appropriately. We maintain close communications with directors at our subsidiaries, exchanging information and receiving updated business reports as needed.

## 11-Year Summary of Consolidated Financial Indicators

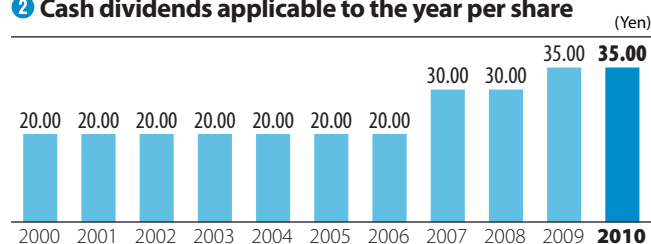
	2000	2001	2002	2003	2004
<b>For the Year:</b>	Millions of yen				
Net sales	¥ 51,574	¥ 49,082	¥ 62,742	¥ 62,036	¥ 52,668
Operating income	9,061	7,155	9,727	6,680	1,402
Net income (loss) before income taxes	8,712	7,126	7,420	(30,049)	(6,900)
Net income (loss)	9,700	6,007	4,912	(19,598)	(9,158)
Depreciation & amortization	2,623	2,411	2,172	2,202	2,081
Capital expenditures	2,695	2,938	4,181	2,289	4,678
R&D expenses	1,390	1,461	1,067	1,151	1,124
<b>At Year-End:</b>	Millions of yen				
Total assets	¥ 107,776	¥ 113,493	¥ 128,512	¥ 106,648	¥ 93,096
Net assets	51,320	62,965	68,233	42,888	31,854
<b>Cash Flows:</b>	Millions of yen				
Cash flows from operating activities	¥ 14,252	¥ 3,652	¥ 3,315	¥ 3,635	¥ 5,577
Cash flows from investing activities	3,338	(4,547)	(3,066)	(2,329)	(5,011)
Cash flows from financing activities	(1,770)	(1,768)	8,589	(2,000)	(395)
Net increase (decrease) in cash and cash equivalents	15,413	(1,763)	9,519	(1,555)	(1,313)
Cash and cash equivalents at end of year	27,439	25,675	35,000	33,444	32,131
<b>Per Share Data:</b>	Yen				
Net income (loss) per share ①	¥ 273.01	¥ 109.90	¥ 84.21	¥ (338.01)	¥ (160.91)
Cash dividends applicable to the year per share ②	20.00	20.00	20.00	20.00	20.00
Net assets per share	1,372.16	1,081.62	1,168.51	753.47	559.66
<b>Stock Information:</b>					
Number of outstanding shares (thousands shares)	37,627	58,308	58,435	58,435	58,435
Foreign Investors (%)	16.80	27.12	25.91	16.85	16.59
<b>Financial Index:</b>					
Operating margin (%) ③	17.6	14.6	15.5	10.8	2.7
ROE (%) ④	23.8	10.5	7.5	—	—
ROA (%)	9.4	5.4	4.1	—	—
Net worth ratio (%)	47.6	55.5	53.1	40.2	34.2
Interest coverage ratio (times)	25.9	8.7	14.2	14.6	20.3
Debt-equity ratio (%)	110.1	80.2	88.3	148.8	192.4
Price earnings ratio (times)	17.2	32.8	41.2	—	—

### ① Net income (loss) per share



Net income per share for the fiscal year ended March 2001 fell sharply due to decrease in the net income and the implementation of stock split. Net income (loss) per share for the fiscal years ended March 2002 to 2009 generally reflected net income (loss) for each fiscal year, even though increase in the number of shares by the exercise of conversion rights of the convertible bonds had a slight influence on the result. Net income per share for the fiscal year ended March 2010 decreased due to remarkable decrease in the net income.

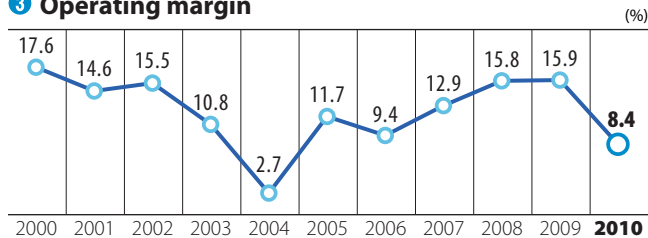
### ② Cash dividends applicable to the year per share



Capcom has its fundamental dividend policy of providing a continued and stable dividend to the shareholders. In accordance with its policy, an annual dividend of 20 yen per share was paid from the fiscal year ended March 1998 to that ended March 2006. Cash dividend per share for the fiscal years March 2007 to 2008 was raised to 30 yen thanks to its stable revenue base brought by its structural reform. Cash dividend per share for the fiscal year March 2009 was raised by 5 yen to 35 yen as a commemorative dividend to mark its 25th anniversary. For the fiscal year ended March 2010, it decided to raise its annual dividend to 35 yen per share as an ordinary dividend.

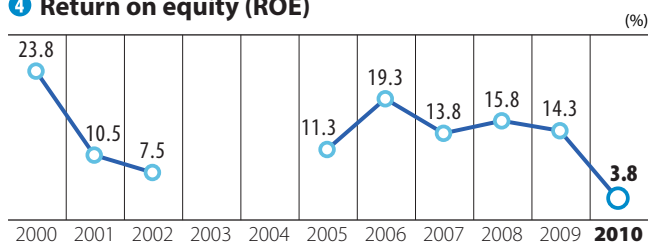
2005	2006	2007	2008	2009	2010	2010
Millions of yen						Thousands of U.S. dollars
¥ 65,895	¥ 70,253	¥ 74,542	¥ 83,097	¥ 91,878	¥ 66,837	\$ 718,681
7,752	6,580	9,602	13,121	14,618	5,587	60,078
7,006	6,912	9,986	11,962	12,448	1,124	12,089
3,622	6,941	5,852	7,807	8,063	2,167	23,308
2,101	1,936	2,774	3,393	4,143	3,368	36,220
1,665	1,600	4,495	4,503	2,906	2,205	23,717
1,323	1,864	1,828	2,972	2,329	2,125	22,859
Millions of yen						Thousands of U.S. dollars
¥ 106,361	¥ 98,457	¥ 91,478	¥ 93,606	¥ 106,210	¥ 86,621	\$ 931,418
32,491	39,464	45,144	53,660	59,349	53,956	580,179
Millions of yen						Thousands of U.S. dollars
¥ 7,977	¥ 13,921	¥ 16,063	¥ 7,452	¥ (551)	¥ 14,320	\$ 153,980
(1,099)	(1,779)	(6,715)	(3,374)	(2,715)	(1,618)	(17,402)
6,251	(18,259)	(15,206)	(2,448)	(342)	(10,747)	(115,560)
13,406	(4,885)	(5,654)	(2,256)	(4,454)	1,203	12,941
45,538	40,652	35,020	32,763	28,611	29,815	320,594
Yen						U.S. dollars
¥ 63.37	¥ 125.19	¥ 107.52	¥ 132.90	¥ 130.98	¥ 35.71	\$ 0.38
20.00	20.00	30.00	30.00	35.00	35.00	0.38
589.99	716.91	799.35	881.31	961.38	913.18	9.82
58,435	58,435	62,269	66,719	67,394	67,723	
14.79	23.35	32.60	27.72	33.73	24.22	
11.7	9.4	12.9	15.8	15.9	8.4	
11.3	19.3	13.8	15.8	14.3	3.8	
3.6	6.8	6.2	8.4	8.1	2.3	
30.5	40.1	49.3	57.3	55.9	62.3	
30.0	82.6	237.3	103.7	—	86.9	
227.9	149.4	102.8	74.4	79.0	60.5	
16.5	9.7	15.7	25.6	13.3	49.5	

### ③ Operating margin



Operating margin depends primarily on profitability of the home video game business, which accounts for about 70% of net sales. There was steady increase in operating margin as well as operating income from the fiscal year ended March 2007 to that ended March 2009 thanks to the establishment of Capcom's efficient developmental organization. However, operating margin for the fiscal year ended March 2010 worsened due to the postponement of launch of some major titles in consideration of its marketing strategy.

### ④ Return on equity (ROE)



ROE for the fiscal year ended March 2000 significantly increased due to the remarkable increase in the net income. Net loss was run for the fiscal years ended March 2003 and 2004 due to the implementation of structural reform. ROE has been stable around 14% since the fiscal year ended March 2007 (except for 2010), even though net assets increased due to increase in retained earnings and common stock etc. by the exercise of conversion rights of the convertible bonds. However, ROE for the fiscal year ended March 2010 temporarily decreased due to the postponement of launch of some major titles.



## Financial Review

### 1. Operating Results

In fiscal year 2009, the year ended March 31, 2010, the resulting net sales decreased to 66,837 million yen (down 27.3 % from the previous year).

As for profits, operating income decreased to 5,587 million yen (down 61.8 % from the previous year), ordinary income decreased to 5,530 million yen (down 59.9 % from the previous year), and the net income year decreased to 2,167 million yen (down 73.1 % from the previous year).

### 2. Status of Each Operational Department

#### (1) Home Video Games

In this business segment, our flagship title "Monster Hunter Tri" (for Wii) achieved healthy growth, while "Ace Attorney Investigations: Miles Edgeworth" (for Nintendo DS) and "Resident Evil 5: Alternative Edition" (for PlayStation and Xbox 360) also performed satisfactorily.

"Monster Hunter Freedom Unite" (for PlayStation Portable), along with its lower-priced versions, showed strong sales growth supported by its established brand strength. "Resident Evil 5" (for PlayStation 3 and Xbox 360), one of the most successful titles in the previous year, continued to grow backed by its popularity.

"Sengoku Basara Battle Heroes" (for PlayStation Portable), which is the latest addition of the Sengoku Basara series, also grew on a steady basis. This software started the so-called "Rekijo" (Japanese term for female history "Otaku") boom in Japan and generated much public interest in Japan's "Warring States" (Sengoku) era. In addition, the software gained public attention outside of the game industry when its characters appeared in the official election notice posters by the Miyagi Prefecture municipal government for the election of the governor of Miyagi.

However, the three software titles that were released in the overseas markets, namely "Bionic Commando" (for PlayStation 3 and Xbox 360), "Resident Evil: The Darkside Chronicles" (for Wii), and "Dark Void" (for PlayStation 3 and Xbox 360), underperformed their sales and remained weak.

Additionally, the releases of "Lost Planet 2" (for PlayStation 3 and Xbox 360) and "Super Street Fighter IV" (for PlayStation 3 and Xbox 360) were postponed to the next fiscal year. Lacking these sales-inducing software titles also depressed sales in overseas markets.

The resulting net sales decreased to 44,015 million yen (down 30.0 % from the previous year), and the operating income decreased to 7,846 million yen (down 52.1 % from the previous year).

#### (2) Arcade Operations

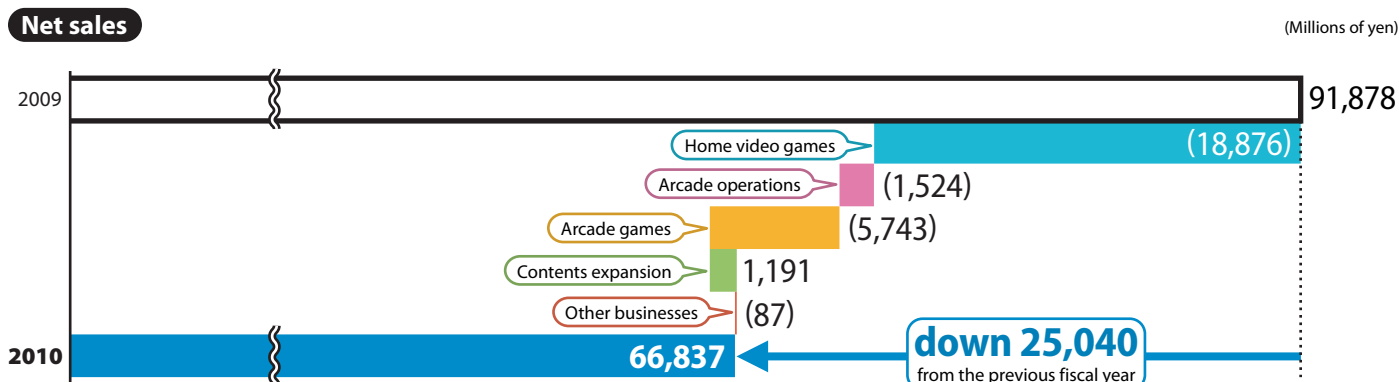
One of our main focuses in this business segment was to increase demand in this slowly recovering market. As part of such efforts, we held a variety of events, offered special discount days, and created a comfortable environment for customers to attract more women and families, while continuing to hold on to our core users. However, customer traffic did not improve despite our efforts, and sales were restrained due to declining consumer spending and to the trend in which consumers looked for alternative "at-home entertainment".

We worked on profitability improvement through streamlining business structure including reduction of operation costs. Closing down 2 unprofitable arcades is another example of our operational strategy for increasing profits and adopting to changes in the market environment. The number of our arcades total 38 after these activities as of the end of this fiscal year.

The resulting net sales decreased to 11,985 million yen (down 11.3 % from the previous year), whereas the operating income increased to 590 million yen (up 162.9 % from the previous year) thanks to the success of our profitability improvement strategy.

#### (3) Arcade Games

Within this stagnating market, Capcom released the coin-operated game machine, "Mario Party Fushigino Korokoro Catcher", with the aim of reaching a new user base as well as holding onto existing customers. We concentrated our efforts in sales expansion to make a breakthrough in the current market. As part of such activities, we went into partnership with Namco Bandai Games. Despite all of our best efforts, we still struggled with this business segment, and thus the restructuring of the operational system became inevitable.



The resulting net sales decreased to 2,280 million yen (down 71.6 % from the previous year), and the operating loss was 203 million yen (the operating income of the previous year was 1,758 million yen).

#### (4) Contents Expansion

Overall, this segment achieved its projected sales. In the area of content distribution for mobile phones, "Apollo Justice: Ace Attorney" showed healthy growth, and the iPhone/iPod touch version of "Resident Evil: Degeneration" also expanded its user base.

The segment of the Pachislo machine business, on the other hand, continued to suffer lacking a sales-inducing product in the severe business environment. "Viewtiful Joe", which was released in the 4th quarter of this fiscal year, showed solid sales, and "Shin Onimusha: Dawn of Dreams" as a part of cooperation expansion also began to show signs to perform favorably supported by its established brand power.

The resulting net sales increased to 5,819 million yen (up 25.7 % from the previous year), and the operating income was 509 million yen (the operating loss of the previous year was 230 million yen).

#### (5) Other Businesses

The net sales from other businesses, mainly character-related licensing royalties, decreased to 2,736 million yen (down 3.1 % from the previous year), and the operating income increased to 1,097 million yen (up 4.1 % from the previous year).

### 3. Overview of Business Performance in Each Region

#### (1) Japan

In the segment of home vide games, our flagship title "Monster Hunter Tri" (for Wii) achieved healthy growth supported by its established popularity, while both "Ace Attorney Investigations: Miles Edgeworth" (for Nintendo DS) and "Sengoku Basara Battle Heroes" (for PlayStation Portable) also performed favorably. In addition, "Monster Hunter Freedom Unite" (for PlayStation Portable), along with its lower-priced versions, showed steady sales increase backed by its brand strength.

"Resident Evil 5" (for PlayStation 3 and Xbox 360), one of the most successful titles in the previous year, continued to grow contributing to the overall profit improvement.

Arcade operations saw sluggish growth affected by the weakening demand. However, profits for this segment increased through the successful earning recovery strategies such as fixed cost reduction.

The arcade games sales remained lackluster due to the stagnating market and the lack of appealing products.

In the segment of contents expansion, the business of content distribution for mobile phones achieved projected sales, whereas the Pachislo machine related business struggled without sales-inducing content and products, however, began to show signs of recovery.

The resulting net sales decreased to 53,960 million yen (down 14.9 % from the previous year), and the operating income decreased to 11,775 million yen (down 10.8 % from the previous year).

#### (2) North America

In North America, sales remained weak due partially to the fact that the main activity in this region was the sales of existing products such as "Resident Evil 5" (for PlayStation 3 and Xbox 360), and that the majority of products sold were lower-priced.

Highly expected software "Dark Void" (for PlayStation 3 and Xbox 360) and "Bionic Commando" (for PlayStation 3 and Xbox 360) both grew at a slow pace. In addition, the release of flagship titles, "Lost Planet 2" (for PlayStation 3 and Xbox 360) and "Super Street Fighter IV" (for PlayStation 3 and Xbox 360), was postponed to the next fiscal year, depressing overall sales.

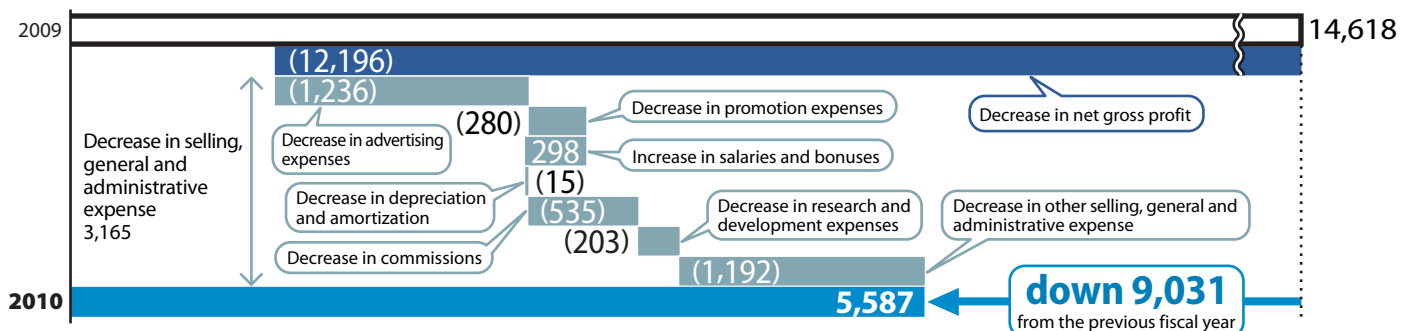
The resulting net sales decreased to 12,543 million yen (down 49.6 % from the previous year), and the operating loss was 2,072 million yen (the operating income of 4,054 million yen was recorded in the previous year).

#### (3) Europe

In Europe, sales were restrained due partially to the fact that the main activity in this region was the sales of small-scale titles and existing products such as "Resident Evil 5" (for PlayStation 3 and Xbox 360).

### Operating income

(Millions of yen)



Both “Dark Void” (for PlayStation 3 and Xbox 360) and “Bionic Commando” (for PlayStation 3 and Xbox 360) grew at a sluggish pace, and the release of the highly expected “Lost Planet 2” (for PlayStation 3 and Xbox 360) was postponed to the next fiscal year.

The resulting net sales decreased to 7,933 million yen (down 44.0 % from the previous year), and the operating income decreased to 136 million yen (down 91.2 % from the previous year).

#### (4) Other Regions

In Asian markets, we struggled to market lower-priced titles, and those titles developed under the partnership with other companies. The release of “Monster Hunter Tri” (for Wii) and “Resident Evil: The Darkside Chronicles” (for Wii) did not achieve projected sales as well.

The resulting net sales decreased to 982 million yen (down 42.2 % from the previous year), and the operating income decreased to 153 million yen (down 57.9 % from the previous year).

### 4. Analysis of Assets, Liabilities and Net Assets

#### (1) Assets

Total assets decreased by 19,588 million yen from the previous fiscal year to 86,621 million yen. The primary increase is 3,901 million yen in work-in-progress for game software, and the primary decrease is

21,605 million yen in notes and accounts receivable, trade and 896 million yen in merchandise and finished goods.

