

Conversation: An External Director's Perspective on Capcom's Governance

Enhancing Corporate Governance in Line with Business Expansion

Capcom Chairman and CEO Kenzo Tsujimoto and external Director Makoto Matsuo, Attorney at Law, discuss the current status of the Company's corporate governance and compliance functions, issues involving future growth, the vital role played by external directors and a variety of other topics.

What Function should External Directors Perform?

Matsuo: Capcom's external directors are a collection of capable individuals with experience in the private and public sectors and expertise in law, accounting and many other areas.

Tsujimoto: A company must always strive to differentiate itself; otherwise, it will never be competitive. However, if this becomes the only focus of corporate activities, the company runs the risk of becoming a specialty concentration and losing its grasp on social common sense. To avoid this, we would like our activities and decisions in each area judged by people with a rational mind and the highest degree of good sense.

Matsuo: Capcom is noteworthy for their higher than usual ratio of external directors.

Tsujimoto: Our directors are very busy on the front lines, and their time is limited. We request assistance from as many people as we can, which enables them to focus on their areas of expertise and make decisions in less time.

Matsuo: It certainly is the case that, all our different areas of expertise alone can make the monthly board meetings quite lively. Yet, it is precisely the fact that we external directors have no background in home video games, and occasionally ask somewhat naive questions, that the discussions truly become productive.



Tsujimoto: You're right, internal discussions with no outside perspective are dangerous, as they may cause a company to miss something important. In fact, it's the same in game development. Even if a top creator tells everyone in the company that his game is the best, it doesn't mean anything unless the customer who purchases the game says it's the best. To move beyond mere internal subjective discussion, another important perspective to consider is the objectivity of quantitative data.

Visualization of Management and Risk Management System Enhancement

Matsuo: During the four years that I have been an external director, Capcom has made significant advances in the use of quantitative data for the visualization of management. Right now, you can tell what is going in the world just by looking at numbers. This is how a clear separation of management and execution was achieved.

Tsujimoto: I think senior management can't get directly involved with operations. If they do, they lose sight of the big picture. It doesn't matter how effective a manager might be—you can't judge what you can't see. Problems accompany risks involved with attempting any new endeavors, but what is important is discovering those problems as quickly as possible. If I am in the place where it is easiest to see, I can soon discover problems.

Matsuo: At Board of Directors meetings, highly transparent materials are prepared for external directors to aid ease of understanding. Numbers



Kenzo Tsujimoto

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

don't lie, and problems are easy to find in the data. Plus, the explanation from the executive in charge really helps to clarify many of the points. Incidentally, at this board meeting, we created the Business Audit Committee, a mechanism that approaches risk management from a non-traditional angle.

Tsujimoto: In terms of management oversight, in addition to corporate auditors, there are auditing firms and internal control systems, but when it comes to taking a close look at the details of an operation, in many cases only the people who work in those operations are truly familiar enough with them to properly understand them. For this reason, we selected three veterans with different operational backgrounds for the Business Audit Committee. The committee is directly controlled by management, and reports to the Board of Directors in the event of a problem involving management risks.

Matsuo: There have been many companies that narrowly escaped crisis because they mishandled the initial response to a risk management or compliance problem. The key factor is to have people with the proper crisis training strategically positioned and ready to make the correct decisions.

The Appropriate Corporate Governance Structure for a Changing Capcom

Tsujimoto: From your perspective, what issues does Capcom face in terms of corporate governance?

Matsuo: One of Capcom's special qualities is that it is a tremendously creative organization, and a young company—young in so many ways. The external business environment is changing as diversity and individuality among the development staff and other employees remains extremely strong internally. Capcom needs to create a corporate governance structure that will ensure the preservation of this internal diversity and individuality.

Tsujimoto: We are also actively developing projects overseas in extremely short timeframes.



Matsuo: It is important to always fine tune your governance structure so that it is in step with business expansion. At present, even if Capcom doesn't have the details of each individual rule spelled out, the awareness and direction of the overall Group is extremely sensible and steady. At the same time, the rules of the traditional company don't apply to a young, creative business like Capcom. Going forward, Capcom must create the corporate governance structure that best matches its corporate culture.

Tsujimoto: The management environment in the game industry is rapidly changing. I often say "the landscape will change", that a year later, the landscape will be completely different. However, if anything, I think this is a chance for Capcom. We are going to further strengthen our governance structure in all our business domains and regions.

