

CAPCOM

Year Ended March 31, 2011

ANNUAL REPORT

2011

Connected to Fun



“Capcom: Creator of Entertainment Culture that Stimulates Your Senses”

Our principle is to be a creator of entertainment culture. Through development of highly creative software contents that excite people and stimulate their senses, we have been aiming to offer an entirely new level of game entertainment. By taking advantage of our optimal use of our world-class development capabilities to create original content, which is our forte, we have been actively releasing many a number of products around the world.

Today, young and old, men and women enjoy a gaming experience all over the world. It is common to see people easily enjoying mobile content (games for cell phones) on streets or enjoying a game online with someone far away. Moreover, game content is an artistic media product that fascinates people, consisting of highly creative, multi-faceted elements such as characters, storyline, a worldview and music. It has also evolved to be used in a wide range of areas of media such as Hollywood movies, TV animation programs and books.

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.





Editorial Policy

This report was prepared for a wide range of readers, from individual shareholders to institutional investors, and is intended as a tool to aid in the understanding of Capcom management policies and business strategies. We strive to go beyond simply presenting company earnings and provide insight into game and entertainment market trends. Furthermore, in response to investor concerns, we have enhanced financial analysis, governance and other information.

To the extent possible, we attempt to make data and content understood visually by making full use of photographs, graphics and other design elements.

Search Index

To find out more about the business performance

PP3–6, PP9–10, PP13–14 (Q1, Q2), PP29–40, PP55–82

To find out more about the business or market environment

P9, PP13–14 (Q1, Q2), PP29–40

To find out more about our business strategy

P12, PP14–18, PP19–26

To find out more about our businesses

PP7–10, PP29–40

To find out more about our game software sales performance

P5 (bottom), P7, P11, P26, PP29–34

To find out more about our R&D capabilities

PP19–28

separate volume

The Latest Development Report 2011

3	11-Year Summary of Consolidated Business Performance Indicators
5	Commentary on Main Financial Indices
7	Business Segments
9	Business Segments Highlights
11	Hit Titles

Highlights

12 To Our Shareholders (From CEO & COO)

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



To Our Shareholders

19 Our Strategy for Growth



21	Growth Strategy 1 Market Strategy Strengthening Online and Mobile Businesses Worldwide
----	--

23	Growth Strategy 2 Development Strategy Efficient Development Structure Producing Ongoing Additions to Popular Series
----	--



25	Growth Strategy 3 Media Strategy Expand Single Content Multiple Usage Domain
----	--



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

Our Strategy for Growth

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

29	Consumer Online Games
32	Mobile Contents
35	Arcade Operations
37	Amusement Equipments
39	Other Businesses



Overview of Capcom's Business and Outlook for the Future

41 Corporate Governance

41	Conversation: An External Director's Perspective on Capcom's Governance	48	Risk Management
43	Corporate Governance Structure and Initiatives	50	Social Responsibility as a Game Software Company
47	IR Activities	51	Directors and Corporate Auditors

Corporate Governance

53 Financial Section

54	Financial Strategy According to the CFO: R&D Investment and Fund Procurement	62	Consolidated Statements of Changes in Net Assets
55	Financial Review	63	Consolidated Statements of Cash Flows
59	Consolidated Balance Sheets	64	Notes to Consolidated Financial Statements
61	Consolidated Statements of Income / Consolidated Statements of Comprehensive Income	83	Report of Independent Auditors

