

## **1. The progress of the consolidated business results including related qualitative information**

The Japanese economy during the six months ended September 30, 2009, continued to level off despite inventory reduction, rising stock prices, and declining crude oil prices. Economic uncertainty still prevailed with stagnant consumer spending and a declining job market.

As for the video game industry, the Japanese domestic market has been on a downward trend, but it started to show some signs of recovery. Such an improvement, though not steady, is supported by the release of several large-scale titles that energized the home video game market.

In the overseas market, products of unique Japanese content are gaining popularity. Such an achievement was evident in successful expos and conferences, namely “Japan Expo” (France) and “Comic-Con International 2009” (USA), that introduced Japanese pop culture including games, “ANIME” animation, and “MANGA” cartoons. The fan base for Japanese pop culture is also expanding all over Asia.

The arcade industry overall is still in a downtrend and stagnating market hardly picked up. Struggling with this situation, we worked on nationwide sales promotions and various marketing events including “Monster Hunter Festa ‘09”.

In addition, Monster Hunter Tri ” (for Wii), our biggest featured product for the first half of the current year, was released to enormous popularity. Buyers stood in long lines at mass-retailers on its release date.

The resulting net sales increased to 38,892 million yen (up 24.5 % from the same term last year). As for profits, operating income increased to 5,574 million yen (up 66.0 % from the same term last year), and ordinary income increased to 5,476 million yen (up 33.1 % from the same term last year) though there was a rebound from the foreign exchange gain recorded during the same term last year. Net profit for the current period increased to 2,967 million yen (up 58.4 % from the same term last year) despite an increase in taxes.

### **Status of Each Operational Department**

#### Home Video Games

In this business segment, the first shipment of “Monster Hunter Tri” (for Wii) surpassed a million units, and this flagship software enjoyed rapid sales.

“Ace Attorney INVESTIGATIONS: Miles Edgeworth” (for Nintendo DS), which was derived from Capcom’s popular software “Ace Attorney”, showed a healthy sales increase. “Resident Evil 5” (for PlayStation 3, Xbox 360), one of the most successful titles in the previous year, achieved steady growth, while “Monster Hunter Freedom Unite” (for PSP) continued to grow supported by its established popularity.

“Sengoku BASARA Battle Heroes” (for PSP), which is the latest addition of the Sengoku BASARA series, also made a strong showing. The software started the so-called “REKIJO” (Japanese term for Japanese female history “Otaku”) boom in Japan and generated much public interest in Japan’s “Warring States” (SENGOKU) era.

Overseas sales remained soft partially because the release of “Dark Void” (for PlayStation 3, Xbox 360) was postponed until the latter half of this year. “Bionic Commando” (for PlayStation 3, Xbox 360) and “Monster Hunter Freedom Unite” (for PSP) also struggled.

The resulting net sales increased to 27,748 million yen (up 68.3 % from the same term last year), and the operating income increased to 7,299 million yen (up 100.7 % from the same term last year).

#### Arcade Operations

Under the severe market environment, we placed extra emphasis on acquiring new users, including women and families, while ensuring revisits from existing customers. Such efforts included installing various arcade games to satisfy diversified customer needs and offering special discount days. However, overall performance remained weak partially due to the intensifying competition with rival stores as well as to the bad weather this past summer.

We did not open or close any facilities during the first half of this fiscal year, and the total number of “Plaza Capcom” remained at 40.

The resulting net sales decreased to 6,249 million yen (down 8.7 % from the same term last year); however, the operating income slightly increased to 480 million yen (up 107.8 % from the same term last year) thanks to the success of the scrap and build strategy implemented in the second half of the previous year.

#### Arcade Games Sales

Due to declining demands, our main sales activity was to replace existing game machines. Overall sales remained weak due to a lack of new products and stagnating market conditions.

The resulting net sales decreased to 656 million yen (down 83.9 % from the same term last year), and the operating loss was 334 million yen (the operating income of 737 million yen was recorded in the same term last year).