As the landscape continues to change, I'd like to continue to ask the external directors for their unerring judgment and advice based on their various expertises with respect to Capcom management decisions.

Matsuo: Yes, of course. When the company is going through changes, it is my responsibility to ask "is everything really alright?" I am sure the landscape will change significantly going forward, and we will be there to discuss it in all seriousness.

Tsujimoto: I sincerely appreciate that. Thank you very much.

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Makoto Matsuo

Attorney at Law
External Director, Capcom Co., Ltd.



Corporate Governance Structure and Initiatives

Corporate Governance Structure

Enhancing Management Health and Transparency while Responding to Changes in the Environment

Capcom is aware that comprehensive corporate governance ranks among management's most important priorities. We make the utmost effort to enhance management health and transparency and maintain an organization that is responsive to changes in the business environment while focusing efforts on improving the satisfaction of shareholders, customers, employees and all our stakeholders. The introduction of a Corporate Officer System, part of our management system reforms, established a clear separation between the responsibilities of the Board of Directors and the corporate officers and facilitates faster decision-making and more flexible execution of operations while heightening management efficiency. In addition, we make an effort to ensure fairness and improve reliability by raising the level of our Board of Directors monitoring function with three external directors and two external auditors.

Board of Directors

Management Decisions that Incorporate Outside Opinions

The Board of Directors consists of 11 members, meets regularly once a month and holds extraordinary meetings when necessary. Three of the 11 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. During the period under review, the Board of Directors met 16 times, engaging in lively discussions concerning reported items and matters for resolution. Moreover, we established a Remuneration Committee chaired by an external director to determine fair and appropriate compensation for directors. Also, two external directors appointed independent directors to avoid any conflict of interest among general shareholders in terms of decision-making.

Board of Corporate Auditors

Accounting Auditors Partner with Internal Auditing Department to Monitor Management

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.

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.

Moreover, to improve the effectiveness and efficiency of the auditing function, the Business Audit Committee, Audit Office and auditors mutually cooperate and meet regularly to exchange information and opinions.

Board of Directors/Board of Corporate Auditors Rate of Attendance (Fiscal 2010)

	Name	Board of Directors/Board of Corporate Auditors Rate of Attendance
External Director	Hiroshi Yasuda	Attended 15 of 16 board meetings in fiscal 2010
	Makoto Matsuo	Attended all board meetings in fiscal 2010
	Takayuki Morinaga	Attended all board meetings in fiscal 2010
External Auditor	Shoji Yamaguchi	Attended 12 of 16 board meetings and 11 of 13 corporate auditor meetings in fiscal 2010
	Koji Takito	Attended 15 of 16 board meetings and all corporate auditor meetings in fiscal 2010

Officer Remuneration (Fiscal 2010)

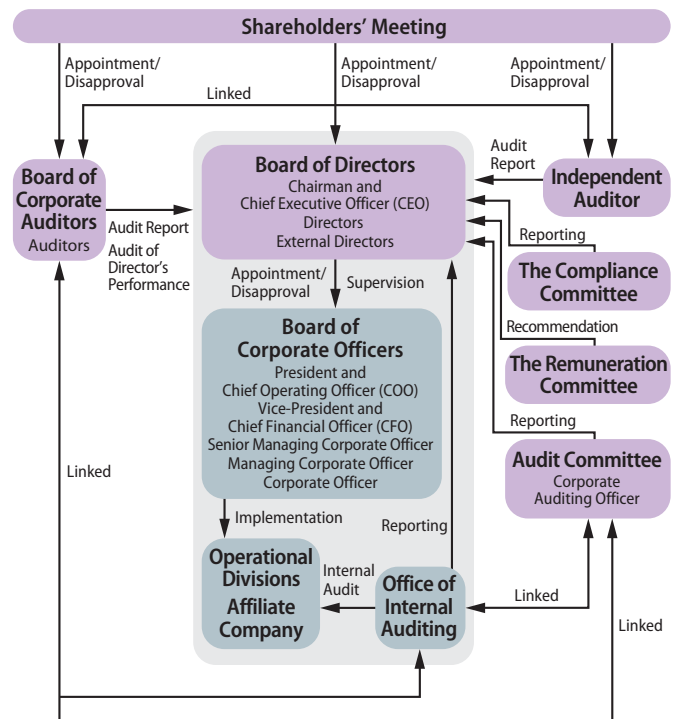
	No. of People	Remuneration Amount
Directors (External Directors)	9 (3)	¥403 million (¥32 million)
Corporate Auditors (External Auditors)	4 (2)	¥48 million (¥24 million)

* Above includes director's bonus of ¥101 million for business activities in the fiscal year.