Financial Section

84	Corporate Data	85	Stock Data	86	History
----	----------------	----	------------	----	---------

Corporate Data

separate volume

The Latest Development Report 2011
**Work Hard,
Play Harder**



11-Year Summary of Consolidated Business Performance Indicators

Financial Index

	2001	2002	2003	2004	2005					
For the Year:										
	Millions of yen									
Net sales	¥ 49,082	¥ 62,742	¥ 62,036	¥ 52,668	¥ 65,895					
Operating income	7,155	9,727	6,680	1,402	7,752					
Net income (loss) before income taxes	7,126	7,420	(30,049)	(6,900)	7,006					
Net income (loss)	6,007	4,912	(19,598)	(9,158)	3,622					
Depreciation & amortization	2,411	2,172	2,202	2,081	2,101					
Capital expenditures	2,938	4,181	2,289	4,678	1,665					
R&D expenses	1,461	1,067	1,151	1,124	1,323					
At Year-End:										
	Millions of yen									
Total assets	¥ 113,493	¥ 128,512	¥ 106,648	¥ 93,096	¥ 106,361					
Net assets	62,965	68,233	42,888	31,854	32,491					
Net cash	(11,184)	(11,132)	(14,894)	(16,957)	(12,948)					
Cash Flows:										
	Millions of yen									
Cash flows from operating activities	¥ 3,652	¥ 3,315	¥ 3,635	¥ 5,577	¥ 7,977					
Cash flows from investing activities	(4,547)	(3,066)	(2,329)	(5,011)	(1,099)					
Cash flows from financing activities	(1,768)	8,589	(2,000)	(395)	6,251					
Net increase (decrease) in cash and cash equivalents	(1,763)	9,519	(1,555)	(1,313)	13,406					
Cash and cash equivalents at end of year	25,675	35,000	33,444	32,131	45,538					
Per Share Data:										
	Yen									
Net income (loss) per share	¥ 109.90	¥ 84.21	¥ (338.01)	¥ (160.91)	¥ 63.37					
cash dividends applicable to the year per share	20.00	20.00	20.00	20.00	20.00					
Net assets per share	1,081.62	1,168.51	753.47	559.66	589.99					
Financial Index:										
Operating margin (%)	14.6	15.5	10.8	2.7	11.7					
ROE (%)	10.5	7.5	—	—	11.3					
ROA (%)	5.4	4.1	—	—	3.6					
Net worth ratio (%)	55.5	53.1	40.2	34.2	30.5					
Interest coverage ratio (times)	8.7	14.2	14.6	20.3	30.0					
Debt-equity ratio (%)	80.2	88.3	148.8	192.4	227.9					
Price earnings ratio (times)	32.8	41.2	—	—	16.5					
Stock Information:										
Number of outstanding shares (thousands shares)	58,308	58,435	58,435	58,435	58,435					
Foreign investors (%)	27.12	25.91	16.85	16.59	14.79					
Net Sales of Consumer Online Games Business:^{*1,2}										
	Millions of yen									
Consumer Online Games Business	31,727	47,769	48,090	33,949	39,985					
Number of Home Video Games Sold:										
	Thousands									
Total number of units	11,100	15,000	16,300	11,600	13,500					
Sales of major titles										
	Onimusha	1,350	Devil May Cry	2,070	Devil May Cry 2	1,400	Mega Man Battle Network 4	950	Resident Evil 4 (GC)	1,230
	Dino Crisis 2	1,230	Onimusha 2	1,070	Resident Evil 0	1,130	Onimusha 3	630	Devil May Cry 3	1,100
	Breath of Fire IV	460	Mobile Suit Gundam: Federation vs. Zeon	890	Mega Man Battle Network 3	850	Resident Evil Out Break	430	Resident Evil Out Break	820

*1 Before the fiscal year ended March 31, 2009, the Consumer Online Games Business is described as the Home Video Games Business.

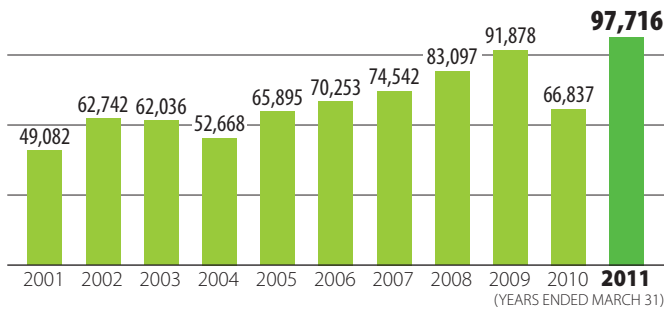
*2 In the fiscal year ended March 31, 2011, Capcom restructured its business segment divisions, and as a result, some figures before the fiscal year ended March 31, 2009 have been retroactively adjusted.