#### (2) Liabilities

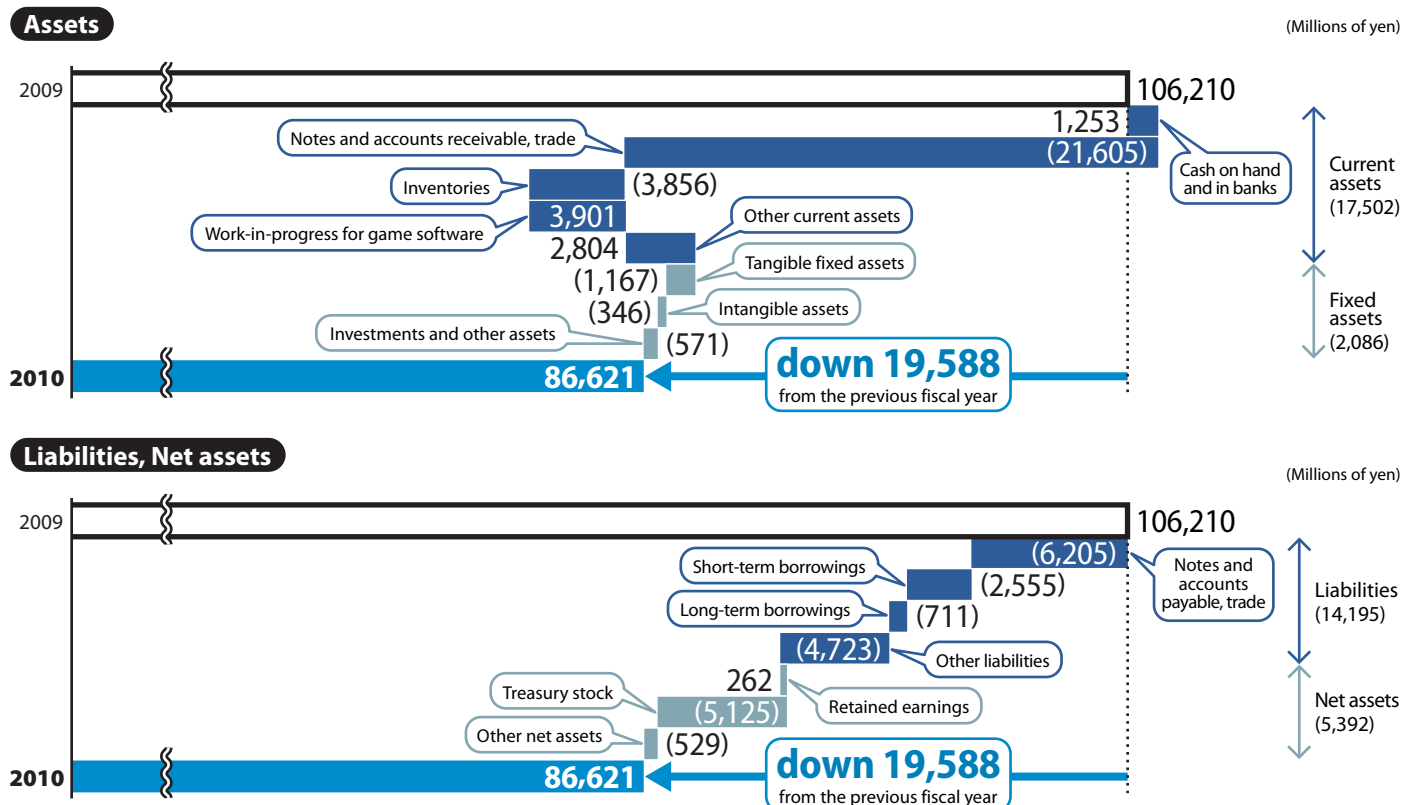
Liabilities decreased by 14,195 million yen from the previous fiscal year to 32,665 million yen. The decrease is mainly attributable to the following: 6,205 million yen in notes and accounts payable, 2,555 million yen in short-term borrowings, 1,259 million yen in accrued income taxes.

#### (3) Net Assets

Net assets decreased by 5,392 million yen from the previous fiscal year to 53,956 million yen. The primary increase is 2,167 million yen in net income for the current fiscal year, and the decrease is attributable to 5,125 million yen in the repurchase of treasury stock and 1,831 million yen in payment of cash dividends from retained earnings.

### 5. Analysis of Cash Flow

Cash and cash equivalents (hereafter referred to as “Cash”) as of the end of the current fiscal year increased by 1,203 million yen from the previous fiscal year to 29,815 million yen. Cash flow positions of each activity and their factors are described below.





**(1) Cash Flows from Operating Activities**

Net cash provided by operating activities increased by 14,871 million yen from the previous fiscal year to 14,320 million yen. Some of the main contributors to the increase are the following: 20,897 million yen in decrease in notes and accounts receivable, trade; 3,368 million yen in depreciation and amortization; 1,124 million yen in net income before income taxes. The decrease is attributable mainly to 5,952 million yen in decrease in notes and accounts payable, trade and 5,545 million yen in increase work-in-progress for game software.

**(2) Cash Flows from Investing Activities**

Net cash used in investing activities decreased by 1,096 million yen from the previous fiscal year to 1,618 million yen. The decrease is mainly attributed to the payment of 1,693 million yen for payment for acquisition of tangible fixed assets.

**(3) Cash Flows from Financing Activities**

Net cash used in financing activities increased by 10,404 million yen from the previous fiscal year to 10,747 million yen. This increase is mainly attributable to the following: 5,125 million yen in payment for repurchase of treasury stock; 2,555 million yen in repayments of short-term borrowings; 1,829 million yen in dividends paid by parent company.

**Trends of Cash Flow Indicators**

	Year ended March 2008	Year ended March 2009	Year ended March 2010
Shareholders' equity ratio to total assets (%)	57.3	55.9	<b>62.3</b>
Shareholders' equity ratio to total assets based on fair market value (%)	221.2	101.5	<b>120.5</b>
Debt amortization ratio to cash flows from operating activities (%)	46.8	—	<b>122.7</b>
Interest coverage ratio (times)	103.7	—	<b>86.9</b>

Shareholders' equity ratio to total assets: Shareholders' equity / Total assets

Shareholders' equity ratio to total assets based on fair market value: Total of the capital stock at market price / Total assets

Debt amortization ratio to cash flows: Interest-bearing debt / Cash flows from operating activities

Interest coverage ratio: Cash flows from operating activities / Interest payments

(Note 1) Total market value of shares is calculated based on the number of shares as of the end of the fiscal year excluding treasury stock.

(Note 2) The interest-bearing debt refers to the debts posted in the consolidated balance sheets for which we are paying interests.

(Note 3) As the cash flows from operating activities fell into red in fiscal year ended March 2009, we have omitted debt amortization ratio to cash flows from operating activities and interest coverage ratio.

**Business Risks and Other Risks**

Capcom is exposed to risks which may affect its operating results, financial status, stock price and its operational environments, including but not limited to those stated below, which are based on information that is available as of March 31, 2009 and certain assumptions that serve as the basis of rational judgments.

**1. Risks relating to Home Video Games****(1) Increase in Development Costs**

In recent years, home video game consoles have become sophisticated partly due to the adoption of computer graphics technology, and the development costs have tended to increase. Therefore, there is a risk that the development costs may become irrecoverable with respect to some software titles, including those which have failed to fulfill the sales plan.

**(2) Obsolescence of Game Software**

Game users are mainly children and young people. In addition, competition against other industries which have the same customer base is intensifying, including mobile phones and the Internet.

Therefore, the life of products is not necessarily long, and games become outdated quickly; there is a risk that product inventory may increase and development costs may become irrecoverable.

**(3) Dependency on Popular Series**

Capcom releases many game titles in the market. Among them, a handful of titles tend to be dominant in terms of popularity. Further, sequel titles undergo limited volatility in terms of sales, and help stabilize our business performance. However, we may lose users in the event of any problem in these popular software titles or any change in the market environment. There is a risk that it may result in having an adverse effect on our future business strategies and business performance.

**(4) Violent Scenes and Depictions**

Some of our popular software titles have provocative graphics and text, such as violent and grotesque scenes. Accordingly, in the event of violent incidents and other criminal cases involving juveniles, we may be subject to a smear campaign by some sections of the mass media which often point out the correlation between crime and games.

Therefore, there is a risk that it may result in having an adverse effect on our business performance, corporate value and narrowed distribution channel under instructions by the relevant authorities.

#### (5) Seasonal Fluctuations

Trends in the demand for games fluctuate substantially throughout the year. As the market experiences peak demand during the Christmas season until New Year's Day, the first quarter of the year tends to be relatively quiet. In this manner, there is a risk that business performance may substantially fluctuate from quarter to quarter.

#### (6) Trends in Proliferation of Home Video Game Consoles

Our home video game titles are primarily supplied to game consoles made by Sony Computer Entertainment Inc., Nintendo Co., Ltd. and Microsoft Corporation.

Therefore, there is a risk that our business strategies and business performance may be adversely affected in the event of any setback in the proliferation trends or any problem in their game consoles.

#### (7) License Agreement with Console Manufacturers

We take a multi-platform approach, which involves supplying home video game software titles to all existing game platforms. Accordingly, we have a license for manufacturing and distributing game software from Sony Computer Entertainment Inc., Nintendo Co., Ltd. and Microsoft Corporation, who are also our competitors.

However, there is a risk that amendments to the licensing agreements and new terms and conditions of the agreements may have an adverse effect on our future development strategies and business performance.

#### (8) Technological Enhancement of Home Video Game Platforms

New home video game platforms have been released every four to six years in the past. In the hardware transition stage, users tend to be reluctant to purchase new software. Therefore, there is a risk that our business performance may be adversely affected by sluggish sales in the transition stage.

#### (9) Expansion of Used Software Market

Currently, the used software in the domestic market is estimated as a third of the new one, and is tending towards expansion. Also, the flood of pirated copies in the Asian market is becoming increasingly serious. Therefore, it is gradually becoming more difficult to recover the development costs. There is a risk that it may adversely affect our operating results, depending on the trends in the market.

### 2. Risks relating to Other Businesses

#### (1) Arcade Operations

There is a risk that customer traffic and the unit value of customers may be adversely affected by the popularity of installed machines, diversification of entertainment, falling birth rate, intensified competition and changes in the market environment and other such factors.

#### (2) Arcade Games Sales

There is a risk that our business performance may be adversely affected by the closing gap between arcades and home video game consoles, the decline in facility operators' purchasing power, changes in the business environment and uncertainties for growth.

#### (3) Contents Expansion

The number of customers to whom we provide peripheral devices for game machines is quite limited. And the performance of "Contents Expansion Business" may depend heavily on the sale of these devices in some fiscal years. Under the provision of the "Entertainment and Amusement Trade and the Implementation Rules for the Entertainment and Amusement Trades Rationalizing Act", we are allowed to sell the peripheral devices for only those machines which passed the test of the Security Electronics and Communications Technology Association. The performance of this business segment may be affected significantly by the trend of such industry systems. Thus, it is possible that changes in such a trend could negatively affect the operating results of the entire Capcom Group.

### 3. Risks relating to Overseas Operations

(1) There is a risk that our business strategies and business performance may be adversely affected by market trends and the existence of competitors in other countries within our sales territory, in addition to other various country risks including political, economic, legislative, cultural, religious, custom and foreign currency risks.

(2) As the volume of the overseas transaction expands, it is possible that the loss or expense burden (i.e.; tax rates and custom duties) will increase depending on the regulations or the interpretation of the accounting laws by the audit authorities. The operating results and financial position of the Capcom group may be affected negatively by these conditions.

(3) There is a risk that our business performance may be adversely affected by the increase in expenses and the failure to recover overseas investment in the event of unforeseeable circumstances which cannot be predicted by feasibility studies.

#### **4. Risks relating to Financial Status and Operating Results**

(1) As mentioned before, home video game software, which is our principal business, is exposed to the risk of increasing inventories, as the products generally have a short life and become obsolete quickly. There is a risk that our financial status and operating results may be adversely affected by their obsolescence.

(2) As already explained, our business performance may substantially fluctuate from quarter to quarter, as the market environment may change throughout the year in our industry. Also, cash flows may not be generated as originally planned, due to the fall in sales, changes in management strategies and other factors. There is a risk that it may result in having an adverse effect on the operating results in the following years.

#### **5. Risks relating to Development Technologies**

Products relating to game machines including home video game consoles are subject to rapid technological progress, and are constantly evolving.

Therefore, there is a risk that sales opportunities may be lost due to delays in responding to technological progress, which may result in having an adverse effect on our operating results and product quality.

#### **6. Legislative Risks**

Arcade operations are controlled by the “Entertainment Establishments Control Law” and its related regulations and ordinances. Due to the amendment and establishment of the laws and ordinances in the future, the scope of business activities may be subject to changes or preliminary examination, inspection and other procedures carried out by regulatory agencies may become stricter. There is a risk that it may result in impeding our business plans, and adversely affecting the business and operating results.

#### **7. Risks relating to Intellectual Property Rights**

The development and distribution of game software involve intellectual property rights such as patent rights, trademark rights, utility model rights, design rights, copyrights, etc. Therefore, there is a probability that the development and distribution of game software may become difficult if we cannot acquire intellectual property rights. Also, one cannot deny the risk of a third party's intellectual property rights being violated by us. There is a risk that they may adversely affect our operating results.

#### **8. Risks relating to Lawsuits**

As we are engaged in content business, we have been to a court of law both as a plaintiff and as a defendant. Due to the nature of our business, there is a possibility that we may be taken to court in the future. There is a risk that they may adversely affect our operating results, depending on the type of the lawsuit and the amount claimed in the lawsuit.

#### **9. Risks related to the Leakage of Private Information**

Capcom established the guidelines regarding the protection of personal information. It is our mission to disseminate the guidelines to all of our employees and to heighten the awareness about this critical matter. As part of such efforts, we are conducting an in-house. If private information should leak outside of the company, not only the corporate image of Capcom will be destroyed, but we will be responsible for damages. Therefore, the operating results and financial position of the Capcom group may be negatively affected by these incidents.

#### **10. Development and Assurance of Human Resources**

The expression, “the business is all about its people”, means that the future success and growth of any corporation depends upon competent employees. Although Capcom group is actively engaged in recruiting, educating, and securing excellent human resources, the mobility of personnel is relatively high in the game industry, and it is possible that our business activities will be disturbed if any of our talented employees decide to resign or to move to our competitors. Therefore, the operating results and financial position of the Capcom group may be affected negatively by these factors.



# Consolidated Balance Sheets

CAPCOM CO., LTD. AND ITS CONSOLIDATED SUBSIDIARIES. MARCH 31, 2010 AND 2009

	Previous fiscal year (As of March 31, 2009)	Current fiscal year (As of March 31, 2010)	Current fiscal year (As of March 31, 2010)
	Millions of yen	Millions of yen	Thousands of U.S. dollars
<b>(Assets)</b>			
<b>I Current assets :</b>			
1 Cash on hand and in banks [Note 8 (1)]	28,611	<b>29,865</b>	<b>321,136</b>
2 Notes and accounts receivable, trade	27,894	<b>6,288</b>	<b>67,621</b>
3 Merchandise and finished goods	1,746	<b>849</b>	<b>9,137</b>
4 Work-in-progress	2,097	<b>183</b>	<b>1,968</b>
5 Raw materials and supplies	2,745	<b>1,698</b>	<b>18,268</b>
6 Work-in-progress for game software	10,432	<b>14,333</b>	<b>154,127</b>
7 Deferred tax assets [Note 13]	2,712	<b>3,204</b>	<b>34,460</b>
8 Other	2,949	<b>4,927</b>	<b>52,980</b>
9 Allowance for doubtful accounts	(383)	<b>(48)</b>	<b>(522)</b>
<b>Total current assets</b>	<b>78,806</b>	<b>61,303</b>	<b>659,177</b>
<b>II Fixed assets :</b>			
1 Tangible fixed assets, net of accumulated depreciation [Note 5 (1)]			
(1) Buildings and structures, net [Note 5 (2)]	5,452	<b>5,259</b>	<b>56,550</b>
(2) Machinery and vehicles, net	66	<b>43</b>	<b>464</b>
(3) Tools, fixtures and furniture, net	943	<b>823</b>	<b>8,859</b>
(4) Rental equipment, net	137	<b>13</b>	<b>149</b>
(5) Equipment for amusement facilities, net	2,892	<b>2,251</b>	<b>24,210</b>
(6) Land [Note 5 (2)]	4,391	<b>4,386</b>	<b>47,170</b>
(7) Leased assets, net [Note 9 (2)]	1,258	<b>965</b>	<b>10,387</b>
(8) Construction-in-progress	74	<b>305</b>	<b>3,282</b>
<b>Total tangible fixed assets</b>	<b>15,217</b>	<b>14,049</b>	<b>151,073</b>
2 Intangible assets			
(1) Goodwill	419	<b>179</b>	<b>1,925</b>
(2) Other	3,154	<b>3,048</b>	<b>32,781</b>
<b>Total intangible assets</b>	<b>3,574</b>	<b>3,227</b>	<b>34,707</b>
3 Investments and other assets			
(1) Investments in securities [Notes 5 (3) and 11]	920	<b>957</b>	<b>10,290</b>
(2) Long-term loans receivable	90	<b>0</b>	<b>9</b>
(3) Deferred tax assets [Note 13]	1,425	<b>1,339</b>	<b>14,407</b>
(4) Claim in bankruptcy and reorganization	870	<b>909</b>	<b>9,779</b>
(5) Lease deposits	5,672	<b>5,266</b>	<b>56,633</b>
(6) Other	676	<b>586</b>	<b>6,302</b>
(7) Allowance for doubtful accounts	(1,042)	<b>(1,019)</b>	<b>(10,962)</b>
<b>Total investments and other assets</b>	<b>8,612</b>	<b>8,040</b>	<b>86,460</b>
<b>Total fixed assets</b>	<b>27,404</b>	<b>25,318</b>	<b>272,241</b>
<b>Total assets</b>	<b>106,210</b>	<b>86,621</b>	<b>931,418</b>

The accompanying notes are an integral part of these financial statements.

	Previous fiscal year (As of March 31, 2009)	Current fiscal year (As of March 31, 2010)	Current fiscal year (As of March 31, 2010)
	Millions of yen	Millions of yen	Thousands of U.S. dollars
<b>(Liabilities)</b>			
<b>I Current liabilities :</b>			
1 Notes and accounts payable, trade	9,682	<b>3,477</b>	<b>37,389</b>
2 Short-term borrowings [Notes 5 (2) and 21]	15,766	<b>13,211</b>	<b>142,058</b>
3 Current portion of convertible bonds [Note 20]	400	—	—
4 Lease obligations [Notes 21]	492	<b>578</b>	<b>6,219</b>
5 Accrued income taxes	1,923	<b>663</b>	<b>7,132</b>
6 Deferred tax liabilities [Note 13]	243	<b>58</b>	<b>629</b>
7 Accrued bonuses	2,091	<b>1,318</b>	<b>14,175</b>
8 Allowance for sales returns	313	<b>90</b>	<b>974</b>
9 Other	7,501	<b>5,814</b>	<b>62,517</b>
<b>Total current liabilities</b>	<b>38,415</b>	<b>25,211</b>	<b>271,095</b>
<b>II Long-term liabilities :</b>			
1 Long-term borrowings [Notes 5 (2) and 21]	5,067	<b>4,355</b>	<b>46,835</b>
2 Lease obligations [Notes 21]	833	<b>459</b>	<b>4,943</b>
3 Accrued retirement benefits for employees [Note 12]	1,171	<b>1,388</b>	<b>14,933</b>
4 Accrued retirement benefits for directors	406	—	—
5 Deferred tax liabilities [Note 13]	—	<b>4</b>	<b>45</b>
6 Other	967	<b>1,244</b>	<b>13,384</b>
<b>Total long-term liabilities</b>	<b>8,445</b>	<b>7,453</b>	<b>80,143</b>
<b>Total liabilities</b>	<b>46,861</b>	<b>32,665</b>	<b>351,239</b>
<b>(Net assets)</b>			
<b>I Shareholders' equity :</b>			
1 Common stock	33,039	<b>33,239</b>	<b>357,411</b>
2 Capital surplus	21,129	<b>21,328</b>	<b>229,343</b>
3 Retained earnings	17,000	<b>17,262</b>	<b>185,616</b>
4 Treasury stock	(8,015)	<b>(13,141)</b>	<b>(141,302)</b>
<b>Total shareholders' equity</b>	<b>63,152</b>	<b>58,689</b>	<b>631,068</b>
<b>II Valuation and translation adjustments :</b>			
1 Net unrealized gain or loss on securities, net of tax	(12)	<b>19</b>	<b>212</b>
2 Cumulative translation adjustments	(3,790)	<b>(4,752)</b>	<b>(51,101)</b>
<b>Total valuation and translation adjustments</b>	<b>(3,803)</b>	<b>(4,732)</b>	<b>(50,889)</b>
<b>Total net assets</b>	<b>59,349</b>	<b>53,956</b>	<b>580,179</b>
<b>Total liabilities and net assets</b>	<b>106,210</b>	<b>86,621</b>	<b>931,418</b>

The accompanying notes are an integral part of these financial statements.