Auditor Remuneration (Fiscal 2010)

	Remuneration based on audit operations	Remuneration based on non-audit certification operations
Delivery company	¥57 million	—
Consolidated subsidiary	¥5 million	—
Total	¥63 million	—

Current Corporate Governance Structure Diagram



External Director/External Auditor

External directors ensure the effectiveness of the corporate governance function by playing key roles in the Compliance and Remuneration Committees. They also focus efforts on compliance and the prevention of corrupt or illegal activities, and openly exchange opinions and provide counsel at Board of Director meetings in an effort to strengthen the management audit function.

External auditors participate in Board of Directors and other important meetings, evaluating the directors' execution of their duties with an opinion of objectivity and fairness from the perspective of compliance and appropriateness.

Board of Corporate Officers

The Board of Corporate Officers is composed of 15 members selected by the Board of Directors. Under the supervision of the Board of Directors, corporate officers promptly and precisely execute business activities based on management policy determined by the Board of Directors and take agile and appropriate response to rapid changes in the management environment when deemed necessary.

Audit Committee

The Business Audit Committee conducts audits from a different perspective than the auditors in the Audit Office. They focus on risk management in all businesses and regularly monitor execution of business duties in Group companies. They also collect and compile information through individual business auditor investigations, providing analysis and reports to the Board of Directors. Based on these reports, the board works to prevent risks and executes business reforms while accurately ascertaining business inefficiencies and business risks inherent in the Group from the perspectives of compliance, validity and efficiency. And, in the event of an unforeseen situation, the Business Audit Committee contributes to the formulation of appropriate management decisions by quickly providing the Board of Directors with a report examining and analyzing the causal factors in an attempt to minimize losses to the company.

The Remuneration Committee

Based on the amount agreed upon at the general shareholder's meeting, the Remuneration Committee recommends remuneration for each board member to the Board of Directors that is befitting and determined with consideration for each board member's title, duties, tenure, full/part-time service, etc., as well as Capcom's earnings and individual job performance. To ensure fairness and transparency, the committee chairman is an external director.

Internal Audit Office

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.

Independent Auditor

Capcom has engaged PricewaterhouseCoopers Aarata for financial audits as prescribed by the Companies Act and financial audits as prescribed by the Financial Instruments and Exchange Law. There is no relationship involving financial or other interests between Capcom and this audit corporation or the individuals at this firm who perform audits at Capcom.

Comments from External Director

Hiroshi Yasuda

Director



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 external director, I was elected by an independent director determined by the financial instruments exchange, so there is no fear of a conflict of interest with general stockholders in terms of decision-making. In accordance, as part of my function in corporate governance and internal control, I promote prompt and relevant information disclosure from a perspective closer to external stakeholders, such as shareholders and customers. In addition, 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. 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 from Corporate Auditor

Kazushi Hirao

Director (full-time)



Board Members Execution of Duties Closely Monitored

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.

Corporate Governance Structure and Initiatives

In Internal Control System Status

Strengthening Risk Management Through the Development of our Internal Control System

As part of directors' 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. Develop a System to Maintain Appropriate Business Practices

(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.

Comments from the Internal Control Manager

Osamu Sakuma

Business Corporate Auditor, Internal Control Integration



Strong risk management structures through internal controls and business auditing

As the business environment surrounding the company changes, stakeholder expectations and evaluations become increasingly stringent each year. In response, we have reaffirmed the importance of risk management and aim to raise our efforts to a new level.

The most important aspect of risk management is to detect risk as early as possible, and then putting effective countermeasures into place. Capcom's early risk detection efforts include thorough compliance awareness for all employees and ongoing monitoring with an internal monitoring function.

With respect to the internal controls within the internal controls regulations under the Financial Instruments and Exchange Act (JSOX), we are attempting to strengthen the system through internal auditing focused on independent and objective evaluations. We will continue moving forward with these efforts until all Group companies have a robust internal control system.

Starting this year, three business corporate auditors including myself have been monitoring inefficient processes and businesses from a viewpoint difference from corporate auditing and internal audits, and implementing business reforms. Through continued cooperation between corporate auditors, internal auditors and business corporate auditors, Capcom will continue to build its risk management structure.