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

2006		2007		2008		2009		2010		2011		2011	
Millions of yen										Thousands of U.S. dollars			
¥	70,253	¥	74,542	¥	83,097	¥	91,878	¥	66,837	¥	97,716	\$ 1,177,306	
	6,580		9,602		13,121		14,618		5,587		14,295	172,229	
	6,912		9,986		11,962		12,448		1,124		10,807	130,205	
	6,941		5,852		7,807		8,063		2,167		7,750	93,384	
	1,936		2,774		3,393		4,143		3,368		3,315	39,946	
	1,600		4,495		4,503		2,906		2,205		2,758	33,229	
	1,864		1,828		2,972		2,329		2,125		2,924	35,232	
Millions of yen										Thousands of U.S. dollars			
¥	98,457	¥	91,478	¥	93,606	¥	106,210	¥	86,621	¥	90,408	\$ 1,089,260	
	39,464		45,144		53,660		59,349		53,956		58,007	698,887	
	(678)		9,200		13,061		7,378		12,299		27,655	333,200	
Millions of yen										Thousands of U.S. dollars			
¥	13,921	¥	16,063	¥	7,452	¥	(551)	¥	14,320	¥	22,392	\$ 269,791	
	(1,779)		(6,715)		(3,374)		(2,715)		(1,618)		(2,046)	(24,659)	
	(18,259)		(15,206)		(2,448)		(342)		(10,747)		(12,919)	(155,652)	
	(4,885)		(5,654)		(2,256)		(4,454)		1,203		5,196	62,603	
	40,652		35,020		32,763		28,611		29,815		35,011	421,824	
Yen										U.S. dollars			
¥	125.19	¥	107.52	¥	132.90	¥	130.98	¥	35.71	¥	131.18	\$ 1.58	
	20.00		30.00		30.00		35.00		35.00		40.00	0.48	
	716.91		799.35		881.31		961.38		913.18		981.76	11.83	
	9.4		12.9		15.8		15.9		8.4		14.6		
	19.3		13.8		15.8		14.3		3.8		13.8		
	6.8		6.2		8.4		8.1		2.3		8.8		
	40.1		49.3		57.3		55.9		62.3		64.2		
	82.6		237.3		103.7		—		86.9		155.8		
	149.4		102.8		74.4		79.0		60.5		55.9		
	9.7		15.7		25.6		13.3		49.5		12.1		
	58,435		62,269		66,719		67,394		67,723		67,723		
	23.35		32.60		27.72		33.73		24.22		22.17		
Millions of yen										Thousands of U.S. dollars			
	42,718		43,813		51,679		62,892		43,702		70,269	846,620	
Thousands													
	13,400		12,200		15,600		17,300		12,500		20,500		
Resident Evil 4 (PS2)	1,810	Lost Planet Extreme Condition	1,370	Devil May Cry 4	2,320	Resident Evil 5	4,400	Monster Hunter Freedom Unite (Best Price included)	1,350	Monster Hunter Freedom 3	4,600		
Onimusha DAWN of DREAMS	640	Dead Rising	1,220	Resident Evil 4 Wii edition	1,300	Street Fighter IV	2,500	Monster Hunter Tri	1,150	Dead Rising 2	2,200		
Monster Hunter Freedom	610	Monster Hunter Freedom 2	1,220	Resident Evil: The Umbrella Chronicles	1,060	Monster Hunter Freedom Unite (Best Price included)	2,200	Resident Evil 5	950	MARVEL VS. CAPCOM 3 Fate of Two Worlds	2,000		

Net sales

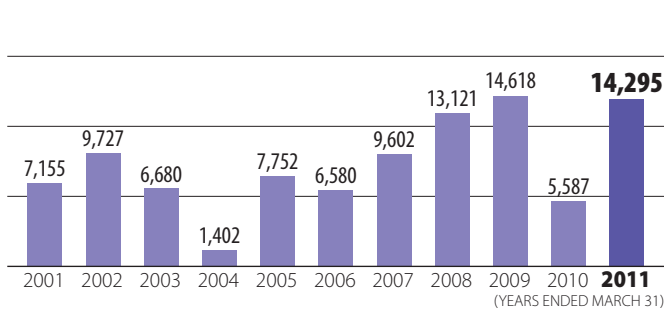
(Millions of yen)



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 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. This fiscal year, ended March 31, 2011, we achieved record-breaking net sales, a result of factors that included five titles selling over a million units each.

Operating income

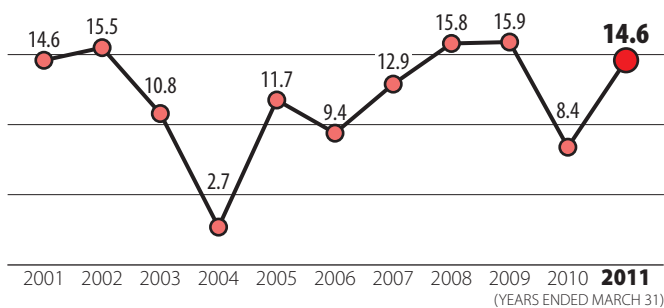
(Millions of yen)



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 about two years after sales because a few years are normally required to develop new games. Starting in the fiscal year 2007, Capcom has been using a new game development framework to improve operating income by focusing activities on the most profitable titles. This fiscal year, income increased significantly on the boost in profitability contributed by five game titles that sold over a million units each.

Operating margin

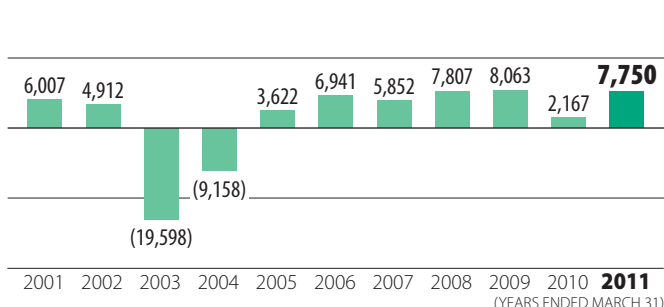
(%)



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 thanks to the establishment of Capcom's efficient developmental organization. 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. This fiscal year, we recovered operating margins to previous year levels to increase sales and earnings on major title hits.