# Consolidated Statements of Income

CAPCOM CO., LTD. AND ITS CONSOLIDATED SUBSIDIARIES. MARCH 31, 2010 AND 2009

	Previous fiscal year (From April 1, 2008) (to March 31, 2009)	Current fiscal year (From April 1, 2009) to March 31, 2010	Current fiscal year (From April 1, 2009) to March 31, 2010
	Millions of yen	Millions of yen	Thousands of U.S. dollars
<b>I Net sales</b>	91,878	<b>66,837</b>	<b>718,681</b>
<b>II Cost of sales</b>	55,052	<b>42,339</b>	<b>455,261</b>
<b>Gross profit</b>	36,825	<b>24,497</b>	<b>263,419</b>
Reversal of allowance for sales returns	91	<b>222</b>	<b>2,394</b>
Net gross profit	36,917	<b>24,720</b>	<b>265,813</b>
<b>III Selling, general and administrative expenses [Notes 6 (1) and (3)]</b>	22,299	<b>19,133</b>	<b>205,734</b>
<b>Operating income</b>	14,618	<b>5,587</b>	<b>60,078</b>
<b>IV Non-operating income :</b>			
1 Interest income	902	<b>411</b>	<b>4,428</b>
2 Dividend income	21	<b>26</b>	<b>281</b>
3 Other	153	<b>193</b>	<b>2,077</b>
Total	1,077	<b>631</b>	<b>6,787</b>
<b>V Non-operating expenses :</b>			
1 Interest expense	86	<b>165</b>	<b>1,779</b>
2 Exchange loss, net	882	<b>171</b>	<b>1,849</b>
3 Provision for allowance for doubtful accounts	162	<b>2</b>	<b>26</b>
4 Equity in losses of affiliates	553	<b>—</b>	<b>—</b>
5 Commission	—	<b>119</b>	<b>1,283</b>
6 Loss on closing amusement facilities	—	<b>121</b>	<b>1,310</b>
7 Other	201	<b>106</b>	<b>1,147</b>
Total	1,887	<b>687</b>	<b>7,396</b>
<b>Ordinary income</b>	13,808	<b>5,530</b>	<b>59,470</b>
<b>VI Special gains :</b>			
1 Reversal of allowance for doubtful accounts	115	<b>70</b>	<b>762</b>
2 Reversal of accrued bonuses	—	<b>162</b>	<b>1,746</b>
3 Gain on collection of receivable written off	58	<b>—</b>	<b>—</b>
4 Gain on sales of investments in securities	0	<b>—</b>	<b>—</b>
Total	174	<b>233</b>	<b>2,508</b>
<b>VII Special losses :</b>			
1 Loss on sales and/or disposal of fixed assets [Note 6 (2)]	44	<b>76</b>	<b>821</b>
2 Loss on revaluation of investments in securities	13	<b>5</b>	<b>54</b>
3 Impairment loss [Note 6 (4)]	1,146	<b>223</b>	<b>2,408</b>
4 Loss on settlement of litigation	126	<b>152</b>	<b>1,636</b>
5 Loss on closing amusement facilities	202	<b>—</b>	<b>—</b>
6 Loss on restructuring [Note 6 (5)]	—	<b>4,182</b>	<b>44,968</b>
7 Other	1	<b>—</b>	<b>—</b>
Total	1,534	<b>4,639</b>	<b>49,889</b>
Net income before income taxes	12,448	<b>1,124</b>	<b>12,089</b>
Income taxes-current	2,125	<b>1,299</b>	<b>13,978</b>
Income taxes-from previous fiscal years	—	<b>(1,761)</b>	<b>(18,937)</b>
Income taxes-deferred	2,258	<b>(582)</b>	<b>(6,260)</b>
Total	4,384	<b>(1,043)</b>	<b>(11,219)</b>
<b>Net income</b>	8,063	<b>2,167</b>	<b>23,308</b>

The accompanying notes are an integral part of these financial statements.



# Consolidated Statements of Changes in Net Assets

CAPCOM CO., LTD. AND ITS CONSOLIDATED SUBSIDIARIES. YEARS ENDED MARCH 31

	Previous fiscal year (From April 1, 2008 to March 31, 2009)	Current fiscal year (From April 1, 2009 to March 31, 2010)	Current fiscal year (From April 1, 2009 to March 31, 2010)
	Millions of yen	Millions of yen	Thousands of U.S. dollars
<b>Shareholders' equity</b>			
Common stock			
Opening balance	32,626	<b>33,039</b>	<b>355,259</b>
Change of items during the fiscal year			
Issuance of new stocks	412	<b>200</b>	<b>2,152</b>
Total changes of items during the fiscal year	412	<b>200</b>	<b>2,152</b>
<b>Ending balance</b>	<b>33,039</b>	<b>33,239</b>	<b>357,411</b>
Capital surplus			
Opening balance	20,344	<b>21,129</b>	<b>227,194</b>
Change of items during the fiscal year			
Issuance of new stocks	411	<b>199</b>	<b>2,148</b>
Disposition of treasury stock	0	<b>0</b>	<b>0</b>
Increase by stock exchange	372	—	—
Total changes of items during the fiscal year	784	<b>199</b>	<b>2,148</b>
<b>Ending balance</b>	<b>21,129</b>	<b>21,328</b>	<b>229,343</b>
Retained earnings			
Opening balance	11,631	<b>17,000</b>	<b>182,796</b>
Decrease by change in accounting policies for foreign subsidiaries [Notes 7 (4)]	(546)	<b>(74)</b>	<b>(796)</b>
Change of items during the fiscal year			
Cash dividends [Notes 7 (3)]	(2,148)	<b>(1,831)</b>	<b>(19,691)</b>
Net income	8,063	<b>2,167</b>	<b>23,308</b>
Total changes of items during the fiscal year	5,915	<b>336</b>	<b>3,616</b>
<b>Ending balance</b>	<b>17,000</b>	<b>17,262</b>	<b>185,616</b>
Treasury stock			
Opening balance	(8,155)	<b>(8,015)</b>	<b>(86,187)</b>
Change of items during the fiscal year			
Repurchase of treasury stock	(144)	<b>(5,125)</b>	<b>(55,117)</b>
Disposition of treasury stock	283	<b>0</b>	<b>3</b>
Total changes of items during the fiscal year	139	<b>(5,125)</b>	<b>(55,114)</b>
<b>Ending balance</b>	<b>(8,015)</b>	<b>(13,141)</b>	<b>(141,302)</b>
Total shareholders' equity			
Opening balance	56,447	<b>63,152</b>	<b>679,062</b>
Decrease by change in accounting policies for foreign subsidiaries	(546)	<b>(74)</b>	<b>(796)</b>
Change of items during the fiscal year			
Issuance of new stocks	823	<b>400</b>	<b>4,301</b>
Cash dividends	(2,148)	<b>(1,831)</b>	<b>(19,691)</b>
Net income	8,063	<b>2,167</b>	<b>23,308</b>
Repurchase of treasury stock	(144)	<b>(5,125)</b>	<b>(55,117)</b>
Disposition of treasury stock	284	<b>0</b>	<b>3</b>
Increase by stock exchange	372	—	—
Total changes of items during the fiscal year	7,252	<b>(4,389)</b>	<b>(47,196)</b>
<b>Ending balance</b>	<b>63,152</b>	<b>58,689</b>	<b>631,068</b>

The accompanying notes are an integral part of these financial statements.

	Previous fiscal year (From April 1, 2008 to March 31, 2009)	Current fiscal year (From April 1, 2009 to March 31, 2010)	Current fiscal year (From April 1, 2009 to March 31, 2010)
	Millions of yen	Millions of yen	Thousands of U.S. dollars
<b>Valuation and translation adjustments</b>			
Net unrealized gain or loss on securities, net of tax			
Opening balance	127	<b>(12)</b>	<b>(138)</b>
Change of items during the fiscal year			
Net changes of items other than shareholders' equity	(140)	<b>32</b>	<b>350</b>
Total changes of items during the fiscal year	(140)	<b>32</b>	<b>350</b>
<b>Ending balance</b>	<b>(12)</b>	<b>19</b>	<b>212</b>
Deferred hedges, net of tax			
Opening balance	0	—	—
Change of items during the fiscal year			
Net changes of items other than shareholders' equity	(0)	—	—
Total changes of items during the fiscal year	(0)	—	—
<b>Ending balance</b>	<b>—</b>	<b>—</b>	<b>—</b>
Cumulative translation adjustments			
Opening balance	(2,914)	<b>(3,790)</b>	<b>(40,755)</b>
Change of items during the fiscal year			
Net changes of items other than shareholders' equity	(875)	<b>(962)</b>	<b>(10,346)</b>
Total changes of items during the fiscal year	(875)	<b>(962)</b>	<b>(10,346)</b>
<b>Ending balance</b>	<b>(3,790)</b>	<b>(4,752)</b>	<b>(51,101)</b>
Total valuation and translation adjustments			
Opening balance	(2,787)	<b>(3,803)</b>	<b>(40,894)</b>
Change of items during the fiscal year			
Net changes of items other than shareholders' equity	(1,015)	<b>(929)</b>	<b>(9,995)</b>
Total changes of items during the fiscal year	(1,015)	<b>(929)</b>	<b>(9,995)</b>
<b>Ending balance</b>	<b>(3,803)</b>	<b>(4,732)</b>	<b>(50,889)</b>
Total net assets			
Opening balance	53,660	<b>59,349</b>	<b>638,168</b>
Decrease by change in accounting policies for foreign subsidiaries	(546)	<b>(74)</b>	<b>(796)</b>
Change of items during the fiscal year			
Issuance of new stocks	823	<b>400</b>	<b>4,301</b>
Cash dividends	(2,148)	<b>(1,831)</b>	<b>(19,691)</b>
Net income	8,063	<b>2,167</b>	<b>23,308</b>
Repurchase of treasury stock	(144)	<b>(5,125)</b>	<b>(55,117)</b>
Disposition of treasury stock	284	<b>0</b>	<b>3</b>
Increase by stock exchange	372	—	—
Net changes of items other than shareholders' equity	(1,015)	<b>(929)</b>	<b>(9,995)</b>
Total changes of items during the fiscal year	6,236	<b>(5,318)</b>	<b>(57,191)</b>
<b>Ending balance</b>	<b>59,349</b>	<b>53,956</b>	<b>580,179</b>

The accompanying notes are an integral part of these financial statements.

# Consolidated Statements of Cash Flows

CAPCOM CO., LTD. AND ITS CONSOLIDATED SUBSIDIARIES. MARCH 31, 2010 AND 2009

	Previous fiscal year (From April 1, 2008 to March 31, 2009)	Current fiscal year (From April 1, 2009 to March 31, 2010)	Current fiscal year (From April 1, 2009 to March 31, 2010)
	Millions of yen	Millions of yen	Thousands of U.S. dollars
<b>I Cash flows from operating activities :</b>			
1 Net income before income taxes	12,448	1,124	12,089
2 Depreciation and amortization	4,143	3,368	36,220
3 Impairment loss	1,146	223	2,408
4 Amortization of goodwill	481	229	2,464
5 Decrease in allowance for doubtful accounts	(198)	(351)	(3,780)
6 Decrease (increase) in accrued bonuses	43	(755)	(8,124)
7 Decrease in allowance for sales returns	(91)	(222)	(2,394)
8 Increase in accrued retirement benefits for employees	119	216	2,331
9 Decrease (increase) in accrued retirement benefits for directors	34	(406)	(4,370)
10 Interest and dividend income	(923)	(438)	(4,709)
11 Interest expense	86	165	1,779
12 Exchange loss, net	40	162	1,746
13 Equity in net losses of affiliates	553	—	—
14 Loss on sales and/or disposal of fixed assets	44	76	821
15 Gain on sales of investment in securities	(0)	—	—
16 Loss on revaluation of investments in securities	13	5	54
17 Gain on collection of receivable written off	(58)	—	—
18 Loss on settlement of litigation	126	152	1,636
19 Loss on restructuring	—	4,182	44,968
20 Decrease (increase) in notes and accounts receivable, trade	(14,933)	20,897	224,702
21 Decrease (increase) in inventories	(2,345)	1,095	11,775
22 Increase in work-in-progress for game software	(4,052)	(5,545)	(59,630)
23 Decrease (increase) in notes and accounts payable, trade	2,945	(5,952)	(64,010)
24 Increase in other current assets	(134)	(230)	(2,477)
25 Decrease (increase) in other current liabilities	1,104	(1,296)	(13,945)
26 Bonuses to directors	(84)	(84)	(904)
27 Other	(701)	225	2,421
Sub total	(192)	16,839	181,072
28 Interest and dividends received	948	335	3,609
29 Interest paid	(88)	(167)	(1,804)
30 Payment for settlement of litigation	(126)	—	—
31 Income taxes paid	(1,092)	(2,687)	(28,896)
<b>Net cash provided by (used in) operating activities</b>	<b>(551)</b>	<b>14,320</b>	<b>153,980</b>
<b>II Cash flows from investing activities :</b>			
1 Payment for acquisition of tangible fixed assets	(2,419)	(1,693)	(18,211)
2 Proceeds from sales of tangible fixed assets	24	0	4
3 Payment for acquisition of intangible assets	(964)	(289)	(3,109)
4 Payment for purchase of investments in securities	(12)	(12)	(132)
5 Proceeds from sales of investments in securities	4	—	—
6 Collection of loans receivable	436	44	476
7 Purchase of investments in subsidiaries	(18)	—	—
8 Payment for other investing activities	(118)	(225)	(2,421)
9 Proceeds from other investing activities	352	557	5,991
<b>Net cash used in investing activities</b>	<b>(2,715)</b>	<b>(1,618)</b>	<b>(17,402)</b>
<b>III Cash flows from financing activities :</b>			
1 Proceeds from short-term borrowings	15,000	—	—
2 Repayments of short-term borrowings	(6)	(2,555)	(27,478)
3 Proceeds from long-term borrowings	4,400	—	—
4 Repayments of long-term borrowings	(2,119)	(711)	(7,649)
5 Repayments of lease obligations	(334)	(525)	(5,647)
6 Redemption of convertible bonds	(14,993)	—	—
7 Proceeds from sales of treasury stock	1	0	3
8 Payment for repurchase of treasury stock	(144)	(5,125)	(55,117)
9 Dividends paid by parent company	(2,147)	(1,829)	(19,669)
<b>Net cash used in financing activities</b>	<b>(342)</b>	<b>(10,747)</b>	<b>(115,560)</b>
<b>IV Effect of exchange rate changes on cash and cash equivalents</b>	<b>(845)</b>	<b>(751)</b>	<b>(8,076)</b>
<b>V Net increase (decrease) in cash and cash equivalents</b>	<b>(4,454)</b>	<b>1,203</b>	<b>12,941</b>
<b>VI Cash and cash equivalents at beginning of year</b>	<b>32,763</b>	<b>28,611</b>	<b>307,652</b>
<b>VII Increase due to change in scope of consolidated subsidiaries</b>	<b>302</b>	<b>—</b>	<b>—</b>
<b>VIII Cash and cash equivalents at end of year [Note 8 (1)]</b>	<b>28,611</b>	<b>29,815</b>	<b>320,594</b>

The accompanying notes are an integral part of these financial statements.

## 1. Major policies in preparing consolidated financial statements:

The accompanying consolidated financial statements of CAPCOM CO., LTD. (hereinafter referred to as the "Company") and its subsidiaries are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Act.

Each amount in the consolidated financial statements and notes is rounded down to the nearest 1 million yen (in the case of translation into U.S. dollar, it is rounded down to 1 thousand dollars).

The rate of ¥93=U.S.\$1, the approximate current rate of exchange prevailing on March 31, 2010, has been used for the purpose of presentation of the U.S. dollar amounts in the accompanying consolidated financial statements. These U.S. dollar amounts are included solely for convenience and should not be construed as representations that the Japanese yen amounts actually represent, have been or could be converted into U.S. dollars at this or any other rate.

## 2. Significant accounting policies:

### (1) Principles of consolidation

The consolidated financial statements consist of the accounts of the Company and those of its 13 majority-owned subsidiaries (all 14 companies are referred to collectively as the "Companies") at the relevant balance sheet date.

All significant inter-company transactions and accounts have been eliminated.

The investment in 20% to 50% owned companies (hereinafter referred to as "Affiliated companies") are, with minor exceptions, accounted for under the equity method.

The 13 subsidiaries are as follows:

CAPCOM U.S.A., INC. (U.S.A.)  
CAPCOM ENTERTAINMENT, INC. (U.S.A.)  
CAPCOM INTERACTIVE, INC. (U.S.A.)  
CAPCOM INTERACTIVE CANADA, INC. (Canada)  
CE EUROPE LTD. (U.K.)  
CEG INTERACTIVE ENTERTAINMENT GmbH (Germany)  
CAPCOM ENTERTAINMENT FRANCE SAS (France)  
CAPCOM ASIA CO., LTD. (Hong Kong)  
CAPCOM ENTERTAINMENT KOREA CO., LTD. (South Korea)  
CAPTRON CO., LTD. (Japan)  
DALETTO, CO., LTD. (Japan)  
K2 CO., LTD. (Japan)  
ENTERRISE CO., LTD. (Japan)

An affiliated company accounted for under the equity method is as follows:

STREET FIGHTER FILM, LLC (U.S.A.)

DELLGAMADAS CO., LTD., which is an affiliated company, is not accounted for under the equity method, as its impact is not significant to the consolidated net income or loss, or consolidated retained earnings.

### (2) Investments in securities

Available-for-sale securities whose fair values are readily determinable are stated at fair value at the fiscal year end.

Net unrealized gains or losses on these securities are recorded as a separate component of "Net assets", at the net of tax amount.

The cost of securities sold is determined based on the average cost of all such securities held at the time of sale.

Other securities whose fair values are not readily determinable are stated at cost, cost being determined by the average cost method.

### (3) Inventories ("Merchandise and finished goods", "Work-in-progress", "Raw materials and supplies") and "Work-in-progress for game software"

Inventories are stated at the acquisition cost, cost being principally determined by the moving average cost method. (Inventories are stated at cost with the book value reduction method based on a decline in profitability for balance sheet carrying amounts.)

Work-in-progress for game software, including development costs incurred by subcontractors for game machines, are stated at accumulated cost on a specific project basis. (Work-in-progress for game software are stated at cost with the book value reduction method based on a decline in profitability for balance sheet carrying amounts.)

### (4) Tangible fixed assets, except for leased assets

Tangible fixed assets are stated at cost. The Company and its domestic subsidiaries compute depreciation of tangible fixed assets using the declining balance method at rates based on the estimated useful lives of the respective assets, except for buildings (excluding leasehold improvements and auxiliary facilities attached to buildings), for which depreciation is computed using the straight-line method. Foreign subsidiaries, except for some subsidiaries, compute depreciation on a straight-line basis.

The primary useful lives are as follows:

Buildings and structures	3-50 years
Equipment for amusement facilities	3-20 years

### (5) Intangible assets, except for leased assets

Amortization of intangible assets is computed by the straight-line method.

The amortization period, except for computer software and online game contents, is based upon the individual estimated useful lives of the assets.

The amortization period for computer software and online game contents is based upon the estimated period of internal use (2 to 5 years), and the estimated period of online game services (2 to 3 years), respectively.



## (6) Leased assets

Depreciation of leased assets is computed by the straight-line method with lease term regarded as useful lives and residual value at zero.

In the case there is any contract on guaranteed residual value for the lease, such guaranteed residual value is used as accounting residual one.

Leases that do not transfer ownership of the leased assets to the lessee as part of the lease, the contracts of which were made on or before March 31, 2008, are accounted for in a similar manner with ordinary rental transactions.

## (7) Allowance for doubtful accounts

The allowance for doubtful accounts is calculated based on the prior loss experience and the estimated amount of probable individual bad debts at the fiscal year end.

This amount is considered sufficient to cover possible losses on collection.

## (8) Accrued bonuses

Accrued bonuses are stated at the estimated amount of the bonus to be paid to employees based on their services provided during the fiscal year.

## (9) Accrued retirement benefits for employees

The accrual for retirement benefits for employees is calculated based on the estimated amount of projected benefit obligations and the fair value of the plan assets at the year-end.

The unrecognized net transition obligation (¥552 million (\$5,940 thousand)) is amortized over 15 years.

Unrecognized actuarial net gains or losses are amortized over 9 years, the average remaining service period, commencing from the following year in which they arise.