Compliance System

Compliance Committee Ensures the Legality of Business Practices

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.

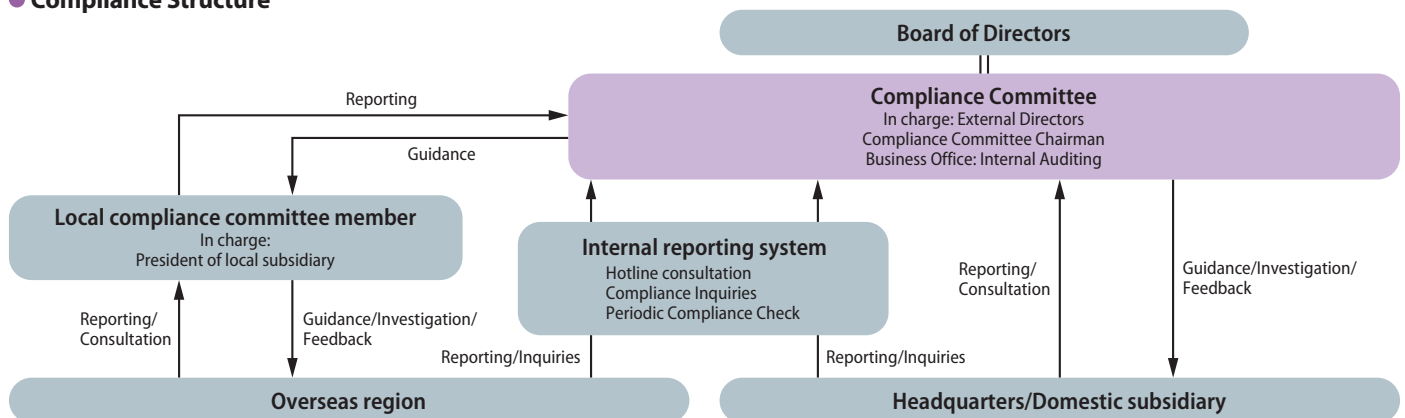
Furthermore, the “Capcom Code of Conduct” was formulated to strengthen our compliance system. Capcom is dedicated to proactively preventing illegal acts and misconduct, and ensuring legal compliance through the promulgation of corporate ethics and principles.

Compliance Initiatives

Capcom Strives to Inculcate an Understanding of Compliance Among All Our Employees

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. Also, a seminar was held for employees who handle personal information, and a periodic compliance check was conducted, covering the proper issuance of documents and handling of

● Compliance Structure



company information, as well as a Q&A session and follow-up announcements and alerts 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 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.

● Status of Training and Other Programs (Fiscal 2010)

Activity	No. of Times	Target
Compliance training	1	New employees
Personal information protection education curriculum	2	All employees
Compliance education curriculum	2	All employees
Handling of personal information seminar	1	Employees who handle personal information

Protection of Personal Information Initiatives

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.

Information Security Initiatives

Promoting Initiatives for the Appropriate Protection of Information Assets

As a company primarily engaged in the planning and development of software, Capcom is an environment where the latest information technology is always in use. Compared to companies in other lines of business, we face relatively high information security risks.

Capcom protects its information assets from theft, loss, accident and threat of damage, and has formulated an information security policy appropriate for a corporation trusted by society.

We also provide employees with a self-learning environment via the company intranet, and publish internal information regulation collections including "Basic Disclosure Policies", "System Usage Policies" and "Basic Security Policies".

We use a firewall to protect us from external attacks via the Internet, and our internal system requires each user to have a unique ID, password and PIN to access the system, thereby reducing the risk of unwelcome intruders. Furthermore, we are in the process of patching known security holes.

Furthermore, over the next few years we will implement measures to prevent information leaks, which will include (1) identification of information leak risks, (2) creation of an early response structure to respond to information leaks and (3) establish response process to minimize damage in event information is leaked.

We will require the help of an outside investigative company to conduct the inspection and diagnosis of our information management system involved in (1) to clearly identify the critical risks we face, while (3) will involve the introduction of a preservation of evidence system to manage the information log. We will focus our efforts on using our expertise to enhance our internal response capabilities.

To improve security literacy among all our employees, we are conducting internal training to raise awareness and educate on the topic of information leak risks.