Net income (loss)

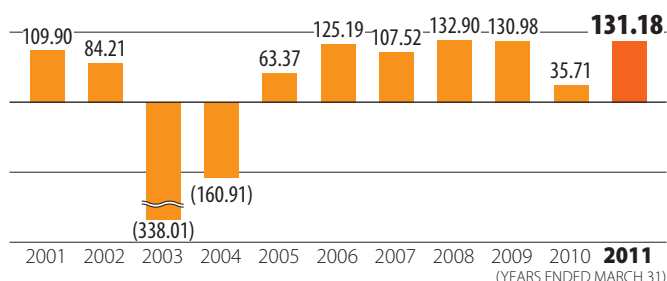
(Millions of yen)



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. In the fiscal year that ended in March 2010, net income is expected to decline significantly 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. Furthermore, despite posting losses on currency exchange business restructuring this fiscal year, the record net sales achieved this period were sufficient to realize a major increase in net income.

Net income (loss) per share

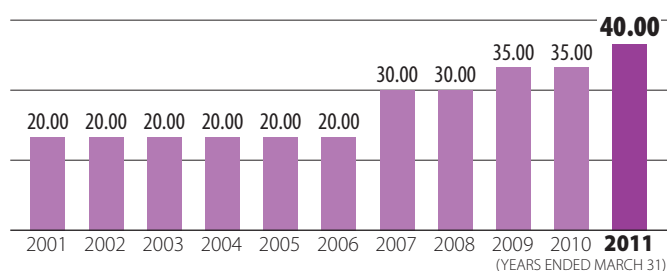
(Yen)



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. Since fiscal 2010, acquisition of treasury stock has been generally linked to the rise and fall of net income.

Cash dividends applicable to the year per share

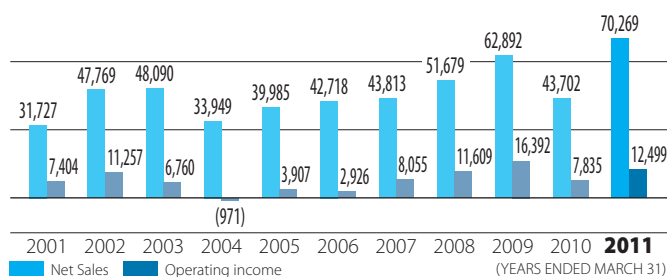
(Yen)



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. The dividend was raised again to 35 yen in fiscal 2009. In consideration of the record-breaking net sales in fiscal 2011, as well as upward revisions to forecasts, the ordinary dividend was increased a further five yen, bringing the full-year cash dividend per share for fiscal 2011 to a total of 40 yen.

Consumer Online Games business net sales and operating income

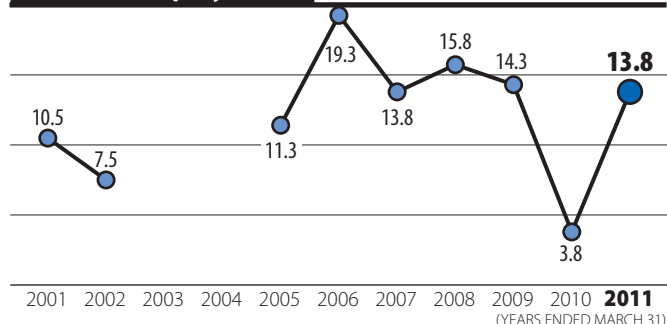
(Millions of yen)



This core business accounts 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 "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. Moreover, although we experienced a temporary slump in fiscal 2010 when we made the decision to postpone the release of major titles for strategic purposes, we were once again able to create multiple million unit selling hits and achieve record net sales in fiscal 2011.

Return on equity (ROE)

(%)



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 2005 (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, ROE for the fiscal year ended March 2010 temporarily decreased due to the postponement of launch of some major titles, however, levels returned to those of the previous year in fiscal 2011.

Five Business Segments Generating Synergy to Create Original Content

Capcom's core competence is our world-class development capability to produce attractive games, which we then make use of in our Consumer Online Games and Mobile Contents Businesses, the drivers of our growth. Our Amusement Equipment Business develops original content for use in arcade and gaming machine cabinets. Our Arcade Operations Business operates "Plaza Capcom". Our Other Businesses focus on the licensing of game content for multimedia development. The synergy created by these five businesses drives Capcom's business activities.