## (10) Accrued retirement benefits for directors

The Company and some of its domestic subsidiaries have so far estimated accrued retirement benefits for directors and corporate auditors in preparation for the future payment based on their service rendered. However, the Company and its domestic subsidiaries have decided to abolish the retirement benefits plans for directors and corporate auditors based on the resolution of each general shareholders' meeting. The balance of the accrued retirement benefits for directors is disclosed on the "Other" of the long-term liabilities, and its payment for their service rendered up to the date of the above resolution is to be made when they retire.

## (11) Allowance for sales returns

The allowance for sales returns is provided for estimated losses resulting from sales returns subsequent to the balance sheet date and is based on prior loss experience.

## (12) Accounting for consumption taxes

Consumption taxes on goods and services are not included in the revenue and expense amounts in the accompanying consolidated statements of income.

## (13) Valuation of assets and liabilities of consolidated subsidiaries

Assets and liabilities of consolidated subsidiaries acquired through business combinations are recorded at fair value at the time of acquisition.

## (14) Amortization of goodwill

Goodwill is amortized by the straight-line method over 3 years.

In the case its amount is minor, it is amortized at one time.

## (15) Cash and cash equivalents in the consolidated statements of cash flows

Cash and cash equivalents include all highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and are so near maturity that they present an insignificant risk of change in value.

## 3. Changes in accounting policies

### (1) Accrued retirement benefits for employees

Effective from the fiscal year ended March 31, 2010, the Company and its domestic subsidiaries adopted "Partial Amendments to Accounting Standard for Retirement Benefits (Part3)." (The Accounting Standard Board of Japan (hereinafter referred to as "ASBJ") Statement No.19 issued on July 31, 2008).

This accounting change has no impact on the amounts of operating income, ordinary income and net income before income taxes as well as the balance of projected benefit obligations.

## 4. Changes in presentation

### (1) Consolidated statements of income

"Commission", which was included in "Other" in the fiscal year ended March 31, 2009 has been disclosed separately, as its amount has exceeded 10% of the total non-operating expenses.

The amount of "Commission" reported as "Other" in the previous fiscal year was ¥112 million.

**5. Notes to consolidated balance sheets****(1) Accumulated depreciation of tangible fixed assets**

	Previous fiscal year (As of March 31, 2009)	Current fiscal year (As of March 31, 2010)	Current fiscal year (As of March 31, 2010)
	Millions of yen	Millions of yen	Thousands of U.S. dollars
Accumulated depreciation of tangible fixed assets	14,431	<b>16,105</b>	<b>173,180</b>

(Note) The above balance for the current fiscal year includes the accumulated impairment loss of tangible fixed assets.

**(2) Pledged assets and secured debts**

	Previous fiscal year (As of March 31, 2009)	Current fiscal year (As of March 31, 2010)	Current fiscal year (As of March 31, 2010)
	Millions of yen	Millions of yen	Thousands of U.S. dollars
① Pledged assets			
Land	3,902	<b>3,902</b>	<b>41,960</b>
Buildings	4,604	<b>4,411</b>	<b>47,435</b>
Total	8,507	<b>8,313</b>	<b>89,396</b>
② Secured debts			
Long-term borrowings due within one year	700	<b>700</b>	<b>7,526</b>
Long-term borrowings	2,030	<b>1,330</b>	<b>14,301</b>
Total	2,730	<b>2,030</b>	<b>21,827</b>

**(3) Investments in affiliated companies**

	Previous fiscal year (As of March 31, 2009)	Current fiscal year (As of March 31, 2010)	Current fiscal year (As of March 31, 2010)
	Millions of yen	Millions of yen	Thousands of U.S. dollars
Investments in securities	5	<b>0</b>	<b>0</b>

**(4) Credit line**

The Company has entered into a line of credit agreement with its banks by syndicate financing for the purpose of efficient and sustainable financing, and improvement of efficiency of funds operations and the company's financial flexibility.

The credit line under this contract and the unexercised balance at the end of the fiscal year are shown below:

	Previous fiscal year (As of March 31, 2009)	Current fiscal year (As of March 31, 2010)	Current fiscal year (As of March 31, 2010)
	Millions of yen	Millions of yen	Thousands of U.S. dollars
Total credit line	25,000	<b>26,500</b>	<b>284,946</b>
Borrowings	15,000	<b>12,500</b>	<b>134,408</b>
Unexercised balance	10,000	<b>14,000</b>	<b>150,537</b>

**6. Notes to consolidated statements of income**

(1) Major items and the amounts under "Selling, general and administrative expenses"

	Previous fiscal year (From April 1, 2008) (to March 31, 2009)	Current fiscal year (From April 1, 2009) (to March 31, 2010)	Current fiscal year (From April 1, 2009) (to March 31, 2010)
	Millions of yen	Millions of yen	Thousands of U.S. dollars
Advertising expenses	4,916	<b>3,680</b>	<b>39,574</b>
Promotion expenses	1,899	<b>1,619</b>	<b>17,411</b>
Salaries and bonuses	4,175	<b>4,473</b>	<b>48,102</b>
Depreciation and amortization	859	<b>844</b>	<b>9,078</b>
Provision for accrued bonuses	797	<b>469</b>	<b>5,044</b>
Provision for retirement benefits for employees	68	<b>94</b>	<b>1,018</b>
Provision for retirement benefits for directors	48	—	—
Commissions	1,747	<b>1,212</b>	<b>13,034</b>
Research and development expenses	2,329	<b>2,125</b>	<b>22,859</b>

(2) The breakdown of "Loss on sales and / or disposal of fixed assets"

	Previous fiscal year (From April 1, 2008) (to March 31, 2009)	Current fiscal year (From April 1, 2009) (to March 31, 2010)	Current fiscal year (From April 1, 2009) (to March 31, 2010)
	Millions of yen	Millions of yen	Thousands of U.S. dollars
Tools, fixtures and furniture	9	<b>16</b>	<b>182</b>
Equipment for amusement facilities	24	<b>7</b>	<b>78</b>
Software	—	<b>48</b>	<b>516</b>
Other	10	<b>4</b>	<b>44</b>
Total	44	<b>76</b>	<b>821</b>

(3) Research and development expenses included in general and administrative expenses

	Previous fiscal year (From April 1, 2008) (to March 31, 2009)	Current fiscal year (From April 1, 2009) (to March 31, 2010)	Current fiscal year (From April 1, 2009) (to March 31, 2010)
	Millions of yen	Millions of yen	Thousands of U.S. dollars
Research and development expenses	2,329	<b>2,125</b>	<b>22,859</b>

(4) Impairment loss

The assets, for which the impairment losses were recognized, are as follows.

Usage	Account	Previous fiscal year (From April 1, 2008 to March 31, 2009)	Current fiscal year (From April 1, 2009 to March 31, 2010)	Current fiscal year (From April 1, 2009 to March 31, 2010)
		Millions of yen	Millions of yen	Thousands of U.S. dollars
Online game contents etc.	"Other" of intangible assets etc.	866	—	—
Assets to be disposed of etc.	Equipment for amusement facilities	280	<b>124</b>	<b>1,339</b>
Assets to be disposed of etc.	Tools, fixtures and furniture	0	—	—
Assets to be disposed of etc.	Rental equipment	—	<b>47</b>	<b>515</b>
Assets to be disposed of etc.	Leased assets	—	<b>37</b>	<b>399</b>
Idle assets	Land	—	<b>5</b>	<b>54</b>
Other	Goodwill	—	<b>9</b>	<b>98</b>



To measure an impairment, assets are principally grouped based on business segments such as "Home video games", "Arcade games", etc. Whereas, rental assets, idle assets and online game contents are evaluated as separate groups.

(Previous fiscal year)

The Companies amended the revenue forecast for the online game contents etc.

As a result of the amendment, the Companies wrote down the book value of the online game contents etc. to the recoverable value to recognize the impairment loss as shown above. The recoverable value for the online game contents etc. was computed based on their value in use, which was estimated at zero.

The Companies made a decision on closing some amusement facilities.

As a result of the decision, the Companies did not make sure of recoverabilities of the book value of the assets to be disposed of etc. to recognize the impairment loss as shown above. The recoverable value for assets to be disposed of etc. was estimated at zero.

(Current fiscal year)

The Companies made a decision on disposing of some "assets to be disposed of etc".

As a result of the decision, the Companies did not make sure of recoverabilities of the book value of the assets to be disposed of etc. to recognize the impairment loss as shown above. The recoverable value for the assets to be disposed of etc. was estimated at zero.

The Companies appraised the idle assets.

As a result of the appraisal, the Companies did not make sure of recoverabilities of the book value of the idle assets to recognize the impairment loss as shown above.

The recoverable value for the idle assets was computed based on their net realizable value, which was appraised by a real estate appraiser.

The Companies faced remarkable changes in business environment due to their business restructuring.

As a result of the change, the Companies did not make sure of recoverabilities of the book value of the goodwill to recognize the impairment loss as shown above.

The recoverable value for the goodwill was estimated at zero.

#### (5) Loss on restructuring

The Companies examined profitability for each business segment, and restructured the developmental organization of the pachinko and pachislot business etc.

As a result, the Companies wrote down some of the assets and booked ¥4,182 million (\$44,968 thousand) of loss on restructuring for the current fiscal year.

## 7. Notes to consolidated statements of changes in net assets

Previous fiscal year (From April 1, 2008 to March 31, 2009)

### (1) Number of outstanding shares

Type of share	Number of shares as of March 31, 2008	Increase in the number of shares	Decrease in the number of shares	Number of shares as of March 31, 2009
Common stock (thousands shares)	66,719	675	—	<b>67,394</b>

(Note) The reasons for the increase in the number of shares are as follows.

Increase due to issuance of new shares by the exercise of conversion rights 673 thousands shares

### (2) Number of treasury stocks

Type of share	Number of shares as of March 31, 2008	Increase in the number of shares	Decrease in the number of shares	Number of shares as of March 31, 2009
Common stock (thousands shares)	5,820	43	202	<b>5,660</b>

(Note) The reasons for the increase or decrease in the number of shares are as follows.

Increase due to purchase of less-than-one-unit shares 6 thousands shares

Increase due to request for purchase of shares by shareholders 36 thousands shares

Decrease due to stock exchange with K2., CO. LTD. 201 thousands shares

### (3) Dividend

#### ① Amount of dividends paid

Resolution	Type of share	Amount of dividends	Dividend per share (yen)	Record date	Effective date
General shareholders' meeting held on June 19, 2008	Common stock	¥913 million	15	March 31, 2008	June 20, 2008 (Effective after the meeting)
Board of directors' meeting held on November 5, 2008	Common stock	¥1,234 million	20	September 30, 2008	November 28, 2008

#### ② Dividends whose effective date is after the end of previous fiscal year and record date is included in the previous fiscal year.

Resolution	Type of share	Amount of dividends	Source of dividends	Dividend per share (yen)	Record date	Effective date
General shareholders' meeting held on June 17, 2009	Common stock	¥926 million	Retained earnings	15	March 31, 2009	June 18, 2009

**Current fiscal year (From April 1, 2009 to March 31, 2010)**
**(1) Number of outstanding shares**

Type of share	Number of shares as of March 31, 2009	Increase in the number of shares	Decrease in the number of shares	Number of shares as of March 31, 2010
Common stock (thousands shares)	67,394	328	—	<b>67,723</b>

(Note) The reasons for the increase in the number of shares are as follows.

Increase due to issuance of new shares by the exercise of conversion rights      328 thousands shares

**(2) Number of treasury stocks**

Type of share	Number of shares as of March 31, 2009	Increase in the number of shares	Decrease in the number of shares	Number of shares as of March 31, 2010
Common stock (thousands shares)	5,660	2,975	0	<b>8,636</b>

(Note) The reasons for the increase in the number of shares are as follows.

Increase due to purchase of less-than-one-unit shares      1 thousands shares  
Increase due to repurchase of treasury stocks      2,974 thousands shares

**(3) Dividend**
**① Amount of dividends paid**

Resolution	Type of share	Amount of dividends	Dividend per share (yen)	Record date	Effective date
General shareholders' meeting held on June 17, 2009	Common stock	¥926 million	15	March 31, 2009	June 18, 2009 (Effective after the meeting)
Board of directors' meeting held on October 29, 2009	Common stock	¥905 million	15	September 30, 2009	November 20, 2009

Resolution	Type of share	Amount of dividends	Dividend per share (U.S. dollars)	Record date	Effective date
General shareholders' meeting held on June 17, 2009	Common stock	\$9,957 thousand	0.16	March 31, 2009	June 18, 2009 (Effective after the meeting)
Board of directors' meeting held on October 29, 2009	Common stock	\$9,734 thousand	0.16	September 30, 2009	November 20, 2009

**② Dividends whose effective date is after the end of current fiscal year and record date is included in the current fiscal year.**

Resolution	Type of share	Amount of dividends	Source of dividends	Dividend per share (yen)	Record date	Effective date
General shareholders' meeting held on June 18, 2010	Common stock	¥1,181 million	Retained earnings	20	March 31, 2010	June 21, 2010

Resolution	Type of share	Amount of dividends	Source of dividends	Dividend per share (U.S. dollars)	Record date	Effective date
General shareholders' meeting held on June 18, 2010	Common stock	\$12,706 thousand	Retained earnings	0.22	March 31, 2010	June 21, 2010

**(4) Decrease by change in accounting policies for foreign subsidiaries**

The Company's U.S. and Canadian subsidiaries adopted "Accounting for Uncertainty in Income Taxes - an Interpretation of FASB statement No.109" (FASB Interpretation (FIN) No. 48) effective from the fiscal year ended 31 March, 2010.

As a result, the Companies booked ¥74 million (\$ 796 thousand) of decrease in retained earnings as the cumulative effect up to the end of the previous fiscal year.

**8. Notes to consolidated statements of cash flows****(1) Cash and cash equivalents at end of year**

	Previous fiscal year (As of March 31, 2009)	Current fiscal year (As of March 31, 2010)	Current fiscal year (As of March 31, 2010)
	Millions of yen	Millions of yen	Thousands of U.S. dollars
Cash on hand and in banks	28,611	<b>29,865</b>	<b>321,136</b>
Time deposits with maturities over three months	—	<b>(50)</b>	<b>(541)</b>
Cash and cash equivalents	28,611	<b>29,815</b>	<b>320,594</b>

**(2) Significant non-cash transactions during the fiscal year**

The Companies booked ¥1,581 million of the acquisition cost of the leased assets for the previous fiscal year and ¥237 million (\$2,549 thousand) for the current fiscal year.

**9. Accounting for leases****(1) Capital leases that do not transfer ownership of the leased assets to lessees, the contracts of which were made on or before March 31, 2008.****① Acquisition cost, accumulated depreciation, and net book value at the fiscal year end for the leased assets**

	Previous fiscal year (From April 1, 2008 to March 31, 2009)			Current fiscal year (From April 1, 2009 to March 31, 2010)			Current fiscal year (From April 1, 2009 to March 31, 2010)		
	Millions of yen			Millions of yen			Thousands of U.S. dollars		
	Estimated acquisition cost	Accumulated depreciation	Estimated value	Estimated acquisition cost	Accumulated depreciation	Estimated value	Estimated acquisition cost	Accumulated depreciation	Estimated value
Machinery and vehicles	13	6	7	<b>13</b>	<b>9</b>	<b>4</b>	<b>144</b>	<b>97</b>	<b>47</b>
Tools, fixtures and furniture	212	111	101	<b>145</b>	<b>80</b>	<b>65</b>	<b>1,566</b>	<b>864</b>	<b>701</b>
Equipment for amusement facilities	3,972	2,399	1,572	<b>2,071</b>	<b>1,512</b>	<b>559</b>	<b>22,275</b>	<b>16,260</b>	<b>6,014</b>
Total	4,198	2,517	1,680	<b>2,230</b>	<b>1,601</b>	<b>629</b>	<b>23,985</b>	<b>17,221</b>	<b>6,763</b>

(Note) The assumed interest paid is excluded from the above acquisition cost.

**② Future lease payments**

	Previous fiscal year (From April 1, 2008 to March 31, 2009)	Current fiscal year (From April 1, 2009 to March 31, 2010)	Current fiscal year (From April 1, 2009 to March 31, 2010)
	Millions of yen	Millions of yen	Thousands of U.S. dollars
Due within one year	1,018	<b>533</b>	<b>5,733</b>
Due over one year	675	<b>119</b>	<b>1,282</b>
Total	1,694	<b>652</b>	<b>7,016</b>

(Note) The assumed interest paid is excluded from the above balance.

**③ Lease payments, depreciation expense, estimated interest expense and impairment loss**

	Previous fiscal year (From April 1, 2008 to March 31, 2009)	Current fiscal year (From April 1, 2009 to March 31, 2010)	Current fiscal year (From April 1, 2009 to March 31, 2010)
	Millions of yen	Millions of yen	Thousands of U.S. dollars
Lease payments	1,560	<b>978</b>	<b>10,522</b>
Depreciation expense	1,447	<b>938</b>	<b>10,092</b>
Estimated interest expense	57	<b>27</b>	<b>292</b>



④ Calculation method of assumed amount of depreciation and interest paid

• Depreciation:

Straight-line method using leasing term as asset life with residual value of zero.

• Interest expense:

Interest method with the assumed interest expense allocated to each fiscal year.

(2) Capital leases, the contracts of which were made on or after April 1, 2008.

① Capital leases that transfer ownership of the leased assets to lessees

Not applicable

② Capital leases that do not transfer ownership of the leased assets to lessees

• Leased assets:

Tangible fixed assets

Major assets are equipment for amusement facilities for the business segment of Arcade operations.

• Depreciation method:

Depreciation expense of leased assets is computed by the straight-line method with lease term regarded as useful lives and residual value at zero.

In the case there are any leases with guaranteed residual value, such value is regarded as accounting residual one.

(3) Operating leases

① Future lease payments

	Previous fiscal year (From April 1, 2008 to March 31, 2009)	Current fiscal year (From April 1, 2009 to March 31, 2010)	Current fiscal year (From April 1, 2009 to March 31, 2010)
	Millions of yen	Millions of yen	Thousands of U.S. dollars
Due within one year	225	<b>234</b>	<b>2,521</b>
Due over one year	790	<b>581</b>	<b>6,255</b>
Total	1,015	<b>816</b>	<b>8,777</b>

(For impairment loss)

No impairment losses were recognized for leased assets.

## 10. Financial instruments

(1) Current fiscal year (From April 1, 2009 to March 31, 2010)

① Conditions of financial instruments

(1) Management policy

The Companies' fund management policy is to invest in financial instruments that have high levels of safety concerning the repayment of the principal and the receipt of the interest, taking safety, liquidity (negotiability, marketability) and profitability into consideration.

The Companies raise funds through borrowings from financial institutions, such as banks etc.

The Companies also utilize derivative financial instruments in order to hedge foreign currency exchange risk and interest fluctuation rate risk, and do not enter into derivative financial instruments for speculative purposes.

(2) Financial instruments, risks, and risk management

Notes and accounts receivable, trade are exposed to credit risk of customers. To minimize such risk, the Companies regularly monitor credit status of major customers as well as perform due date control and balance control for each customer according to importance of business in accordance with credit exposure management rules.

The investments in securities the Company holds mainly consist of listed equity securities of its business partners. These securities are exposed to stock price volatility risk. To minimize such risk, the Company states the fair value of these securities on a quarterly basis to report it to the board of directors' meeting.

As for notes and accounts payable, trade, due date of payment is within one year.

Short-term borrowings are mainly for fund raising related to normal operating activities, and long-term borrowings are mainly for fund raising related to capital investments.

Notes and accounts payable, trade and borrowings are exposed to liquidity risk. The Companies minimize such risk by forecasting cash flows on a monthly basis.

(3) Supplemental information on fair value of financial instruments  
Not applicable

② Fair value of financial instruments

The carrying value on the consolidated balance sheets, fair value, and differences as of March 31, 2010 are as follows.