#### Contents Expansion

In the area of contents distribution for mobile phones, “Monster Hunter Mobile” and “Apollo Justice: Ace Attorney” achieved steady growth. We also started the worldwide distribution of “Resident Evil: Degeneration” for iPhone and iPod touch. The software performed favorably and attracted new users.

In the segment of the Pachislo slot machine business, we tried to make a breakthrough in the current slow market with a mid-to-long term strategic approach. However, any notable results were not achieved due to the harsh market environment as well as due to the fact that this business segment is still too immature to be fully developed.

The resulting net sales increased to 2,560 million yen (up 0.5 % from the same term last year), and the operating loss was 403 million yen (operating income of 261 million yen was recorded in the same term last year).

#### Other Businesses

The net sales from other businesses, mainly character-related licensing royalties, increased to 1,676 million yen (up 30.6 % from the same term last year), and the operating income increased to 668 million yen (up 28.0 % from the same term last year).

### **2. Qualitative Information Regarding the Consolidated Financial Position**

Total assets as of the end of the six months ended September 30, 2009 decreased by 16,108 million yen from the end of previous fiscal year to 90,102 million yen. The primary increases were 8,740 million yen in cash on hand and in banks, and 2,702 million yen in work-in-progress for game software. The primary decrease was 24,654 million yen in notes and accounts receivable, trade.

Liabilities as of the end of the six months decreased by 14,306 million yen from the end of previous fiscal year to 32,555 million yen. The primary decreases were 7,000 million yen in notes and accounts payable, trade, and 5,055 million yen in short-term borrowings as a result of partial payment.

Net assets as of the end of the six months decreased by 1,802 million yen from the end of the previous fiscal year to 57,546 million yen.

The primary increase was 2,967 million yen in net income for the second quarter, and the primary decreases were 926 million yen in cash dividends, 2,704 million yen in repurchase of treasury stock, and the fluctuation of 1,271 million yen in cumulative translation adjustments (for the foreign currency translation of the net assets of consolidated overseas subsidiaries).

### **3. Qualitative Information Regarding the Consolidated Business Forecasts**

The prospects of the consolidated business results for the current fiscal year ending March 31, 2010 remain the same as what was projected at the financial results announcement on May 8, 2009.

#### **4. Others**

(1) Transfer of major subsidiaries during the current quarter (transfer of certain subsidiaries that requires

modification to the scope of consolidation). There were no applicable subsidiary transfers.

(2) The application of simplified accounting procedures and those procedures specific to the preparation of quarterly consolidated financial reports.

#### Computation method used for estimating bad debts in general receivables

The actual percentage of credit losses recorded at the end of the current quarter proved to be not significantly different from what was estimated at the previous fiscal year end. Therefore, the estimated bad debt is computed based on the actual percentage of credit losses at the previous fiscal year end.

#### Valuation of inventory

We eliminated the process of taking a physical stock inventory at the end of current quarter, and instead adopted a rational computation method which uses the actual ending inventory of the previous fiscal year as a base. As for devaluing the book value of inventory assets, the devaluation is applied only to those inventories whose profitability clearly decreased. The devaluation is based on the estimated net sale value of such inventories.

#### Computation method for corporation taxes, deferred tax assets, and deferred tax liabilities

The computation of corporation income taxes is based on the method that restricts taxable items, deductible items, or tax exempt items to only significant ones.

As for judging the ability to collect deferred tax assets, we confirmed that there has been no significant change in the business environments or in the generation of temporary difference since the previous fiscal year end. Therefore, we are applying the method that is based on the business prospects and tax planning used in the previous fiscal year.

For computing the tax expenses of our consolidated subsidiaries, we made a realistic estimate of the effective tax rate after applying the income tax allocation accounting to the net profit before tax of the consolidated fiscal year including the current first quarter. We then applied the estimated effective tax rate to the net profit before tax of the current quarter. The adjustment of corporate tax and other tax is included in the corporate tax.

(3) Changes in the principle, procedures, and presentation methods in the preparation of consolidated quarterly financial reports

There were no applicable changes.