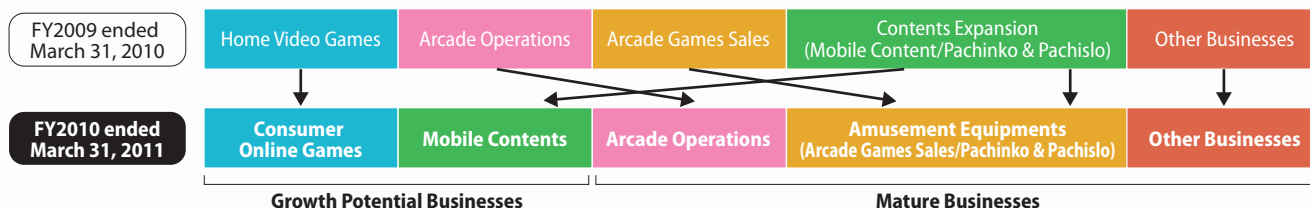
● Sales of Five Titles Topped One Million Units in the Fiscal Year Ended March 31, 2011

Monster Hunter Freedom 3	4.6 million units
Dead Rising 2	2.2 million units
MARVEL VS. CAPCOM 3 Fate of Two Worlds	2 million units
Super Street Fighter IV	1.6 million units
Lost Planet 2	1.5 million units



April 2010 Business Segment Changes — Accelerated Growth of Online and Mobile Segments

In line with changes in the business environment, Capcom made changes to its business segments during the period under review. We separated the Mobile Contents Business from the Contents Expansion Business, and combined the Arcade Games Sales Business and the Pachinko & Pachislo Business to form the Amusement Equipments Business. Capcom considers the Consumer Online Games Business and Mobile Contents Business to be a growing business segment and plans to focus management resources in this area going forward.



Consumer Online Games



Sales breakdown



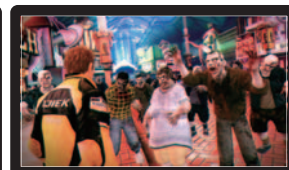
71.9%

This business is engaged in the development and sales of home video games and the development and operation of PC online games. We will continue concentrating management resources on this business, which represents 70% of company sales, and developing games that meet diverse user needs. We consider action and adventure games our forte, and have released many creative million-seller titles worldwide.

Product Composition



"Monster Hunter Freedom 3"



"Dead Rising 2"

Mobile Contents

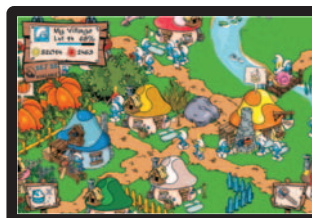


Sales breakdown



4.1%

This business segment develops and distributes games for mobile phones. In the high growth mobile content market, we are able to respond flexibly to advances in smart phones and tablet PCs with our own brand titles and licensed content from other companies, enabling us to expand earnings even further.



"Smurfs' Village"

© Peyo - 2010 - Licensed through Lafig Belgium - www.smurf.com.
All game code ©2011 Beeline Interactive, Inc.



"MONHAN NIKKI MOBILE AIRU MURA"

Arcade Operations

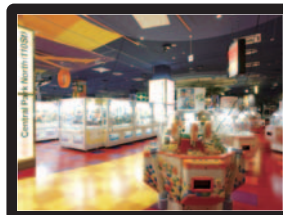


Sales breakdown



11.9%

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 Kusatsu



Plaza Capcom Ishinomaki

Amusement Equipments



Sales breakdown



8.1%

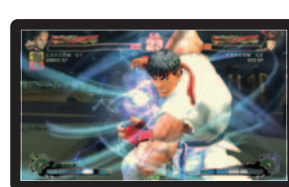
We are engaged in two other businesses based on the content used for our home video games. The Pachinko & Pachislo Business is involved in the development, manufacture and sales of frames and LCD devices for gaming machines as well as software. The Arcade Games Sales Business develops, produces and distributes arcade games for amusement facilities, creating synergy between businesses.



"Sengoku BASARA 2"



"Onimusha: Dawn of Dreams"
© CAPCOM CO., LTD.
ALL RIGHTS RESERVED.
©Sammy
©RODEO



"Super Street Fighter IV Arcade Edition"

Other Businesses

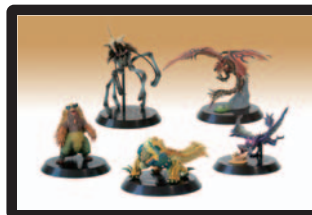


Sales breakdown



4.0%

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



Books

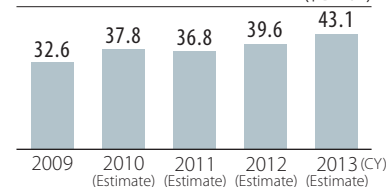
Market Trends

Consumer Online Games



- Lower annual sales of game consoles due to market saturation and lower unit prices continued lackluster conditions in the home video game (package) market.
- Diversified forms of marketing through digital distribution and other online networks.
- The PC online game market in the Asia region is growing on track and is expected to grow to a scale equal in size to the home video game market in the future.