	Millions of yen			Thousands of U.S. dollars		
	Carrying value	Fair value	Difference	Carrying value	Fair value	Difference
(1) Cash on hand and in banks	29,865	29,865	—	321,136	321,136	—
(2) Notes and accounts receivable, trade	6,288	6,288	—	67,621	67,621	—
(3) Lease deposits	5,266	5,056	(210)	56,633	54,368	(2,264)
Total	41,421	41,210	(210)	445,390	443,125	(2,264)
(1) Notes and accounts payable, trade	3,477	3,477	—	37,389	37,389	—
(2) Short-term borrowings	13,211	13,211	—	142,058	142,058	—
(3) Long-term borrowings	4,355	4,377	22	46,835	47,067	231
Total	21,044	21,065	22	226,283	226,515	231

(Note 1) Fair value measurement of financial instruments

Assets

(1) Cash on hand and in banks and (2) Notes and accounts receivable, trade

The fair value is assumed to be the same with carrying value, as it approximates fair value because of the short maturity of these instruments.

(3) Lease deposits

The fair value is measured at the present value of future cash flows discounted using the yield of a national government bond according to periods until repayments.

Liabilities

(1) Notes and accounts payable, trade and (2) Short-term borrowings

The fair value is assumed to be the same with carrying value, as it approximates fair value because of the short maturity of these instruments.

(3) Long-term borrowings

The fair value of long-term borrowings with variable interest rates is measured at carrying value, as it approximates fair value.

(The market interest rate fluctuation is reflected in the variable interest rate in short term and the credit status of the Company does not change remarkably after raising funds through long-term borrowings with variable interest rate.)

The fair value of long-term borrowings with fixed rate is measured at the present value of future cash flow (principal plus interest) discounted using the assumed interest rate of similar type of new borrowings.

(Note 2) Redemption schedule for monetary assets with maturity date subsequent to the consolidated balance sheets date

	Millions of yen			
	April 1, 2010 to March 31, 2011	April 1, 2011 to March 31, 2015	April 1, 2015 to March 31, 2020	April 1, 2020 and thereafter
(1) Cash on hand and in banks	29,865	—	—	—
(2) Notes and accounts receivable, trade	6,288	—	—	—
(3) Lease deposits	851	3,115	868	381
Total	37,005	3,115	868	381

	Thousands of U.S. dollars			
	April 1, 2010 to March 31, 2011	April 1, 2011 to March 31, 2015	April 1, 2015 to March 31, 2020	April 1, 2020 and thereafter
(1) Cash on hand and in banks	321,136	—	—	—
(2) Notes and accounts receivable, trade	67,621	—	—	—
(3) Lease deposits	9,151	33,499	9,339	4,105
Total	397,908	33,499	9,339	4,105

(Additional information)

Effective from the fiscal year ended 31 March, 2010, the Companies adopted "Accounting Standard for Financial Instruments" (ASBJ Statement No. 10, March 10, 2008) and "Guidance on Disclosures about Fair Value of Financial Instruments" (ASBJ Guidance No. 19 Guidance, March 10, 2008)

## 11. Investments in securities

(1) Previous fiscal year (From April 1, 2008 to March 31, 2009)

① Available-for-sale securities with a readily determinable fair value (As of March 31, 2009)

Classification	Millions of yen		
	Acquisition cost	Carrying value	Difference
Securities with book value exceeding their acquisition cost			
(1) Equity securities	39	76	37
(2) Bonds	—	—	—
(3) Others	—	—	—
Total	39	76	37
Securities with book value not exceeding their acquisition cost			
(1) Equity securities	335	285	(50)
(2) Bonds	—	—	—
(3) Others	—	—	—
Total	335	285	(50)

(Note) In regards to the impairment of stocks, impairment is recorded when the fair value of the stock falls below 50% of its cost at the end of the fiscal year.

In addition, unless the stock is recognized to have the potential for recovery, impairment is recorded when the rate of stock price decline is between 30% and 50% at the end of the fiscal year.

The recognition of impairment is determined after investigating related factors comprehensively. Among those factors are the comparison of the gap between market prices for a certain period and acquired prices, understanding of average market value of securities, and examination of various financial analysis data of listed companies.

② Investments in securities sold during the previous fiscal year

The note is omitted due to the minor of the total amount of gain or loss on sales of investments in securities.

③ Investments in securities without a readily determinable fair value (As of March 31, 2009)

Investments in securities

Unlisted equity securities ¥511 million

Investments in limited partnership ¥42 million

(2) Current fiscal year (From April 1, 2009 to March 31, 2010)

① Available-for-sale securities with a readily determinable fair value (As of March 31, 2010)

Classification	Millions of yen			Thousands of U.S. dollars		
	Acquisition cost	Carrying value	Difference	Acquisition cost	Carrying value	Difference
Securities with book value exceeding their acquisition cost						
(1) Equity securities	123	78	44	1,322	841	481
(2) Bonds	—	—	—	—	—	—
(3) Others	—	—	—	—	—	—
Total	123	78	44	1,322	841	481
Securities with book value not exceeding their acquisition cost						
(1) Equity securities	284	309	(24)	3,055	3,323	(268)
(2) Bonds	—	—	—	—	—	—
(3) Others	—	—	—	—	—	—
Total	284	309	(24)	3,055	3,323	(268)

(Note) In regards to the impairment of stocks, impairment is recorded when the fair value of the stock falls below 50% of its cost at the end of the fiscal year.

In addition, unless the stock is recognized to have the potential for recovery, impairment is recorded when the rate of stock price decline is between 30% and 50% at the end of the fiscal year.

The recognition of impairment is determined after investigating related factors comprehensively. Among those factors are the comparison of the gap between market prices for a certain period and acquired prices, understanding of average market value of securities, and examination of various financial analysis data of listed companies.

② Investments in securities sold during the current fiscal year

Not applicable



**12. Retirement benefits for employees****(1) Summary of retirement benefit plan**

The Company and its domestic subsidiaries have unfunded lump-sum benefit plans and funded non-contributory pension plans. Some foreign subsidiaries have defined contribution pension plans.

**(2) Accrued retirement benefits**

	Previous fiscal year (As of March 31, 2009)	Current fiscal year (As of March 31, 2010)	Current fiscal year (As of March 31, 2010)
	Millions of yen	Millions of yen	Thousands of U.S. dollars
A. Projected benefit obligations	(2,411)	<b>(2,699)</b>	<b>(29,027)</b>
B. Fair value of plan assets	692	<b>915</b>	<b>9,848</b>
C. Unfunded benefit obligations (A+B)	(1,719)	<b>(1,783)</b>	<b>(19,178)</b>
D. Unrecognized transition obligation	220	<b>184</b>	<b>1,980</b>
E. Unrecognized actuarial differences	326	<b>211</b>	<b>2,270</b>
F. Accrued pension liability recognized in the consolidated balance sheet (C+D+E)	(1,171)	<b>(1,388)</b>	<b>(14,928)</b>
G. Prepaid pension expenses	—	<b>0</b>	<b>5</b>
H. Accrued retirement benefits for employees (F - G)	(1,171)	<b>(1,388)</b>	<b>(14,933)</b>

(Note) Some subsidiaries apply simplified method to compute pension liabilities.

**(3) Retirement and pension cost**

	Previous fiscal year (From April 1, 2008 to March 31, 2009)	Current fiscal year (From April 1, 2009 to March 31, 2010)	Current fiscal year (From April 1, 2009 to March 31, 2010)
	Millions of yen	Millions of yen	Thousands of U.S. dollars
A. Service costs	203	<b>234</b>	<b>2,519</b>
B. Interest costs	27	<b>30</b>	<b>327</b>
C. Expected return on plan assets	(20)	<b>(17)</b>	<b>(186)</b>
D. Amortization of transition obligation	36	<b>36</b>	<b>396</b>
E. Amortization of actuarial differences	40	<b>69</b>	<b>747</b>
F. Net periodic benefit costs (A+B+C+D+E)	288	<b>353</b>	<b>3,804</b>

Previous fiscal year

Current fiscal year

(Note) 1. Some foreign subsidiaries have adopted defined contribution pension plans and contributed ¥21 million during the year.

2. Retirement cost for some subsidiaries which have adopted the simplified method are included in the "Service costs".

(Note) 1. Some foreign subsidiaries have adopted defined contribution pension plans and contributed ¥20 million (\$21 thousand) during the year.

2. The same with the previous fiscal year

**(4) Assumptions used in calculation of retirement benefits for employees**

	Previous fiscal year (From April 1, 2008 to March 31, 2009)	Current fiscal year (From April 1, 2009 to March 31, 2010)
A. Method of attributing the projected benefit obligations to periods of service	Straight-line	Straight-line
B. Discount rate	1.5%	1.5%
C. Long-term rate of return on plan assets	2.5%	2.5%
D. Amortization period for actuarial differences	9 years	9 years
	(based on the straight-line method over the average estimated service years of employees from the next fiscal period of year when the differences are computed.)	The same method with the previous fiscal year
E. Amortization period for transition obligation	15 years	15 years

**13. Accounting for income taxes**
**(1) Significant components of deferred tax assets and liabilities**

	Previous fiscal year (As of March 31, 2009)	Current fiscal year (As of March 31, 2010)	Current fiscal year (As of March 31, 2010)
	Millions of yen	Millions of yen	Thousands of U.S. dollars
(Deferred tax assets)			
Allowance for doubtful accounts	334	<b>447</b>	<b>4,807</b>
Accrued bonuses	714	<b>514</b>	<b>5,530</b>
Accrued retirement benefits for employees	475	<b>562</b>	<b>6,043</b>
Accrued retirement benefits for directors	165	<b>166</b>	<b>1,791</b>
Allowance for sales returns	127	<b>49</b>	<b>531</b>
Inventories	1,423	<b>2,136</b>	<b>22,972</b>
Prepaid expenses	213	<b>365</b>	<b>3,929</b>
Tax loss carry-forwards in the Company	342	—	—
Tax loss carry-forwards in the subsidiaries	1,919	<b>1,124</b>	<b>12,094</b>
Investments in subsidiaries and affiliated companies	225	<b>224</b>	<b>2,415</b>
Depreciation	271	<b>179</b>	<b>1,930</b>
Impairment loss	436	<b>384</b>	<b>4,134</b>
Tax credit	401	<b>170</b>	<b>1,832</b>
Other	1,436	<b>1,491</b>	<b>16,041</b>
Sub-total	8,487	<b>7,817</b>	<b>84,055</b>
Valuation allowance	(3,458)	<b>(2,679)</b>	<b>(28,813)</b>
Total deferred tax assets	5,029	<b>5,137</b>	<b>55,241</b>
(Deferred tax liabilities)			
Tax-deductible inventories for a foreign subsidiary	(1,073)	<b>(643)</b>	<b>(6,918)</b>
Other	(61)	<b>(12)</b>	<b>(130)</b>
Total deferred tax liabilities	(1,135)	<b>(655)</b>	<b>(7,048)</b>
Net deferred tax assets	3,894	<b>4,482</b>	<b>48,193</b>
Net deferred tax assets are reflected in the consolidated balance sheets as follows.			
Current assets—deferred tax assets	2,712	<b>3,204</b>	<b>34,460</b>
Non current assets—deferred tax assets	1,425	<b>1,339</b>	<b>14,407</b>
Current liabilities—deferred tax liabilities	(243)	<b>(58)</b>	<b>(629)</b>
Non current liabilities—deferred tax liabilities	—	<b>(4)</b>	<b>(45)</b>
Total	3,894	<b>4,482</b>	<b>48,193</b>

## (2) Reconciliation of the difference between the statutory tax rate and the effective income tax rate

	Previous fiscal year (As of March 31, 2009)	Current fiscal year (As of March 31, 2010)
	%	%
Statutory income tax rate	40.6	<b>40.6</b>
(Reconciliation)		
Change in valuation allowance	(2.6)	<b>47.7</b>
Tax credit	(3.3)	<b>12.8</b>
Amortization of goodwill	1.5	<b>8.6</b>
Different tax rates applied to foreign subsidiaries	(2.2)	<b>(2.7)</b>
Permanent difference (meals and entertainment etc.)	2.9	<b>3.2</b>
Unappropriated retained earnings of foreign subsidiaries	(0.4)	<b>(5.1)</b>
Tax adjustments resulting from consolidation elimination entries etc.	0.2	<b>(14.6)</b>
Income transferred from subsidiaries to the Company resulting from mutual agreement procedure of transfer pricing	—	<b>(110.1)</b>
Tax refund resulting from mutual agreement procedure of transfer pricing	—	<b>(75.0)</b>
Others	(1.5)	<b>1.8</b>
Effective income tax rate	35.2	<b>(92.8)</b>

**14. Business combinations**

Previous fiscal year (From April 1, 2008 to March 31, 2009)

**(Purchase method)**

(1) Name of acquired company and its business segment, purpose, date, legal form, name of acquired enterprise after business combination and ratio of acquired right to vote

① Name of acquired company and its business segment

Name of acquired company: K2 CO., LTD.

Business segment: Home video games (Game software development)

② Purpose of business combination

In order to implement the growth strategy of the Companies, it is essential to upgrade the development activities, which are the core competence for the Company. K2 CO., LTD. has a good and reliable track record in game software development consigned by the Company.

By Making this company a wholly owned subsidiary, the Companies are able to increase the entire corporate value, constructing the growth strategy with it and achieving efficient and flexible development of game software.

③ Date of business combination May 1, 2008

④ Legal form of business combination Stock exchange

⑤ Name of acquired company after business combination No change

⑥ Ratio of acquired right to vote 100%

(2) Business term of acquired enterprise reflected on consolidated financial statements  
From April 1, 2008 to March 31, 2009(3) Acquisition cost for acquired company and its detail Consideration  
The Company's common shares ¥655 million

(4) Exchange ratio of shares, its computation, number of shares granted and value

① Exchange ratio of shares

The Company's 3,362 common shares:

K2 CO., LTD's one common share

② Computation of exchange ratio of shares

The Company consigned the computation to a professional firm.

The Company and its counterparties negotiated and decided on the ratio based on the professional report.

③ Number of shares granted and value

Number of shares granted 201,720 shares

Value ¥655 million

(5) Amount of goodwill arisen, reason, and amortization method and period

① Amount of goodwill arisen ¥537 million

② Reason of goodwill arisen

The acquisition cost exceeded the fair value of the net asset for K2 CO., LTD. The difference was recognized as the goodwill.

③ Amortization method and period

Straight-line method over 3 years

Current fiscal year (From April 1, 2009 to March 31, 2010)

Not applicable

**15. Investment and rental property**

The note is omitted due to the minor of the total amount.

(Additional information)

Effective from the fiscal year ended 31 March, 2010, the Companies adopted "Accounting Standard for Disclosures about Fair Value of Investment and Rental property" (ASBJ Statement No. 20, November 28, 2008) and "Guidance on Accounting Standard for Disclosures about Fair Value of Investment and Rental property" (ASBJ Guidance No. 23, November 28, 2008)

## 16. Segment information

### (1) Business segments

#### ① Previous fiscal year (From April 1, 2008 to March 31, 2009)

	Millions of yen						Elimination and corporate	Consolidated total
	Home video games	Arcade operations	Arcade games	Contents expansion	Other businesses	Total		
I. Net sales and operating income								
Net sales								
(1) Customers	62,892	13,509	8,023	4,628	2,824	91,878	(—)	91,878
(2) Inter-segment	—	—	7	—	—	7	(7)	—
Total	62,892	13,509	8,031	4,628	2,824	91,885	(7)	91,878
Operating expenses	46,499	13,285	6,272	4,859	1,770	72,687	4,572	77,259
Operating income (loss)	16,392	224	1,758	(230)	1,053	19,198	(4,579)	14,618
II. Assets, depreciation, impairment loss and capital expenditures								
Total assets	46,602	11,595	6,171	6,342	2,436	73,148	33,062	106,210
Depreciation	864	2,050	229	348	242	3,736	406	4,143
Impairment loss	866	280	—	—	—	1,146	—	1,146
Capital expenditures	434	1,172	50	70	38	1,765	1,140	2,906

(Note) 1. Business segments above are split based upon for internal management disposition.

2. Principal products and operations of each business segment

(1) Home video games.....This division develops and distributes home video game software as well as develops and operates online game software.

(2) Arcade operations.....This division operates amusement facilities.

(3) Arcade games.....This division develops, manufactures, and distributes commercial game equipment and integrated circuit boards.

(4) Contents expansion.....This division develops and distributes mobile contents as well as develops, manufactures and distributes pachinko and pachislot machines.

(5) Other businesses.....Other businesses include licensing business and other businesses.

3. Unallocated corporate operating expenses included in "Elimination and corporate" amounted to ¥4,579 million. The major part of this expense is related to the corporate division of the Companies.

4. Corporate assets in the column "Elimination and corporate" were ¥33,359 million. Corporate assets mainly represent surplus operating funds (cash and cash equivalents, available-for-sale securities), long-term investment funds (investments in securities) and assets held by the corporate division of the Companies.

5. Depreciation and capital expenditures include long-term prepaid expenses and amortization of them.

6. Change in accounting policies

Practical solution on unification of accounting policies applied to foreign subsidiaries for consolidated financial statements

As described in "Changes in accounting policies", effective from the fiscal year ended March 31, 2009, the Company adopted "Practical solution on unification of accounting policies applied to foreign subsidiaries for consolidated financial statements" (ASBJ Practical Issues Task Force No.18 issued on May 17, 2006). The effect of this change was to decrease operating income by ¥299 million and total assets by ¥791 million in the "Contents expansion" compared with the corresponding amounts which would have been recorded if the previous method had been followed.

#### ② Current fiscal year (From April 1, 2009 to March 31, 2010)

	Millions of yen						Elimination and corporate	Consolidated total
	Home video games	Arcade operations	Arcade games	Contents expansion	Other businesses	Total		
I. Net sales and operating income								
Net sales								
(1) Customers	44,015	11,985	2,280	5,819	2,736	66,837	(—)	66,837
(2) Inter-segment	—	—	—	—	—	—	(—)	—
Total	44,015	11,985	2,280	5,819	2,736	66,837	(—)	66,837
Operating expenses	36,168	11,394	2,483	5,310	1,639	56,996	4,253	61,250
Operating income (loss)	7,846	590	(203)	509	1,097	9,840	(4,253)	5,587
II. Assets, depreciation, impairment loss and capital expenditures								
Total assets	31,257	9,797	3,241	4,339	2,221	50,857	35,764	86,621
Depreciation	509	1,744	136	239	228	2,859	509	3,368
Impairment loss	—	161	47	9	—	218	5	223
Capital expenditures	543	800	59	83	249	1,736	469	2,205



	Thousands of U.S. dollars						Elimination and corporate	Consolidated total
	Home video games	Arcade operations	Arcade games	Contents expansion	Other businesses	Total		
I. Net sales and operating income								
Net sales								
(1) Customers	473,282	128,876	24,520	62,576	29,424	718,681	(—)	718,681
(2) Inter-segment	—	—	—	—	—	—	(—)	—
Total	473,282	128,876	24,520	62,576	29,424	718,681	(—)	718,681
Operating expenses	388,907	122,525	26,705	57,097	17,628	612,864	45,738	658,602
Operating income (loss)	84,375	6,351	(2,184)	5,478	11,795	105,817	(45,738)	60,078
II. Assets, depreciation, impairment loss and capital expenditures								
Total assets	336,106	105,349	34,855	46,656	23,891	546,859	384,559	931,418
Depreciation	5,474	18,760	1,471	2,577	2,461	30,745	5,475	36,220
Impairment loss	—	1,739	515	98	—	2,353	54	2,408
Capital expenditures	5,847	8,611	636	895	2,683	18,674	5,043	23,717

(Note) 1. Same with the previous fiscal year

2. Same with the previous fiscal year

3. Unallocated corporate operating expenses included in "Elimination and corporate" amounted to ¥4,253 million (\$45,738 thousand). The major part of this expense is related to the corporate division of the Companies.

4. Corporate assets in the column "Elimination and corporate" were ¥35,872 million (\$385,721 thousand). Corporate assets mainly represent surplus operating funds (cash and cash equivalents, available-for-sale securities), long-term investment funds (investments in securities) and assets held by the corporate division of the Companies.

5. Same with the previous fiscal year

## (2) Geographic areas

## ① Previous fiscal year (From April 1, 2008 to March 31, 2009)

	Millions of yen					Elimination and corporate	Consolidated total
	Japan	North America	Europe	Other regions	Total		
I. Net sales and operating income							
Net sales							
(1) Customers	54,193	21,851	14,167	1,665	91,878	(—)	91,878
(2) Inter-segment	9,238	3,012	—	33	12,283	(12,283)	—
Total	63,431	24,863	14,167	1,698	104,161	(12,283)	91,878
Operating expenses	50,232	20,809	12,611	1,333	84,987	(7,727)	77,259
Operating income	13,198	4,054	1,556	365	19,174	(4,555)	14,618
II. Total assets	50,922	19,320	10,597	1,214	82,055	24,155	106,210

(Note) 1. The segmentation of country or region is based on the geographical proximity.