Through these and other initiatives, Capcom will continue to strive to create a structure for making an appropriate first response in the event information is leaked or an accident occurs.

Past Group Security Strengthening Initiatives

Since 2007, Capcom has been standardizing, enhancing and globalizing its Group management IT foundation. These activities included measures affecting information security, as noted below.

Main Security Countermeasures

1	Review of information regulations (security policies)
2	Standardized global IT platform, enhanced security
3	Enhanced email security, globalization
4	PC information leak countermeasures
5	Enhanced privileged ID management for administrative system
6	Enhanced virtual time clock management
7	Clarified rules regarding use of employee blogs and other activities

IR Activities

Basic Policies Regarding IR Activities

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 2010, we received an award at the "Nikkei Annual Report Awards 2010", and our IR website placed first in the Gomez Consulting Co., Ltd's "Investor Relations Site Ranking 2011" and third among in the "Fiscal 2010 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.



Investor Relations Staff

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

Risk Management

Minimizing Impacts on Earnings Performance through the Creation of a Risk Management System

Capcom faces many risks (see below) that have the potential to affect operating performance and the company's financial condition. 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 legal affairs 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 legal affairs division 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.

Risks Affecting Operating Results

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, 2011 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. Accordingly, 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 Agreements 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, used software accounts for approximately one-third of the domestic software market. 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) Mobile Content

In recent years, the Internet market has been expanding on the rapid growth of smartphones and other mobile handsets, but if hardware development lags new technology, it may become impossible to ensure the smooth provision of games and other digital content. Furthermore, in the event that the number of users declined on SNS sites where we distribute content as a result of decentralized amusement or diversification of consumer

needs, there is a risk that it may adversely affect our operating results.

(2) 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.

(3) Amusement Equipment

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

At the same time, the number of customers to whom we provide peripheral devices for game machines is quite limited. And, the performance of the "Amusement Equipment 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, up to now, 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.

Social Responsibility as a Game Software Company

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, 2011, 1,010 students from 149 institutions (primarily elementary and middle schools) had visited the company. In the same period, we also visited eight 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 790 students.

Furthermore, on the advice of a university education specialist, we refocused the class theme to “Career Education Support” and developed a program introducing a wide range of game company jobs, from developer and sales to management. Capcom will continue to promote CSR activities by meeting needs in the educational field.



On-site class at school

Expert Comments

Yoh Nanami

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



Further collaboration with parents and teachers support in of children’s education

In line with its aim of providing a new and complete course of study, the Ministry of Education, Culture, Sports, Science and Technology’s (MEXT) now requires “Career Education” for children in the classroom to cultivate a proactive view of work and careers.

In response to these educational needs, the Company developed the “Career Education Support program” and the “Game Literacy Education Support program” with the help of an education consultant. It is not an exaggeration to say that these initiatives are some of the most aggressive CSR activities by any company in the industry.

However, points can be seen where there are mismatches between classroom demand and the reality of the program provided by the Company. During the next fiscal year, Capcom proposes to create an environment that deepens understanding through education support activities that will include (1) making necessary content improvements based on conducting a student participant questionnaire and using the results to enhance learning, (2) determining whether the content is useful or not, listening to the opinion of teachers and (3) developing new programs for parents and teachers.

Capcom will continue working with parents and teachers to support children’s education.

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.

Specifically, before all home video games are sold, they are given a rating by the Computer Entertainment Rating Organization (CERO) that informs consumers of the nature of the content and age-appropriateness via a label on the game package. 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. Furthermore, to ensure fairness, CERO is not affiliated with any company or organization, but exists and operates independently.

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.

* From the results of the 4th CERO Age-Based Ratings System Field Survey



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

Rating Symbol

Directors and Corporate Auditors

Directors



Hiroshi Tobisawa

Katsuhiko Ichii

Kazuhiko Abe

Yoshifumi Yamashita

Sumitaka Hatsuno

Tamio Oda

Kenzo Tsujimoto

Haruhiro Tsujimoto

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)

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)

Tamio Oda

Director and Executive Vice President 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
- Jul. 2007 Director, in charge of Corporate Management of the Company (to present)
- Jul. 2010 Director, Chief Financial Officer (CFO) of the Company (to present)
- Apr. 2011 Director, Executive Vice President of the Company (to present)