Total of Home Video Games and PC Online Market (\$ Billion)



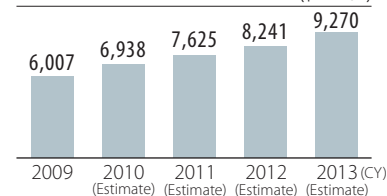
Source: Data based on that prepared by Capcom.

Mobile Contents



- With the worldwide adoption of smartphones and tablet devices, the market is experiencing rapid growth.
- The advent of App Stores and the establishment of other global platforms are opening up new regions in developing countries for a whole new segment of game users.
- Spawned from the popularity of social games with added friend communication functionality, a new light game user segment is emerging.

Mobile Content Market (\$ Million)



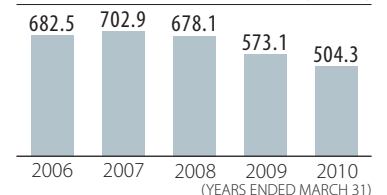
Source: Juniper Research 2010

Arcade Operations



- A stagnant domestic economy and sluggish consumption have resulted in fewer customers and market contraction for the third consecutive year.
- The number of major arcades operated by game companies closed continued to increase as the overall number of arcades continued its diminishing trend.
- The Great East Japan Earthquake has affected the consumer mind, and the anticipated rolling blackouts are expected to influence people seeking leisure that is inexpensive, near and short in duration.

Amusement Arcade Market (¥ Billion)



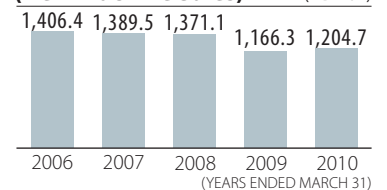
Source: Amusement Industry Survey Report

Amusement Equipments



- In the gaming machine market, innovative pachinko machine gaming aspects sparked the first sales unit price increase in four years.
- The arcade game market, already hit hard by the sluggish economy, contracted further as many arcade operators curtailed investment.
- Although both markets are impacted by uncertainties caused by the disaster, the anticipated near future trend is leisure activities focused on inexpensiveness, nearness, and shortness.

Major Gaming Machines Market (New Machine Sales) (¥ Billion)



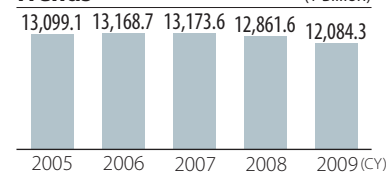
Source: Manufacturer sales base compiled by Capcom using Pachinko Maker Trends (2008-2010); Yano Research Institute Ltd.

Other Businesses



- The global contents market was worth 130 trillion yen. The Japanese contents market was worth 12 trillion yen, second to 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.

Japanese Content Market Trends (¥ Billion)



Source: Digital Content White Paper 2010

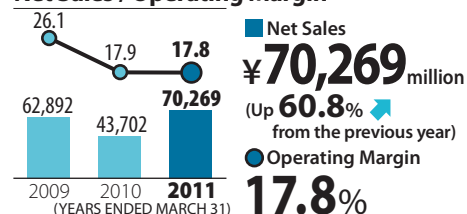
Capcom's Strength and Strategy

- 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 an understanding of market characteristics and product customs.

Operating Result for This Fiscal Year

- Major domestic game "Monster Hunter Freedom 3" was the sold 4.6 million units faster than any other PSP game.
- Four titles such as "Dead Rising 2" and "MARVEL VS. CAPCOM 3 Fate of Two Worlds" targeted for overseas markets, achieved sales of over million units.
- Sales of online game "Monster Hunter Frontier Online" for the PC and Xbox 360 also performed favorably.

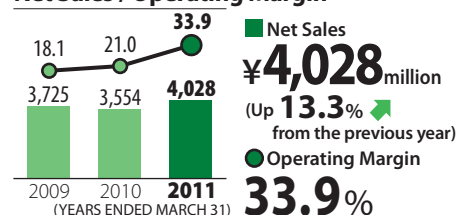
Net Sales / Operating Margin*1,2



- Using our second brand "Beeline" we are rolling out SNS game globally for smartphones in an attempt to capture the light user segment rather than the traditional Capcom user.
- We will continue to develop popular home games for mobile phones by making effective use of the content and expertise accumulated over years of consumer game development with the Capcom brand.

- For the iPhone and other new devices, we distribute popular titles such as "Street Fighter IV" and "Ghost Trick".
- SNS games overseas for smartphones "Smurfs' Village", "Zombie Cafe" and a third title have received a total of 15 million downloads so far.
- Having established our position in the overseas SNS market as a first mover, we are now in a position to establish a foundation from which to further develop business.