2. Major countries and regions that are not in Japan.

(1) North America.....United States of America

(2) Europe.....European countries

(3) Other regions.....Asia and others

3. Unallocated corporate operating expenses included in "Elimination and corporate" amounted to ¥4,579 million. The major part of this expense is related to the corporate division of the Companies.

4. Corporate assets in the column "Elimination and corporate" were ¥33,359 million. Corporate assets mainly represent surplus operating funds (cash and cash equivalents, available-for-sale securities), long-term investment funds (investments in securities) and assets held by the corporate division of the Companies.

5. Change in accounting policies

Practical solution on unification of accounting policies applied to foreign subsidiaries for consolidated financial statements

As described in "Changes in accounting policies", effective from the fiscal year ended March 31, 2009, the Company adopted "Practical solution on unification of accounting policies applied to foreign subsidiaries for consolidated financial statements" (ASBJ Practical Issues Task Force No.18 issued on May 17, 2006). The effect of this change was to decrease operating income by ¥299 million and total assets by ¥791 million in North America compared with the corresponding amounts which would have been recorded if the previous method had been followed.

**② Current fiscal year (From April 1, 2009 to March 31, 2010)**

	Millions of yen						Consolidated total
	Japan	North America	Europe	Other regions	Total	Elimination and corporate	
I. Net sales and operating income							
Net sales							
(1) Customers	<b>47,269</b>	<b>10,825</b>	<b>7,813</b>	<b>928</b>	<b>66,837</b>	<b>(—)</b>	<b>66,837</b>
(2) Inter-segment	<b>6,690</b>	<b>1,717</b>	<b>119</b>	<b>54</b>	<b>8,581</b>	<b>(8,581)</b>	<b>—</b>
Total	<b>53,960</b>	<b>12,543</b>	<b>7,933</b>	<b>982</b>	<b>75,419</b>	<b>(8,581)</b>	<b>66,837</b>
Operating expenses	<b>42,185</b>	<b>14,615</b>	<b>7,796</b>	<b>828</b>	<b>65,426</b>	<b>(4,176)</b>	<b>61,250</b>
Operating income (loss)	<b>11,775</b>	<b>(2,072)</b>	<b>136</b>	<b>153</b>	<b>9,992</b>	<b>(4,405)</b>	<b>5,587</b>
II. Total assets	<b>41,632</b>	<b>6,431</b>	<b>4,841</b>	<b>734</b>	<b>53,640</b>	<b>32,981</b>	<b>86,621</b>

	Thousands of U.S. dollars						Consolidated total
	Japan	North America	Europe	Other regions	Total	Elimination and corporate	
I. Net sales and operating income							
Net sales							
(1) Customers	<b>508,277</b>	<b>116,403</b>	<b>84,021</b>	<b>9,978</b>	<b>718,681</b>	<b>(—)</b>	<b>718,681</b>
(2) Inter-segment	<b>71,944</b>	<b>18,469</b>	<b>1,280</b>	<b>583</b>	<b>92,277</b>	<b>(92,277)</b>	<b>—</b>
Total	<b>580,222</b>	<b>134,873</b>	<b>85,301</b>	<b>10,562</b>	<b>810,959</b>	<b>(92,277)</b>	<b>718,681</b>
Operating expenses	<b>453,605</b>	<b>157,160</b>	<b>83,836</b>	<b>8,910</b>	<b>703,512</b>	<b>(44,909)</b>	<b>658,602</b>
Operating income (loss)	<b>126,616</b>	<b>(22,287)</b>	<b>1,465</b>	<b>1,652</b>	<b>107,446</b>	<b>(47,367)</b>	<b>60,078</b>
II. Total assets	<b>447,665</b>	<b>69,152</b>	<b>52,057</b>	<b>7,902</b>	<b>576,778</b>	<b>354,640</b>	<b>931,418</b>

(Note) 1. Same with the previous fiscal year

2. Same with the previous fiscal year

3. Unallocated corporate operating expenses included in "Elimination and corporate" amounted to ¥4,253 million (\$45,738 thousand). The major part of this expense is related to the corporate division of the Companies.

4. Corporate assets in the column "Elimination and corporate" were ¥35,872 million (\$385,721 thousand). Corporate assets mainly represent surplus operating funds (cash and cash equivalents, available-for-sale securities), long-term investment funds (investments in securities) and assets held by the corporate division of the Companies.

**(3) Overseas sales**
**① Previous fiscal year (From April 1, 2008 to March 31, 2009)**

	Millions of yen			
	North America	Europe	Other regions	Total
I. Overseas sales	22,463	13,197	3,060	38,721
II. Consolidated net sales				91,878
III. Percentage of foreign sales included in consolidated net sales	24.4%	14.4%	3.3%	42.1%

(Note) 1. The segmentation of country or region is based on the geographical proximity.

2. Major countries and regions that are not in Japan.

(1) North America.....United States of America

(2) Europe.....European countries

(3) Other regions.....Asia and others

3. Foreign net sales represents the total of all the sales outside Japan by CAPCOM CO., LTD. and its consolidated subsidiaries (excluding internal sales between consolidated subsidiaries).

**② Current fiscal year (From April 1, 2009 to March 31, 2010)**

	Millions of yen			
	North America	Europe	Other regions	Total
I. Overseas sales	<b>11,773</b>	<b>7,014</b>	<b>2,331</b>	<b>21,120</b>
II. Consolidated net sales				<b>66,837</b>
III. Percentage of foreign sales included in consolidated net sales	<b>17.6%</b>	<b>10.5%</b>	<b>3.5%</b>	<b>31.6%</b>

	Thousands of U.S. dollars			
	North America	Europe	Other regions	Total
I. Overseas sales	<b>126,597</b>	<b>75,429</b>	<b>25,071</b>	<b>227,098</b>
II. Consolidated net sales				<b>718,681</b>
III. Percentage of foreign sales included in consolidated net sales	<b>17.6%</b>	<b>10.5%</b>	<b>3.5%</b>	<b>31.6%</b>

(Note) 1. Same with the previous fiscal year  
 2. Same with the previous fiscal year  
 3. Same with the previous fiscal year

## 17. Related party transactions

(1) Previous fiscal year (From April 1, 2008 to March 31, 2009)

Not applicable

(2) Current fiscal year (From April 1, 2009 to March 31, 2010)

Not applicable

## 18. Per share information

	Previous fiscal year (From April 1, 2008 to March 31, 2009)	Current fiscal year (From April 1, 2009 to March 31, 2010)	Current fiscal year (From April 1, 2009 to March 31, 2010)
	Yen	Yen	U.S. dollars
Net assets per share	961.38	<b>913.18</b>	<b>9.82</b>
Basic net income per share	130.98	<b>35.71</b>	<b>0.38</b>
Diluted net income per share	120.41	<b>35.64</b>	<b>0.38</b>

(Note) 1. The basis for computation of net assets per share is as follows.

	Previous fiscal year (As of March 31, 2009)	Current fiscal year (As of March 31, 2010)	Current fiscal year (As of March 31, 2010)
	Millions of yen	Millions of yen	Thousands of U.S. dollars
Total amount of net assets	59,349	<b>53,956</b>	<b>580,179</b>
Amounts to be deducted from total amount of net assets	—	—	—
Ending balance of net assets attributable to common stock	59,349	<b>53,956</b>	<b>580,179</b>
Number of common stocks used for computation of net assets per share (thousands shares)	61,733	<b>59,086</b>	<b>59,086</b>

2. The basis for computation of basic and diluted net income per share is as follows.

	Previous fiscal year (From April 1, 2008 to March 31, 2009)	Current fiscal year (From April 1, 2009 to March 31, 2010)	Current fiscal year (From April 1, 2009 to March 31, 2010)
	Millions of yen	Millions of yen	Thousands of U.S. dollars
Basic net income per share			
Net income	8,063	<b>2,167</b>	<b>23,308</b>
Amount not allocated to common stock	—	—	—
Net income allocated to common stock	8,063	<b>2,167</b>	<b>23,308</b>
Average number of common stock outstanding during the fiscal year (thousands shares)	61,561	<b>60,707</b>	<b>60,707</b>
Diluted net income per share			
Adjustment made on net income	6	<b>0</b>	<b>3</b>
(Interest paid with tax adjustment)	—	—	—
(Administrative fees to commission banks with tax adjustment)	6	<b>0</b>	<b>3</b>
Increase of common stocks (thousands shares)	5,458	<b>119</b>	<b>119</b>
(Convertible bonds (thousands shares))	5,458	<b>119</b>	<b>119</b>
Outline of residual securities not included in the above computation of diluted net income per share due to lack of dilutive effect	—	—	—

**19. Significant subsequent events**

Previous fiscal year (From April 1, 2008 to March 31, 2009)	Current fiscal year (From April 1, 2009 to March 31, 2010)
<p>The Company made a resolution to repurchase treasury stock through the board of directors' meeting held on July 30, 2009 in accordance with the articles of incorporation applied under the section 1 of the article 156 and the section 3 of the article 165 of the Companies act.</p> <p>(1) Details</p> <p>① Type of share Common stock</p> <p>② Number of shares to be repurchased Up to 3 million shares</p> <p>③ Amount of shares to be repurchased Up to ¥5,500 million</p> <p>④ Repurchase period From August 1, 2009 to August 31, 2009</p> <p>⑤ Method of repurchase Repurchase in the market</p> <p>(2) Purpose To flexibly implement capital policies to meet with changes in the business environment.</p>	Not applicable

**20. Supplemental schedule of bonds**

Issuer	Name of bond	Issuance date	Balance as of March 31, 2009 (¥ million)	Balance as of March 31, 2010 (¥ million)	Interest rate	Type	Date of maturity
CAPCOM CO., LTD. (Note) 1	Zero coupon convertible bonds due 2009	October 8, 2004	400	—	—	Unsecured	October 8, 2009
Total	—	—	400	—	—	—	—

Issuer	Name of bond	Issuance date	Balance as of March 31, 2009 (\$ thousand)	Balance as of March 31, 2010 (\$ thousand)	Interest rate	Type	Date of maturity
CAPCOM CO., LTD. (Note) 1	Zero coupon convertible bonds due 2009	October 8, 2004	4,301	—	—	Unsecured	October 8, 2009
Total	—	—	4,301	—	—	—	—

(Note) 1. Description of zero coupon convertible bonds

Type of stocks to be issued	Price of conversion rights	Exercise price (yen)	Total exercise price (¥ million)	Amount of stocks issued due to exercise of conversion rights (¥ million)	Ratio (%)	Exercisable terms of conversion	Substitute deposits
Common stocks of CAPCOM CO., LTD.	Free of charge	1,217	11,500	400	100	From October 15, 2004 to October 2, 2009	Note

Type of stocks to be issued	Price of conversion rights	Exercise price (U.S. dollars)	Total exercise price (\$ thousand)	Amount of stocks issued due to exercise of conversion rights (\$ thousand)	Ratio (%)	Exercisable terms of conversion	Substitute deposits
Common stocks of CAPCOM CO., LTD.	Free of charge	13.09	123,655	4,301	100	From October 15, 2004 to October 2, 2009	Note

(Note) When the holders request for exercise of the conversion rights, the exercise price is deemed to be paid from maturity payment. Also, if the conversion rights are exercised, it is treated that such request is made.



**21. Supplemental schedule of borrowings**

Category	Balance as of March 31, 2009 (¥ million)	Balance as of March 31, 2010 (¥ million)	Average interest rate (%)	Date of maturity
Short-term borrowings	15,055	12,500	0.7	—
Current portion of long-term borrowings due within one year	711	711	1.4	—
Current portion of lease obligations	492	578	2.3	—
Long-term borrowings (Excluding current portion)	5,067	4,355	1.2	From April 1, 2011 to June 2, 2014
Lease obligations (Excluding current portion)	833	459	2.3	From April 1, 2011 to February 29, 2016
Other interest-bearing dept	—	—	—	—
Total	22,160	18,605	—	—

Category	Balance as of March 31, 2009 (\$ thousand)	Balance as of March 31, 2010 (\$ thousand)	Average interest rate (%)	Date of maturity
Short-term borrowings	161,887	134,408	0.7	—
Current portion of long-term borrowings due within one year	7,649	7,649	1.4	—
Current portion of lease obligations	5,301	6,219	2.3	—
Long-term borrowings (Excluding current portion)	54,485	46,835	1.2	From April 1, 2011 to June 2, 2014
Lease obligations (Excluding current portion)	8,960	4,943	2.3	From April 1, 2011 to February 29, 2016
Other interest-bearing dept	—	—	—	—
Total	238,283	200,057	—	—

(Note) 1. The average interest rate represents the weighted-average rate applicable to the ending balance.

2. The following table shows the aggregate annual maturities of Long-term borrowings and lease obligation for 5 years subsequent to March 31, 2010 (excluding the current portion).

	Due after 1 year but within 2 years (¥ million)	Due after 2 years but within 3 years (¥ million)	Due after 3 years but within 4 years (¥ million)	Due after 4 years but within 5 years (¥ million)
Long-term borrowings	3,711	499	144	0
Lease obligations	373	71	10	3

	Due after 1 year but within 2 years (\$ thousand)	Due after 2 years but within 3 years (\$ thousand)	Due after 3 years but within 4 years (\$ thousand)	Due after 4 years but within 5 years (\$ thousand)
Long-term borrowings	39,907	5,368	1,551	7
Lease obligations	4,017	769	108	40

**22. Supplemental schedule of other**

Quarterly sales etc. for the current fiscal year

	1st quarter (From April 1, 2009 to June 30, 2009)	2nd quarter (From July 1, 2009 to September 30, 2009)	3rd quarter (From October 1, 2009 to December 31, 2009)	4th quarter (From January 1, 2010 to March 31, 2010)
Sales (¥ million)	19,497	19,394	11,094	16,850
Net income (loss) before income taxes (¥ million)	4,126	1,344	(4,979)	632
Net income (loss) (¥ million)	2,230	736	(1,235)	435
Net income (loss) per share (yen)	36.08	12.06	(20.39)	7.34

	1st quarter (From April 1, 2009 to June 30, 2009)	2nd quarter (From July 1, 2009 to September 30, 2009)	3rd quarter (From October 1, 2009 to December 31, 2009)	4th quarter (From January 1, 2010 to March 31, 2010)
Sales (\$ thousand)	209,655	208,543	119,298	181,183
Net income (loss) before income taxes (\$ thousand)	44,371	14,454	(53,542)	6,805
Net income (loss) (\$ thousand)	23,987	7,917	(13,282)	4,686
Net income (loss) per share (U.S. dollars)	0.39	0.13	(0.22)	0.08

To the Board of Directors of CAPCOM CO., LTD.

We have audited the accompanying consolidated balance sheet of CAPCOM CO., LTD. ("the Company") and its subsidiaries as of March 31, 2010, and the related consolidated statements of income, changes in net assets and cash flows for the year then ended, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company and its subsidiaries as of March 31, 2010, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2010, are presented solely for convenience. Our audit also included the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.



PricewaterhouseCoopers Aarata

August 3, 2010



Head Office



Tokyo Branch



R&D Building

## Corporate Profile

Name of Company	CAPCOM CO., LTD.
Date of Establishment	May 30, 1979
Date of Initiation	June 11, 1983
Business Segments	1. Planning, development and sale of home video games 2. Planning, development, manufacture and sale of arcade games 3. Management of amusement arcades
Paid-in Capital	¥ 33,239 million
End of Term	March 31
Number of Employees	1,930 (Including consolidated subsidiaries) 1,620 (Capcom CO., LTD.)

## Capcom's Subsidiaries

- CAPCOM U.S.A., INC.**  
 800 Concar Drive, Suite 300 San Mateo, California 94402 U.S.A.  
 PHONE: 1-650-350-6500 FAX: 1-650-350-6655  
<http://www.capcom.com/>  
 Paid-in Capital: US\$ 159,949 thousand  
 Business Segment: Holding company and administration of subsidiary in U.S.
- CAPCOM ENTERTAINMENT, INC.**  
 800 Concar Drive, Suite 300 San Mateo, California 94402 U.S.A.  
 PHONE: 1-650-350-6500 FAX: 1-650-350-6655  
 Paid-in Capital: US\$ 2,000 thousand  
 Business Segment: Sale of home video games
- CAPCOM INTERACTIVE, INC.**  
 10960 Wilshire Blvd. Suite 1500, Los Angeles, CA 90024 U.S.A.  
 PHONE: 1-310-943-5470 FAX: 1-310-943-5489  
<http://www.capcommobile.com/>  
 Paid-in Capital: US\$ 0 thousand  
 Business Segment: Distribution of mobile phone games
- CAPCOM INTERACTIVE CANADA, INC.**  
 405 The West Mall Suite 810  
 Toronto ON, M9C 5J1, Canada  
 TEL : +1-647-788-1600 FAX : +1-647-788-1601  
 Paid-in Capital: Canada\$ 0 thousand  
 Business Segment: Development and distribution of mobile phone content
- CAPTRON CO., LTD.**  
 3-1-3 Uchihirano-machi, Chuo-ku, Osaka, 540-0037, Japan  
 PHONE: 81-6-6920-3626 FAX: 81-6-6920-5126  
 Paid-in Capital: ¥ 1,640 million  
 Business Segment: Rent, lease and operation of real estate properties
- CAPCOM ASIA CO., LTD.**  
 Units 1510-1511, North Tower Concordia Plaza, No.1 Science Museum Road, Tsimshatsui East, Kowloon, Hong Kong  
 PHONE: 852-2366-1001 FAX: 852-2366-1985  
<http://www.capcomasia.com.hk/>  
 Paid-in Capital: HK\$ 21,500 thousand  
 Business Segment: Sale of home video games
- K2 CO., LTD.**  
 7th Floor, Shogyo Building, 5-6-10 Toyosaki, Kita-ku, Osaka 531-0072, Japan  
 PHONE: 81-6-4802-4557 FAX: 81-6-4802-4559  
<http://www.kei-two.co.jp/>  
 Paid-in capital: ¥ 3 million  
 Business Segment: Development of game software
- CAPCOM ENTERTAINMENT KOREA CO., LTD.**  
 Dong IL Highvill Office 410 1542-1 Seocho-dong Seocho-gu, Seoul, 137-872, Korea  
 PHONE: 82-2-525-2160 FAX: 82-2-525-2161  
<http://www.capcomkorea.com/>  
 Paid-in Capital: KRW 1,000 million  
 Business Segment: Sale of home video games, Operation and development of online games
- ENTERRISE CO., LTD.**  
 NOE Building 2-5-1 Taitou, Taitou-ku, Tokyo, 110-0016, Japan  
 PHONE: 81-3-5812-8725 FAX: 81-3-5812-8731  
<http://www.enterrise.co.jp/>  
 Paid-in Capital: ¥ 30 million  
 Business Segment: Sale, Development and Manufacture of amusement equipment
- DALETTO CO., LTD.**  
 Shinjuku Mitsui Building 2-1-1 Nishi Shinjuku, Shinjuku-ku, Tokyo 163-0425, Japan  
 PHONE: 81-3-3340-0696 FAX: 81-3-3340-0655  
<http://www.daletto.co.jp/>  
 Paid-in Capital: ¥ 1,090 million  
 Business Segment: Online Portal Site Management
- CE EUROPE LTD.**  
 9th Floor, 26-28 Hammersmith Grove, London W6 7HA, U.K.  
 PHONE: 44-20-8846-2550 FAX: 44-20-8741-4176  
<http://www.capcom-europe.com/>  
 Paid-in Capital: £ 1 million  
 Business Segment: Sale of home video games
- CEG INTERACTIVE ENTERTAINMENT GmbH**  
 Barmbecker Str.4b 22303 Hamburg Germany  
 PHONE: 49-40-6965-620 FAX: 49-40-6965-6222  
 Paid-in Capital: € 25 thousand  
 Business Segment: Sale of home video games
- CAPCOM ENTERTAINMENT FRANCE, SAS**  
 30 bis, rue du Viel Abreuvoir 78100 SAINT GERMAIN EN LAYE  
 PHONE: 33-1-30-61-86-61 FAX: 33-1-39-73-16-15  
 Paid-in Capital: € 37 thousand  
 Business Segment: Sale of home video games

## Major Offices

Head Office	3-1-3 Uchihirano-machi, Chuo-ku, Osaka, 540-0037, Japan PHONE: 81-6-6920-3600 FAX: 81-6-6920-5100
R&D Building	3-2-8 Uchihirano-machi, Chuo-ku, Osaka, 540-0037, Japan PHONE: 81-6-6920-7600 FAX: 81-6-6920-7698
Tokyo Branch	Shinjuku Mitsui Building 2-1-1 Nishi Shinjuku, Shinjuku-ku, Tokyo, 163-0425, Japan PHONE: 81-3-3340-0710 FAX: 81-3-3340-0711
Ueno Facility	3902 Hattai, Iga, Mie, 518-1155, Japan PHONE: 81-595-20-2030 FAX: 81-595-20-2044

## By continuously creating original content, CAPCOM of Japan has transformed itself into CAPCOM of the world.

### 1979~1989

- May, 1979** Established L.R.M. Corporation (capital of 10 million yen) with objectives of developing and selling electric applied game machines in Matsubara, Osaka.
- May, 1981** Established the subsidiary JAPAN CAPSULE COMPUTER CO., LTD.
- Sep. 1981** Corporate name was changed to SAMBI CO., LTD., and the head office was moved to Habikino, Osaka.

