

## [Qualitative information and Consolidated Financial Statements]

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

The Japanese economy during the 9 months period, ended December 31, 2009, did not recover despite steady stock prices and the moderate appreciation of the yen. Negative factors that affected the economy were slump in consumer spending and capital investments, in addition to deflationary pressure such as wage control.

As for the video game industry, the home video game market seemed to have picked up somewhat supported by the price reduction of game consoles. However, video game markets leveled-off due to the prolonged recession with declining customer confidence and decreasing demand.

In arcade operations, the entire industry devoted its full-scale effort to revitalize the market. Implementing customer appreciation days and holding special events such as “Game Day” (November 23<sup>rd</sup>) across Japan were just a couple of examples of such efforts. However, this business segment remained in a downtrend due to the lack of appealing products, the adverse effect of the new-type influenza “or swine flu”, and, above all, the fact that home video games have become so similar to arcade games that they now offer a comparable experience.

Under these circumstances, Capcom engaged in various activities: developing software that precisely satisfies market needs; leading a nationwide sales promotion campaign; implementing the business strategy of “Single Contents Multiple Usage”, mining possibilities of every product; applying business strategies that correspond to changing business environment; and restructuring unprofitable divisions.

During the 9 months period of the current fiscal year, only a few flagship software titles were released from our home video game division, while both arcade operations and content expansion were weakening. Though overall performance remained modest, sales still reached 49,987 million yen (up 5.9 % from the same term last year) backed by the successes of the 6 month period from April to September, 2009.

As for profits, operating income increased to 4,817 million yen (up 84.3 % from the same term last year), and ordinary income increased to 4,795 million yen (up 127.5 % from the same term last year).

Extraordinary loss increased due to the business restructuring expense of revising the arcade game development system.

The net profit for the current quarter increased to 1,731 million yen (up 865.9 % from the same term last year), after recording the corporate tax refund for prior fiscal years based on the agreement between US and Japanese tax authorities concerning the revision on transfer pricing taxation.

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

#### Home Video Games

In this business segment, “Mega Man Exe: Operate Shooting Star” (for Nintendo DS) achieved steady sales supported by their established brand names during this quarter. Our lower-priced software title “Monster Hunter Freedom Unite PSP the Best” (for PlayStation Portable), whose price has been reduced further from its original low-price, also grew favorably, whereas “Resident Evil: The Darkside Chronicles” (for Wii) and “Okami” (for Wii) saw slow sales.

Capcom’s flagship title “Monster Hunter Tri” (for Wii) achieved healthy growth, and “Ace Attorney investigations: Miles Edgeworth” (for Nintendo DS) performed satisfactorily.

Additionally, “Resident Evil 5” (for PlayStation 3, Xbox 360), one of the most successful titles in the previous year, continued to grow supported by its incessant popularity.

“Sengoku Basara Battle Heroes” (for PlayStation Portable), which is the latest addition of the Sengoku Basara series, also grew on a steady basis. The software started the so-called “Rekijyo” (Japanese term for Japanese 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 at the election of the governor of Miyagi.

The resulting net sales increased to 33,426 million yen (up 25.2 % from the same term last year) partially supported by the performance of the cumulative second quarter, and the operating income increased to 6,994 million yen (up 58.8 % from the same term last year).

#### Arcade Operations

One of our main focuses in this business segment was to position arcades as easily accessible amusement facilities in order to expand our customer base in this softening 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 females and families, while continuing to hold on to our core users.

However, sales were restrained partially due to declining consumer confidence and to the trend in which consumers cut back on going out and looked for alternative “at-home entertainment”.

At the same time, we worked on profitability improvement through the revision of profit structure and the reduction of operation costs.

The resulting net sales decreased to 8,935 million yen (down 11.0 % from the same term last year), while the operating income increased to 448 million yen (up 295.9 % from the same term last year) thanks to the success of the profitability improvement strategy.

#### Arcade Games Sales

Within this stagnating market, Capcom released the medal-winning game machine, “Mario Party Fushigi no Korokoro Catcher”, with the aim of reaching a new user base as well as holding onto existing customers.

We concentrated our every effort in sales expansion in order to make a breakthrough in the current market. As part of such activities, we went into partnership with Namco Bandai Games to cooperate in the amusement business. Despite all of our best efforts, we still struggled, since the main activity of this business segment was in sales of existing product.

The resulting net sales decreased to 2,012 million yen (down 58.5 % from the same term last year), and the operating loss was 63 million yen (operating income of the same term last year was 381 million yen).

#### Contents Expansion

In the area of content distribution for mobile phones, “Apollo Justice: Ace Attorney” showed healthy growth.

The iPhone/iPod Touch version of “Ghosts'n Goblins Gold Knights” and “Phoenix Wright: Ace Attorney” gained new users and achieved projected sales in general.

The segment of the Pachislo machine business, on the other hand, continued to struggle without an appealing sales-inducing product in the sever business environment.

The resulting net sales decreased to 3,385 million yen (down 10.9 % from the same term last year), and the operating loss of 299 million yen was recorded (the operating income of the same term last year was 188 million yen).

## Other Businesses

The net sales from other businesses, mainly character-related licensing royalties, increased to 2,227 million yen (up 21.5 % from the same term last year), and operating income increased to 897 million yen (up 41.7 % from the same term last year).

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

Total assets decreased by 19,791 million yen from the end of previous fiscal year to 86,419 million yen. The primary increases were 2,716 million yen in cash on hand and in banks, and 3,617 million yen in work-in-progress for game software.

The primary decreases were 23,776 million yen in notes and accounts receivable, trade, 1,449 million yen in work-in-progress, and 1,102 million yen in raw materials and supplies.

Liabilities decreased by 16,465 million yen from the end of previous fiscal year to 30,396 million yen. The primary decreases were 6,003 million yen in notes and accounts payable, trade, 5,055 million yen in short-term borrowings due to partial payment, 1,466 million yen in accrued income taxes, and 1,011 million yen in accrued bonuses.

Net assets decreased by 3,326 million yen from the end of previous fiscal year to 56,023 million yen. The primary increase was 1,731 million yen in net income for the current quarter, and the primary decreases were 1,831 million yen in cash dividends, 2,704 million yen in repurchase of treasury stock, and the fluctuation of 922 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 forecast for the consolidated business results for the current fiscal year ending March 31, 2010 were revised on December 22, 2009 from what was projected at the financial results announcement on May 8, 2009.

For details, please refer to the press release “Capcom Announces Special Loss and Forecast Revision” (December 22, 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 devaluating 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.

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 3rd 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