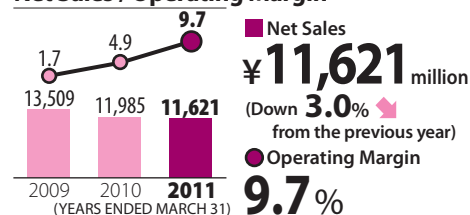
Net Sales / Operating Margin*2



- 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.

- Seeking to increase women, family and senior users while curtailing investment and cutting costs, we strive to recover 99% of the previous year's existing arcade net sales through efficient arcade operation and careful response to the market environment.
- The Great East Japan Earthquake caused structural, flooding and other damage to ten arcades in the Tohoku and Kanto areas, resulting in closure for repairs (As of April 30, 2011, all these facilities were open and fully operational).

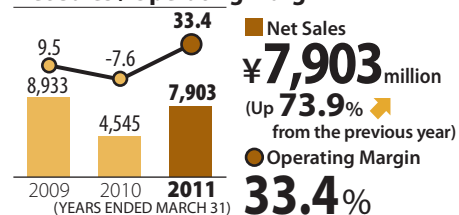
Net Sales / Operating Margin



- We establish new revenue streams using our rich in-house content.
- The Pachinko & Pachislo Business Division uses capabilities developed creating the Home Video Games Business to develop machines from our proprietary and other content.
- Using content developed from home games, the Arcade Game Sales Business added lots of new content, including popular fighting and other games.

- In our Pachinko & Pachislo Business, "Sengoku BASARA 2" sold 16,000 units, while "Onimusha: Dawn of Dreams" was a repeat seller and continues to be wildly popular.
- "Super Street Fighter IV Arcade Edition" has proved to be a popular video game in the Arcade Game Business, with sales looking steady for the foreseeable future.

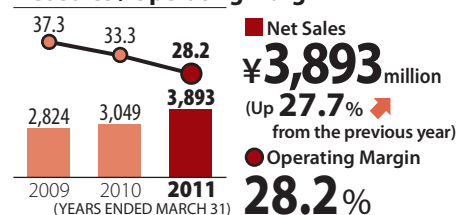
Net Sales / Operating Margin*2



- We create a strong synergy with our Consumer Online 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.

- Maximize earnings and strengthen brand power of proprietary content through execution of lateral development of integrated sales of home video games based on the Single Content Multiple Usage strategy.
- Promote use of our original contents as the subject for Hollywood movies.
- Develop various media vehicles such as comics, TV animation and various collaborations to maximize sales of "Monster Hunter Freedom 3".

Net Sales / Operating Margin



*1 Before the fiscal year ended March 31, 2009, the Consumer Online Games Business is described as the Home Video Games Business.

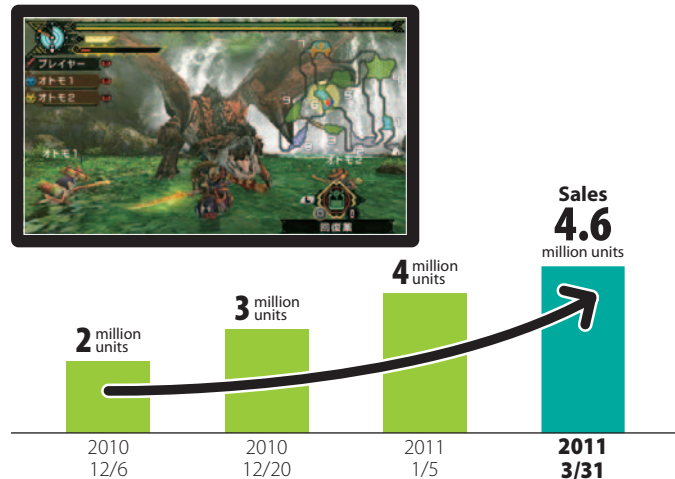
*2 In the fiscal year ended March 31, 2011, Capcom restructured its business segment divisions, and as a result, figures in the fiscal year ended March 31, 2009 have been retroactively adjusted.

A Title Boasting Unprecedented Popularity “Monster Hunter Freedom 3”



Four Million Units Sold in One Month, the Fastest Selling Title in PSP History

On December 1, 2010, the latest installment of the “Monster Hunter” series, “Monster Hunter Freedom 3” went on sale for the PlayStation Portable (PSP). There was an immediate buzz surrounding the release since players in this edition could talk to one another during play. As soon as the game went on sale, it began selling out everywhere. The previous installment in the series “Monster Hunter Freedom Unite” sold four million units over two and a half years, but it took “Monster Hunter Freedom 3” only one month to achieve the same. The entire series has sold over 18 million units (as of March 31, 2011). As of March 31, 2011, sales had surpassed 4.6 million, and it remains the best selling PSP game of all time.