- Jun. 1983** Established old CAPCOM CO., LTD., (capital of 10 million yen) in Hirano, Osaka for the purpose of selling software.
- Oct. 1983** Established Tokyo Branch in Shinjuku, Tokyo.
- Aug. 1985** Established CAPCOM U.S.A., INC., in California for distribution of Capcom's products in the U.S.A.

- Jan. 1989** Old CAPCOM CO., LTD., was merged with SANBI. Corporate name was changed to CAPCOM CO., LTD., and the head office was moved to Higashi-ku, Osaka.
- Aug. 1989** Established a resident office in the U.K.

### 1983

**Jul.**  
Released our first originally developed coin-op "Little League".

**Oct.**  
Released the coin-op "Fever Chance".

**Dec.**  
Opened "Acty 24", a video arcade under the direct management of Capcom.



### 1984

**May.**  
Released our first arcade video game "Vulgus".

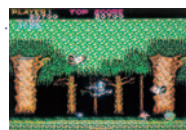
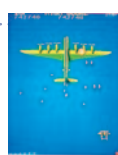
**Dec.**  
Released the arcade video game "1942".

### 1985

**May.**  
Released the arcade video game "Commando".

**Sep.**  
Released the arcade video game "Ghosts'n Goblins".

**Dec.**  
Released our first home video game "1942" for Nintendo Entertainment System (NES).



**Sep.**  
Released "Commando" for NES.

### 1987

**Aug.**  
Released the arcade video game "Street Fighter".

**Dec.**  
Released "Mega Man" for NES.



### 1989

**Dec.**  
Released the arcade video game "Final Fight".

### 2000~2008

- Oct. 2000** Stock was listed on the First Section of the Tokyo StockExchange.
- Nov. 2002** Established CE EUROPE LTD. in U.K.
- Feb. 2003** Established CEG INTERACTIVE ENTERTAINMENT GmbH in Germany.
- Jun. 2006** CAPCOM INTERACTIVE, INC., tasked with developing and distributing mobile games in the overseas market,

is established in the United States and makes CAPCOM INTERACTIVE CANADA, INC. (the formerly COSMIC INFINITY, INC.) a wholly-owned subsidiary by buying all its shares.

- Oct. 2006** CAPCOM CO., LTD. and the DWANGO group co-found DALETTO CO., LTD., responsible for managing a portal site.

- Mar. 2007** CAPCOM ENTERTAINMENT KOREA CO., LTD., a wholly-owned subsidiary of Capcom, is established to oversee marketing operations for the Asian market.
- Jun. 2007** CAPCOM CO., LTD. acquires FLAGSHIP CO., LTD.
- May. 2008** K2 Co., Ltd becomes a wholly-owned subsidiary through a

### 2001

**Jan.**  
Released "Onimusha" for PlayStation 2, and it sold over a million copies, a first for a PlayStation 2 title.

**Aug.**  
Released "Devil May Cry" for PlayStation 2, and it was a mega-hit.

**Oct.**  
Released "Phoenix Wright" for Game Boy Advance, and it drew public attention as a courtroom battle title.



### 2002

**Mar.**  
Began broadcasting the TV animation based on the hit title "Mega man Battle Network".

**Mar.**  
Premiere of the Hollywood movie "Resident Evil" which recorded sales of 102 million dollars worldwide.

### 2004

**Feb.**  
Entered the publishing business and released the first strategy guidebook for "Onimusha 3".

**Sep.**  
Premiere of the Hollywood movie "Resident Evil: Apocalypse" and it grossed 100 million dollars worldwide.

**Oct.**  
"Monster Hunter" won the grand award at the 8th annual CESA GAME AWARDS.



### 2005

**Mar.**  
Premiere of the animated movie "Mega man".

**Jul.**  
Released "Sengoku BASARA" for PlayStation 2, which enjoyed popularity especially among young gamers for its innovative worldview.

### 2006

**Jul.**  
Capcom and TOMY COMPANY, LTD. co-launch "Wantame Music Channel", a card game machine geared towards girls under 10.

**Aug.**  
Released "Dead Rising" for Xbox 360. More than 1 million units were sold, an extraordinary feat for a new title for a new game console.

**Dec.**  
Released software "Lost Planet" for Xbox 360. Over 1 million units were sold following the trails of "Dead Rising", another exceptional accomplishment for a new title.





Since its inception, Capcom has been creating a series of industry-leading game titles with remarkable commercial success around the globe, including the classic "Street Fighter," which was the rage of the times, and the worldwide blockbuster survival horror game "Resident Evil" to name two. All of these original and innovative games have helped make the Capcom brand a household name. We continue to aspire to be a company that entertains people around the world and touches their heart.

## 1990~1999

- Oct. 1990** Stocks registered as OTC securities with the Japan Securities Dealers Association.
- Feb. 1991** Purchased YUNIKA CO., LTD. and turned it into a 100% subsidiary.
- Dec. 1991** Changed the name of YUNIKA CO., LTD. to CAPTRON CO., LTD.
- Jul. 1993** Established CAPCOM ASIA CO., LTD. in Hong Kong for distribution of Capcom's products in China and Southeast Asia.

- Oct. 1993** Stock was listed on the second section of the Osaka Stock Exchange.
- May. 1994** Constructed Ueno facility in Mie.
- Jul. 1994** Constructed head office, which was relocated to Uchihirano-machi, Chuo-ku, Osaka.
- Jun. 1995** Established CAPCOM ENTERTAINMENT, INC. and CAPCOM DIGITAL STUDIOS, INC. (currently CAPCOM

- Apr. 1997** STUDIO 8, INC.), which CAPCOM U.S.A., INC. holds for the purposes of enhancing and maximizing functions such as management, distribution, and R&D in U.S.A.
- Sep. 1999** Established FLAGSHIP CO., LTD. with a view of game scenario creation.
- Stock changed listing to the First Section of the Osaka Securities Exchange.

### 1990

**Dec.**

Released "Final Fight" for Super NES.

### 1991

**Mar.**

Released the arcade video game "Street Fighter II" and it triggered the "Street Fighter II" boom.



### 1992

**Jun.**

Released "Street Fighter II" for Super NES, and it was a mega-hit.



### 1993

**Apr.**

Released "Breath of Fire" for Super NES.



**Jul.**

Opened "CapcoCircus Nigata East", the largest arcade in Nigata.

### 1994

**Aug.**

Premiere of the animated movie "Street Fighter II".



**Dec.**

Premiere of the Hollywood movie "Street Fighter".

### 1995

**Apr.**

Began broadcasting the TV animation "Street Fighter II V".

### 1996

**Mar.**

Released "Resident Evil" for PlayStation, a long selling title which had record breaking sales, and established the genre of survival horror.



### 1999

**Jul.**

Released "Dino Crisis" for PlayStation, and it was a mega-hit.



## 2009/2010~

- Jul. 2008** simple exchange of stocks.
- Nov. 2008** CAPCOM ENTERTAINMENT FRANCE, SAS is established through the acquisition of all of its shares by CE EUROPE LTD.
- Acquired 90% of shares of Enterise CO., LTD. for the purpose of developing, designing, producing and selling gaming machines.

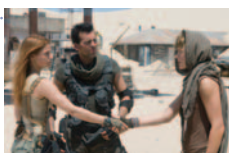
### 2007

**Mar.**

"Monster Hunter Freedom 2" becomes the first Japanese PSP software to exceed 1 million units shipped.

**Nov.**

The Hollywood movie "Resident Evil: Extinction" was released. Its box-office revenue exceeded 147 million dollars.



### 2008

**Oct.**

Premier of the first full-CG movie in the series "Resident Evil: Degeneration". Sales of DVDs and other product versions reached 1.5 million units.



### 2009

**Feb.**

Hollywood movie "Street Fighter: The Legend of Chun-Li" was released worldwide.



**Feb.**

Takarazuka Revue Company launches theatrical performance of "Ace Attorney: Truth Reborn".

**Mar.**

"Plaza Capcom Inazawa" opens in Aichi Prefecture.



**Apr.**

Began broadcasting the TV animation program "Sengoku BASARA".



**May.**

Released "Resident Evil: Degeneration", Capcom's first title for the iPhone.

**Jul.**

"Sengoku BASARA" stage performance commences.



**Jul.**

Initial shipments of "Monster Hunter Tri", a third-party title for the Wii, surpass one million units.



**Oct.**

"Sengoku BASARA" character Date Masamune used for PR activities in support of the Miyagi Prefecture gubernatorial elections.



### 2010

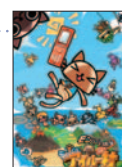
**Apr.**

Launched distribution of "Resident Evil 4: iPad Edition", Capcom's first title for the iPad.



**Aug.**

Distribution of Capcom's first social game "MONHAN NIKKI MOBILE AIRU MURA" on DeNA's "Mobage-town" platform.



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©CAPCOM CO., LTD. / Resident Evil CG Film Partners  
©TAKARAZUKA REVUE COMPANY / ©CAPCOM

©CAPCOM / TEAM BASARA  
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## Stock Data

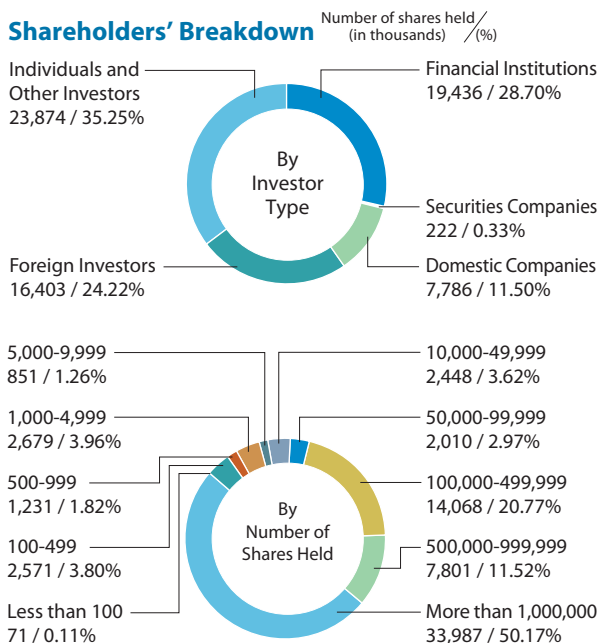
Number of Shares Authorized	150,000,000 shares
Number of Shares Issued	67,723,244 shares
Number of Shareholders	20,526 shareholders

## Major Shareholders

Major Shareholders	Number of Shares Held (in thousands)	Investment Ratio (%)
Crossroad Limited	6,771	11.46
The Master Trust Bank of Japan, Ltd. (Trust Account)	5,154	8.72
Japan Trustee Services Bank, Ltd. (Trust Account)	5,128	8.68
Kenzo Tsujimoto	2,006	3.40
Yoshiyuki Tsujimoto	1,669	2.83
Haruhiro Tsujimoto	1,546	2.62
Ryozo Tsujimoto	1,545	2.62
Japan Trustee Services Bank, Ltd. (Trust Account 9)	1,527	2.58
Misako Tsujimoto	895	1.52
Mellon Bank Abn Amro Global Custody N. V.	835	1.41

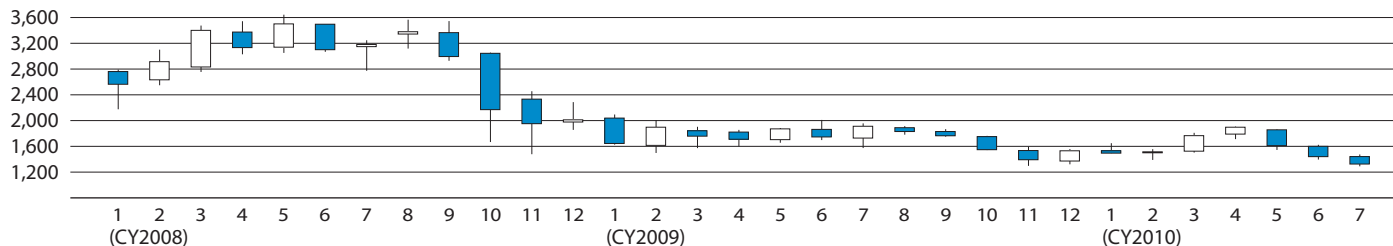
Note : Capcom owns 8,636 thousand stocks as treasury stocks.  
The stocks owned by the company are excluded from the above list.

## Shareholders' Breakdown



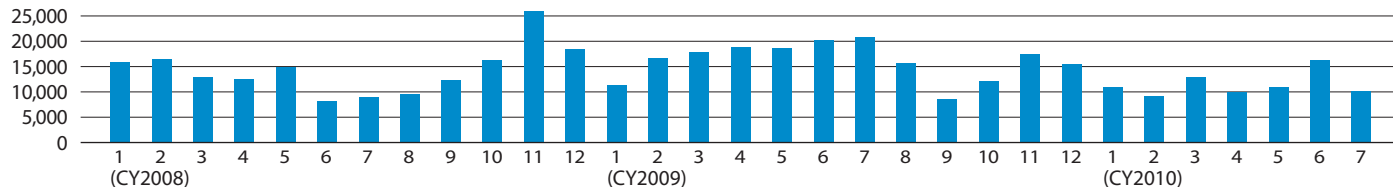
## Stock Price Range

### Stock Price (Yen)



## Trading Volume

### Trading Volume (thousand shares)



## 11 Year Trend of Stock Price and Trading Volume

	2000. 3	2001. 3	2002. 3	2003. 3	2004. 3	2005. 3	2006. 3	2007. 3	2008. 3	2009. 3	2010. 3
Stock Price	4,700	3,580	3,470	1,033	1,032	1,047	1,209	1,692	3,400	1,746	1,766
High	6,140	4,360 (5,100)	4,460	3,860	1,685	1,246	1,450	2,445	3,490	3,640	2,010
Low	970	2,935 (2,975)	2,400	999	857	884	1,000	1,110	1,660	1,475	1,297
Trading Volume	76,522,000	54,022,000	59,785,000	69,891,000	109,458,000	90,897,000	93,992,000	137,965,000	191,793,900	179,636,900	181,065,800

Note : 1 Stock prices are adjusted for stock splits, up to fiscal year ended March 31, 2000.

2 Stock prices in brackets and stock prices up to fiscal year ended March 31, 2000 are those quoted on the Osaka Securities Exchange Co., Ltd.

separate volume

## The Latest Development Report 2010 **The Art of Play**

The creative talents who hold the keys to the future

P1



### Development Management

Striving to Achieve Our Goal of  
Becoming the Leading  
Global Game Company

**Keiji Inafune**

Managing Corporate Officer Global Head of R&D  
Management Group and Contents Management Division

P3



### Development Management

Aspiring to be the Ultimate  
Game Development Force  
for Next-Generation Success

**Jun Takeuchi**

Deputy Head of Consumer Games R&D Division  
and General Manager of R&D Production Department

P5



### Home Video Games

“Monster Hunter Freedom 3”  
Reignites the “Monhan”  
Movement!

**Ryoza Tsujimoto**

Producer  
Producers Section

P7



### Home Video Games

A Message of  
Friendship and Bonding  
in “Okamiden”

**Motohide Eshiro**

Producer  
Producers Section

P9



### Home Video Games (Online Game Business)

Opening Up a New Frontier Through  
the Continuous Growth  
of Online Games

**Yoshinori Ono**

General Manager of Online Game  
Development Department

P11



### Contents Expansion (Mobile Content Business)

Mobile Games Providing  
Enjoyment for Every Lifestyle

**Takeshi Tezuka**

General Manager of Mobile Contents  
Development Department and Senior Manager  
of Business Development Section

P13



### Contents Expansion (Pachinko & Pachislo Business)

Using Content Capabilities Derived  
from Video Games to Strengthen  
Development and Sales Structures

**Yoichi Egawa**

Corporate Officer  
Head of P&S Business Division

## Capcom Investor Relations Website

<http://www.capcom.co.jp/ir/english/>

We have been focusing on IR activities by providing our shareholders and investors with timely and updated information through our website. The CAPCOM IR website provides a whole range of information, such as interviews with developers and analysts' consensus, in addition to stock information and management strategies.



## Mobile Phone Access

<http://2mobile.jp/9697/>



In addition to financial result summaries and stock information, Capcom's closing stock price and latest press release information can be obtained by accessing the Capcom website from a mobile phone. If you have a mobile phone that reads QR codes (two-dimensional bar codes), scan the image on the left for easy access to the site.

\* See your mobile phone manual for information on how to scan QR codes. \* This service supports only Japanese.

## CAPCOM CO., LTD.

3-1-3 Uchihirano-machi, Chuo-ku,  
Osaka, 540-0037, Japan  
PHONE: 81-6-6920-3600 FAX: 81-6-6920-5100

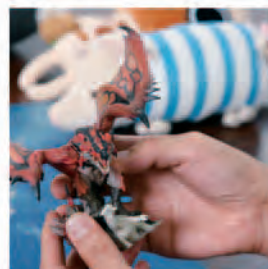
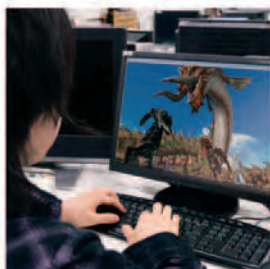
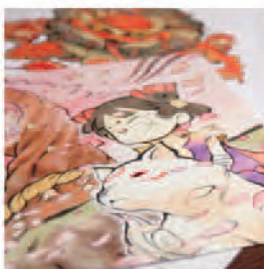
<http://www.capcom.co.jp/>





## The Art of Play

The creative talents who hold the keys to the future



## Development Management

# Aspiring to be the Ultimate Game Development Force for Next-Generation Success

Capcom is strengthening the foundations of its development structure to encourage individual employees to contribute to the creation of authentic games that fascinate users all over the world.

## Jun Takeuchi

**Deputy Head of Consumer Games  
R&D Division and General Manager  
of R&D Production Department**

Producer of "Onimusha 3", "Lost Planet  
Extreme Condition" and "Resident Evil 5", as  
well as leader of organizational reform in  
consumer game development management.



## Cultivating Multi-Talented Creators

In a gaming context, the organizational reform of Capcom's Development Department has advanced to the second level. The first level targeted development efficiency by establishing a lateral connection linking personnel separated across different title projects. This structure succeeded in creating "Resident Evil 5" and "Monster Hunter Tri".

The second level involves promoting the advancement of even further forward facing organizational reforms. The first step is to develop the capabilities of each creator, cultivating multi-talented personnel who possess a wide range of knowledge, skills and specialization that goes beyond job description. Becoming more deeply involved with gaming brings the bigger picture into view and enables more comprehensive decision-making. Ultimately, the goal is for every creator to be able to direct each step of the game development process.

## Matrix Organization Management of Development

The extensive revision of Capcom's management structure aims to integrate the awareness of all development personnel to create game concepts.

To this end, we have adopted a matrix management approach in which multi-talented creators are assigned primarily to producers as key directors in a particular area of expertise along with the involvement of outside

creators and development studios within a flexible organizational framework that grows or shrinks as necessary.

The key directors in the matrix make decisions regarding overall cost, schedule and quality from the perspective of company management while enhancing the quality and speed of title development using the "MT Framework", Capcom's original common development tool.