Kazuhiko Abe

Director and Executive 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 Co., Ltd. (Currently Yayoi Co., Ltd.)
- Mar. 2003 Entered into the Company
- Jul. 2003 General Manager of Corporate Planning Dept. of the Company
- Apr. 2004 Corporate Officer of the Company
- Apr. 2006 Managing Corporate Officer of the Company
- Jun. 2006 Director, Chief Financial Officer (CFO) of the Company
- Jul. 2007 Director, in charge of Group Management of the Company
- Jul. 2010 Director, in charge of Overseas Business of the Company (to present)
- Apr. 2011 Director, Executive Corporate Officer of the Company (to present)

Yoshifumi Yamashita

Director and Executive Corporate Officer

- Feb. 1992 Entered into the Company
- Apr. 1997 General Manager, Business Dept. in R&D Division of the Company
- May 2001 Corporate Officer and Head of Budget Control Office of the Company
- Jul. 2003 Managing Corporate Officer, Head of Creative Division of the Company
- Apr. 2011 Executive Corporate Officer (to present), Head of Human Resources, IT and Research & Development Management Division of the Company
- Jun. 2011 Director, in charge of Human Resources, IT and Research & Development Management of the Company (to present)

Katsuhiko Ichii

Director and Executive Corporate Officer

- Feb. 2002 Director, Konami Computer Entertainment Tokyo, Inc.
- Aug. 2004 Entered into the Company
- Oct. 2004 General Manager of Home Video Games Business of the Company
- Apr. 2005 Corporate Officer Head of Home Video Games Business Strategy Division of the Company
- Apr. 2006 Managing Corporate Officer and Head of Home Video Games Business of the Company
- Apr. 2011 Executive Corporate Officer (to present), General Manager of Consumer Entertainment Business Management Group and Head of Consumer Games Business Division and Consumer Games R&D Division of the Company
- Jun. 2011 Director, in charge of Consumer Games Business 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 Corporate Officer and General Manager of Arcade Operations Dept. of the Company
- Jun. 2005 Managing Corporate Officer of the Company
- Apr. 2006 Director 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
- Jan. 2010 Director, in charge of Arcade Game Sales, Pachinko & Pachislo Business, Purchasing Dept., Ueno Branch and Dedicated Dabnet QC Dept. of the Company (to present)
- Apr. 2010 Director, in charge of Arcade Business, Pachinko & Pachislo Business and Production Control Department of the Company
- Jun. 2011 Director, in charge of Arcade Business and Pachinko & Pachislo Business 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 Corporate 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
- Jul. 2007 Director, in charge of Overseas Business of the Company
- Jul. 2010 Director, in charge of Special Missions of the Company
- Apr. 2011 Director, in charge of Asian countries of the Company (to present)

External Directors

* Messrs. Hiroshi Yasuda, Makoto Matsuo and Takayuki Morinaga are External Directors.

Takayuki Morinaga



Hiroshi Yasuda



Makoto Matsuo



Takayuki Morinaga

Director

Apr. 1964 Entered into The Export-Import Bank of Japan
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 External 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

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.
Jan. 2002 Chairman, Yomiuri International Economic Society (to present)
Jul. 2002 President, Japan Investor Protection Fund
Jun. 2004 External Corporate Auditor, Shiseido Co., Ltd.
Aug. 2004 President, Capital Market Promotion Foundation (Currently Capital Market Promotion Public Interest Incorporated Foundation) (to present)

Jun. 2007 External 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. 1999 External Corporate Auditor, Victor Company of Japan, Limited
Jun. 2000 External Corporate Auditor, Billing System Corporation (to present)
Jun. 2003 External Corporate Auditor, Yamanouchi Pharmaceutical, Co., Ltd.
Jun. 2004 External Director, Yamanouchi Pharmaceutical, Co., Ltd.
Apr. 2005 External Director, Astellas Pharma Inc.
Jun. 2007 Lecturer, Hitotsubashi University Faculty and Graduate School of Law: World Business Law (to present)
Oct. 2008 External Director of the Company (to present)
Jun. 2009 External 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

Auditors

* Messrs. Koji Takito, Shoji Yamaguchi are External Auditors.



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)



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 Deputy Director-General of Secretariat of the Commissioner General, National Police Agency
Sep. 1992 Chief, Hyogo Prefectural Police Headquarters
Apr. 1994 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 External 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



Shoji Yamaguchi

Corporate Auditor

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 External Auditor of the Company (full-time)
Jun. 2011 External Auditor of the Company (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