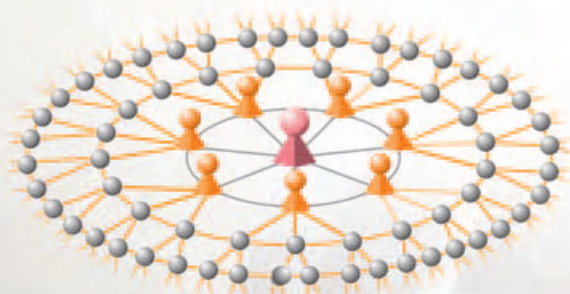
## Creating World-Class Games

In May 2010, we released "Lost Planet 2", the latest edition to this series that has become popular around the globe, offering players the highest level of customization in the world with  $10^{16}$  (10 to the 16th power) different elemental combinations.

This title encapsulates the idea that game development is not possible without being conscious of the world market. Time and technology constraints make it difficult for a single company to develop titles with sophisticated technology and high quality. This is why making use of capabilities of excellent domestic and overseas studio is so important.

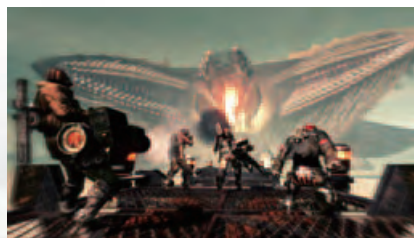
The outcome of these organizational reforms is that multi-talented personnel now involved in the upstream process can take advantage of matrix organization merits to perfect products using external resources.

These organizational reforms have just begun to be implemented and the environment is changing by the minute. Our mantra is "if you stop, you die", signifying that organizational reform for next generation success is a never-ending process.



● Producer    ● Director    ● Creator

Adopting a matrix organization for title development that weaves individual skills into a shared network.



"Lost Planet 2", the latest edition of this action shooting game that sold over 2.3 million copies in its original version.



## The Evolution of “Monhan” in Pursuit of Fun

In an autumn leave-speckled village, life-sustaining “hot springs” and “mountain streams”... “Monster Hunter Freedom 3”, the latest edition in this series scheduled to go on sale at the end of 2010 provides a new taste on the traditional worldview.

When developing the plan for this series, we asked ourselves, “what kind of environment are users playing this game in?”. The previous edition to this series sold over 4 million copies for the PlayStation Portable (PSP), indicating that users like to enjoy hunting monsters with their friends. However, there are also times when users would rather just play with themselves. In consideration of this, we greatly expanded single-player capabilities.

You are now able to bring two “Felyne Comrades” characters along on the hunt in single-player mode. This significantly expands the strategies available in single-player mode. Also, as “Felyne Comrades” now has the ability to change weapons, use and communication with the system is further increased.

## “Monhan” Communication Tools

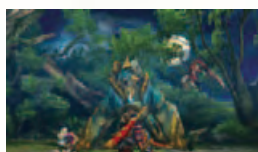
The heightened anticipation created by the promotion, products and collaborations surrounding this new game stimulate discussion among friends and families. In this way, blending in naturally with everyday life and becoming a communication tool are the goals targeted by the “Monhan” series. To this end, we have established various strategic activities.

One of those was a collaboration with Konami Digital Entertainment Co., Ltd., on the sales launch of popular game “METAL GEAR SOLID PEACE WALKER”, involving the appearance of a “Monhan” character in the game. Furthermore, the popular Sanrio Company, Ltd., character “Hello Kitty” appears in “MONHAN NIKKI POKAPOKA AIRU MURA”, released in August 2010. We expect that both these collaborations will be successful as communication tools designed to attract new users.

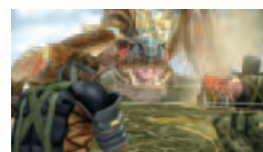
## The Step toward Nationalist Titles

To invigorate the ever-changing game industry, it is important to widen the users’ perspectives. “Monster Hunter” is a test case for this idea. Sony Computer Entertainment Inc., maker of the PSP, wanted to create a movement surrounding “Monster Hunter Freedom 3” that would eclipse that generated by its predecessor, and we received their full cooperation in this regard.

Of course, there are also pressures as a producer, and I am honored to have been involved in such a worthwhile pursuit. The goal of “Monster Hunter Freedom 3” is that everyone who plays it feels that playing games can be truly fun. I will continue to make headway into unknown territory in the attempt to create a new movement.



“Monster Hunter Freedom 3” main monster “ZINOGRE” awaits hunters in the new “mountain streams” field.



©2010 Konami Digital Entertainment  
“METAL GEAR SOLID PEACE WALKER”, the latest edition to the internationally popular “METAL GEAR” series, features the appearance of a monster from “Monster Hunter”. The unique combinations created quite a buzz.





## Home Video Games

# “Monster Hunter Freedom 3” Reignites the “Monhan” Movement!

The growth of “Monster Hunter”, the game that represents Capcom in form and content, is loved by millions of users, who refer to it affectionately as “Monhan”.

## Ryozo Tsujimoto

Producer  
Producers Section

After involvement in the development of arcade games, he became a game planner on titles such as “auto modellista”. He was also the producer of “Monster Hunter Freedom 2”.



## Home Video Games

# A Message of Friendship and Bonding in “Okamiden”

This new title for Nintendo DS was born from the affection of our staff, who probably loves the special world of “Okami” more than anyone else. This game offers heart-warming adventure and beautiful graphics.

## Motohide Eshiro

**Producer**  
**Producers Section**

Produced the hit “Ace Attorney Investigations: Miles Edgeworth” after working on “Onimusha 2” and “Shadow of Rome” as a director.





## Inspirational Story and Visuals

This game features visuals with the warmth of a picture scroll painted with a brush on Japanese paper. Players interact with the game using a pen to control the actions of the Celestial Brush function. "Okamiden" for the Nintendo DS, scheduled for release in September, 2010, will fascinate players with its creative world.

This is the latest edition to the "Okami" series, which was initially released in 2006 for the PlayStation 2 and has received critical acclaim in Japan and throughout the world. The story focuses on "Chibiterasu", a young white wolf who, along with his partner "Kuninushi", is on a quest to return peace and nature to the world.

One of the most distinctive features of the game is the fact that "Chibiterasu" is unable to overcome obstacles on his own, and is only able to succeed with the help of his friends. The main characters grow through repeated encounters and farewells, sending a message that the world can be changed through the bond of friendship. After the game is over, players feel as though they have just read a novel that is both inspirational and charming.

## Collective Affection of Many Staff Members

From the initial stages of development, there was something different about this game. While engaged in their regular activities, in-house volunteers became spontaneously involved in the Nintendo DS pre-production. There was a sense that this was going to be interesting, but there was one issue that needed to be addressed before development could officially begin.

The issue involved the degree to which we could ensure graphics quality. Compared to home video consoles, portable game console presents many limitations, and it was essential that we expressed the warm worldview of the "Okami" series. The development team was able to achieve this goal despite using fewer polygons while creating the background through the use of innovative technology.

In this way, the staff's fondness for the content helped to maximize portable game users' enjoyment.

When testing the completed prototype, we were excited to discover that the Nintendo DS Stylus worked very well as the Celestial Brush, the game's most distinctive feature. It was from this point that the project kicked into high gear, fueled by the affection of those involved who were determined to make this product into something very interesting.

## Uniting the Dreams of Fans and Capcom Staff

The announcement of "Okamiden" favorably received overseas. In particular, the graphics were praised for their "Japanese aesthetic, which approaches the level of fine art", and "the charming mix of Japanese culture and mythology". Sales are scheduled to begin overseas in 2011.

The Japanese sales promotion was equally successful. Before sales began, an official website was created so fans could offer ideas about character-related goods they wanted. This was the first time we developed game-related goods based on requests. The title, "Okamiden" was itself a result of collaboration between Capcom employees and fans.



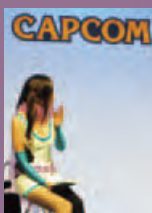
The Celestial Brush, operated through a Stylus, creates miracles with each stroke.



The story was written by non-fiction author Yukinori Kitajima, who is also in love with the world of the "Okami" series.



The Internet and special events are used to provide fans with information and increase excitement about the game.



Home Video Games  
Online Game Business

## Opening Up a New Frontier Through the Continuous Growth of Online Games

Aiming for the establishment of a new business model with “Monster Hunter Frontier Online” in the online game market, which is vastly different from the home video game market.

### Yoshinori Ono

General Manager of Online Game Development Department

Sound producer for the “Street Fighter” series, after which he produced “Onimusha: Dawn of Dreams”, “Monster Hunter Frontier Online” and “Street Fighter IV”. In 2006, he became General Manager of Online Game Development Department.



## Birth of a Giant Community with 1.5 Million Accounts

In July 2007, Capcom officially entered the online game market with "Monster Hunter Frontier Online" ("MHF"). "MHF" is a game where players can meet up with friends after paying fees for monthly access and acquisition of items. Users decide on a meeting place in the game, and then cooperate to hunt monsters while communicating with one another. Providing this community for users who enjoy detailed operations unique to online game play has resulted in the registration of approximately 1.5 million accounts.

Communication among users is one of the biggest attractions of online games, and as opposed to package home video games that isolate users from nature, online games are ideal for multiple usage.

## Quality Communities are the Lifeblood of Online Games

The release preparations for "MHF" began in 2005. Starting from zero to launch an online business, Capcom thoroughly conducted marketing activities by analyzing the successful efforts of other domestic and overseas corporations. What we realized was that the value of online games was connected to the quality of the user communities that gathered around them. We felt that providing appealing operations and mechanisms to encourage repeat users would ensure continuous revenue streams.

To this end, we enhanced our operating and development teams. Through daily online communication and system maintenance, we were able to provide our management staff with direct user

feedback. By responding to user needs through improvements and fixes, as well as by holding regular events and providing updates each quarter, we were able to keep users interested. We will continue to refine our expertise regarding maintaining the proper distance from users.

## Using "MHF" to Develop a Giant Asian Market

Our next target is the massive population represented by the Asian market. Capcom will enter this market with "MHF". Online games have already been established in Korea and Taiwan, and management companies in each area are accumulating operational expertise. Capcom, in cooperation with partner companies that possess this know-how, will attempt to develop the Asian market by localizing its proprietary titles to make them enjoyable for users in each region.

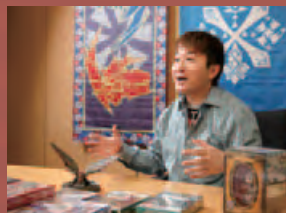
The three recipes for success in the online game business requires attractive titles, localization and operations that provide ongoing user satisfaction. We are thinking of making use of this in the next title release. I am anxious to see "MHF" continually transform, attracting more and more users in the years to come.



"MHF" is an online game that users pay a monthly fee to participate in. Users can also purchase items based on their preference for use in game play.



Users can communicate with one another using chat, SMS and Skype.



**Contents Expansion  
Mobile Content Business**

## Mobile Games Providing Enjoyment for Every Lifestyle

Capcom mobile games make life more fun for people all over the world. Content for mobile phones has a special way of capturing users' hearts.

### Takeshi Tezuka

**General Manager of Mobile Contents  
Development Department and Senior Manager  
of Business Development Section**

In charge of mobile phone content development since 1999, He is responsible for the management of the Mobile Content Development Department as the General Manager and involved in nearly all development projects. He also formulates strategies for the global mobile phone business.



## Creating Games that Pursue the Potential of Mobile Phones

The global mobile phone game market has undergone a swift and radical transformation as a result of the increasing ubiquity of open-platform smartphones such as the iPhone and the Android. Until now, this business was limited by region, with national and local telecommunications carriers as the primary players in the market. The transition to a universal business where users directly download game content has created a gigantic market where an array of game manufacturers and individuals are able to freely provide game content.

The barriers to entry in the open platform market are low, with many new ventures entering the market with simple games. However, Capcom believes in using its content capabilities and expertise accumulated over many years to provide high quality games that satisfy a wide range of users. Rather than offering simple games because of mobile phone limitations, we are creating games that explore the potential of mobile phones.

### Fun for Everyone: “Street Fighter IV” for iPhone

“Street Fighter IV”, which was released for the iPhone in March 2010, is the latest in this fighting game series. Launched in 1987, “Street Fighter” series has gone from the arcade to home video game consoles to become our flagship title and one of the most popular games in the world. The iPhone edition is for both long-time fans as well as people who haven’t played video games for a while. The addition of a function enabling players to choose their skill level from beginner to expert means that even people playing for the first

time can enjoy the combat action.

We also developed “Visual Pad” technology, a proprietary function that allows users to manipulate their character using the iPhone’s touch screen panel. Core combat game fans have praised this development for its ease of use and the added enjoyment it brings to the game. First-time users have had similar reactions. We hope that this iPhone version will spur interest in the home video game version.

### Making Many Aspects of Life More Fun

In step with the ongoing diversification of ways in which games are enjoyed, from video game consoles at home to portable game consoles and mobile phones when away from home or in transit, Capcom provides games that match all user lifestyles.

We are also active in new markets. At the end of May, 2010, we released “Resident Evil 4: iPad Edition”. We are also expanding our activities in the communications area, including SNS and Twitter, to provide entertainment through social applications that only Capcom can offer. Through these media as well as mobile phone handsets, we aim to provide enjoyment for all lifestyles.



The “Street Fighter” series, popular all over the world and now available for the iPhone



“Resident Evil4: iPad Edition”, a new tool with potential



## The Never-Ending Sense of Anticipation Created by "Onimusha: Dawn of Dreams"

In February 2010, the announcement and exhibition of the "Onimusha: Dawn of Dreams" pachislo machine in Akasaka was a great success, attracting approximately 1,500 parlor operators, manufacturers and general users. "Onimusha: Dawn of Dreams" is the successor to "Onimusha 3", which was a big hit when it came out five years ago. The development of both machines was outsourced to RODEO Co., Ltd. which capitalized on Capcom's popular home video game "Onimusha".

One characteristic feature of "Onimusha: Dawn of Dreams" is a 20-inch liquid crystal flat panel display that shows an endless stream of realistic action scenes. RODEO's system and the attraction of the game itself combine to create a machine that provides users with a never-ending sense of anticipation. From the very first day of sales, user excitement spurred repeat shipments, resulting in sales that far exceeded our targets.

## Meeting User Expectations with Outsourced and In-House Development

Competition in the pachislo market is fierce, and unless a machine makes it into the most popular rankings, there is little hope of sales growth. To succeed in this competitive environment, Capcom acquired Enterise Co., LTD., a manufacturer of pachislo equipment as a subsidiary in 2008, marking the beginning of full-scale in-house development. At the same time, we also continue to outsource development as part of our strategy to increase profits.

The strength of outsourcing lies in our ability to provide graphical visuals required by manufacturing customers using expertise cultivated through the development of home video games. Also, it enables us to create a world unique to pachislo machines that go beyond video games. Collaborating with manufacturing clients to meet stringent needs also enables Capcom to further advance its in-house development capabilities.

On the other hand, in-house development enables Capcom to create distinctive in-house content under our own initiative. We are able to maximize the attraction of popular content by closely sharing information with in-house home video game developers.

## Envisioning a New Structure for the Direction of Development

To enhance the strength of in-house development, we created a new business structure by integrating Capcom's development organization with that of Enterise Co., LTD., in January 2010. The goal of this integration is to develop machines with highly perfected performance, system, game and all other elements. Through the exchange of the frank opinions of performance and system developers, an on-site sense of unity was born. We will continue to advance innovative packages to create an instant presence in parlors as soon as the machines are installed.

We have the support of Japan's largest sales company with the largest direct sales force. Not only do they have powerful sales capabilities, but they are also in a position to provide us with feedback in terms of the latest parlor trends and customer needs. We then use this information to develop new machines.

In self-developed product, through a series of trials and errors, a new direction for development has come into view, one that enables the development of machines with highly perfected performance, system, game and all other elements that only Capcom can provide. We have high expectations for this new development structure.



Expressing distinctive pachislo performance while making the most of the game's unique worldview.



The longer you play the game, the further you advance in the adventure story.





**Contents Expansion**  
**Pachinko & Pachislo Business**

## Using Content Capabilities Derived from Video Games to Strengthen Development and Sales Structures

We have cultivated expertise from the ground up since the start of our Pachinko & Pachislo Business in 1996, which aims to secure profits through the two pillars of outsourced and in-house development.



## Yoichi Egawa

**Corporate Officer**  
**Head of P&S Business Division**

After joining Capcom, he became involved in the development of software and templates for arcade games.

Created and established the Pachinko & Pachislo Business in 1996 and the Mobile Content Business in 1999.

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YOICHI EGAWA

## Corporate Profile

(As of March 31, 2010)

Name of Company	CAPCOM CO., LTD.
Date of Establishment	May 30, 1979
Date of Initiation	June 11, 1983
Business Segments	1. Planning, development and sale of home video games 2. Planning, development, manufacture and sale of arcade games 3. Management of amusement arcades
Paid-in Capital	¥ 33,239 million
End of Term	March 31
Number of Employees	1,930 (Including consolidated subsidiaries) 1,620 (Capcom CO., LTD.)
Head Office	3-1-3 Uchihirano-machi, Chuo-ku, Osaka, 540-0037, Japan PHONE: 81-6-6920-3600 FAX: 81-6-6920-5100
R&D Building	3-2-8 Uchihirano-machi, Chuo-ku, Osaka, 540-0037, Japan PHONE: 81-6-6920-7600 FAX: 81-6-6920-7698
Tokyo Branch	Shinjuku Mitsui Building 2-1-1 Nishi Shinjuku, Shinjuku-ku, Tokyo, 163-0425, Japan PHONE: 81-3-3340-0710 FAX: 81-3-3340-0711
Ueno Facility	3902 Hatta, Iga, Mie, 518-1155, Japan PHONE: 81-595-20-2030 FAX: 81-595-20-2044

## History

<b>Dec. 1990</b>	Released "Final Fight" for Super Nintendo Entertainment Systems (NES).
<b>Mar. 1991</b>	Released the arcade video game "Street Fighter II" and it triggered the "Street Fighter II" boom.
<b>Jun. 1992</b>	Released "Street Fighter II" for Super NES, and it was a mega-hit.
<b>Jul. 1993</b>	Opened "CapcoCircus Nigata East", the largest arcade in Nigata.
<b>Dec. 1994</b>	Premiere of the Hollywood movie "Street Fighter".
<b>Mar. 1996</b>	Released "Resident Evil" for PlayStation, a long selling title which had record breaking sales, and established the genre of survival horror.
<b>Aug. 2001</b>	Released "Devil May Cry" for PlayStation 2, and it was a mega-hit.
<b>Oct.</b>	Released "Phoenix Wright" for Game Boy Advance, and it drew public attention as a courtroom battle title.
<b>Mar. 2002</b>	Premiere of the Hollywood movie "Resident Evil" which recorded sales of 102 million dollars worldwide.
<b>Sep. 2004</b>	Premiere of the Hollywood movie "Resident Evil: Apocalypse" and it grossed 100 million dollars worldwide.
<b>Jul. 2005</b>	Released "Sengoku BASARA" for PlayStation 2, which enjoyed popularity especially among young gamers for its innovative worldview.
<b>Aug. 2006</b>	Released "Dead Rising" for Xbox 360. More than 1 million units were sold, an extraordinary feat for a new title for a new game console.
<b>Dec.</b>	Released software "Lost Planet" for Xbox 360. Over 1 million units were sold following the trails of "Dead Rising", another exceptional accomplishment for a new title.
<b>Mar. 2007</b>	"Monster Hunter Freedom 2" becomes the first Japanese PSP software to exceed 1 million units shipped.
<b>Nov.</b>	The Hollywood movie "Resident Evil: Extinction" was released. Its box-office revenue exceeded 147 million dollars.
<b>Feb. 2009</b>	Hollywood movie "Street Fighter: The Legend of Chun-Li" was released worldwide.
<b>Feb.</b>	Takarazuka Revue Company launches theatrical performance of "Ace Attorney: Truth Reborn".
<b>Apr.</b>	Began broadcasting the TV animation program "Sengoku BASARA".
<b>May.</b>	Released "Resident Evil: Degeneration", Capcom's first title for the iPhone.
<b>Jul.</b>	Initial shipments of "Monster Hunter Tri", a third-party title for the Wii, surpass one million units.
<b>Nov.</b>	"Sengoku BASARA" character Date Masamune used for PR activities in support of the Miyagi Prefecture gubernatorial elections.

## CAPCOM CO., LTD.

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<http://www.capcom.co.jp/>

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Please see the Annual Report 2010.