Making the Hits

1 Create Conversation, Propose a New Style of Fun



The distinctive aspect of “Monster Hunter” series is that it can be played by experts or beginners, or even by people who aren’t that skilled at gaming. Even if a beginner is unable to take down a monster themselves, they can still communicate with friends, encourage one another and take part in the hunt, thus realizing a new style of fun. The game is also popular with entertainers, athletes and a variety of well-known people.

2 Raising Expectations Through Other Industry Collaborations



Capcom worked with Uniqlo Co., Ltd., to create an original T-shirt to promote connections among other industries, attract existing fans and acquire new “Monster Hunter Freedom 3” users. With support from a local association, the hot spring resort Shibu in Nagano Prefecture was the setting for a promotional event that transformed the area into “Yukumo Village”, complete with structures and street facades from the game. The event included a specially decorated train to transport visitors. Despite being the off-season, more than 10,000 people turned out.

3 Acquiring New Users Focused Mostly on Women



About four months before “Monster Hunter Freedom 3” went on sale, the spin-off “MONHAN NIKKI POKAPOKA AIRU MURA” featuring the series mascot “Felyne” (AIRU) was released for the PSP. With a heartwarming worldview, this lovable character was designed to attract new, primarily female users, and has helped contribute to widening the “Monster Hunter Freedom 3” purchase segment.

“Monster Hunter” Series Multiple Usage Development

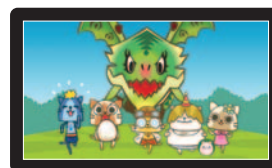
Based on Capcom’s Single Content Multiple Usage strategy, we can distribute content to home video game consoles as well as PCs, mobile phones and a variety of other platforms, while further developing the “Monster Hunter” world through various media including walkthrough strategy guides, concerts and character goods.



Mobile Games



Orchestral Concerts



TV Animation
©2010 CAPCOM/GENEON UNIVERSAL



Soundtracks

Aiming for Further Growth by Focusing Efforts on the Growth Areas of “Online” and “Mobile”.

In 2010, the global economy appeared headed for a moderate recovery, with the assistance of large-scale financial deregulation and economic stimulus measures instituted by major industrial nations, although the overall situation remained grave as high unemployment rates continued in various countries. In Japan, while the economy experienced a seesawing yet upward trend, the Great East Japan Earthquake threw the country into an unprecedented crisis.

In our industry, social games played on smartphones and other multi-function mobile phones showed dramatic growth, while the PC Online Games and download businesses also grew. Consequently, the size of the game market reached 44.8 billion dollars (up 4.9% from the previous year) and entered a new phase of expansion in 2010. The concept of manufacturing cost, in particular, was rendered obsolete in the mobile content and online games businesses, resulting in a considerable rise in profitability and causing fundamental changes in the very structure of the business. Strategic acumen has therefore become a decisive factor in seeking corporate growth.

Under these circumstances, Capcom is striving to achieve its medium-term management targets by pursuing three growth strategies: “strengthening its Online Business”, “expanding its development lineup” and “expanding Single Content Multiple Usage”.

Particularly with respect to our Online Games Business, we sought to strengthen the Asian development of PC online games, increase the number of smartphone and SNS game titles and expand downloadable content for traditional home video games. At the same time, we sought to revise the vertical development structure of our consumer, mobile and online businesses by integrating the respective development organizations into a multi-platform development system compatible with all types of hardware. As a result, we have already generated sales of 13 billion yen (up 18.2% from the previous year) in our online business for this fiscal year and have enjoyed pioneering success among Japanese companies in the overseas social game market (See P21 “Growth Strategy 1” for more details).

The Great East Japan Earthquake damaged company properties, with equipment failure at 10 arcade facilities that were forced to suspend operations. The impact, however, proved to be comparatively minor, and all arcades were able to resume business by April.

To accomplish our medium-term management targets of (1) operating margin of 15% or higher and (2) net sales of 500 billion yen and operating income of 75 billion yen (cumulative total for five years from the year ended March 2011 through the year ending March 2015), Capcom will invest 90% of its management resources into growth strategies.

辻 本 憲 三

Kenzo Tsujimoto

Chairman and
Chief Executive Officer (CEO)



辻 本 春 弘

Haruhiro Tsujimoto

President and
Chief Operating Officer (COO)



Capcom achieved record net sales and a V-shaped recovery. Seeing opportunity in the rapidly changing game market, we implemented the second stage of structural reforms aimed at achieving further growth.



In this section, I'd like to respond to investor concerns that came up in meetings during the past year, namely, performance during this fiscal year (the period ended March 31, 2011), medium-term business goals and strategies, the progress of structural reforms and financial and dividend policies. These issues will be addressed on the following pages in a Q&A format. We hope this discussion will provide all our stakeholders with a deeper understanding of how the company is managed.

As I will be explaining some important points, I will be referring to other pages in this report. Please be sure to read all the pages referenced.

Kenzo Tsujimoto

Chairman and Chief Executive Officer (CEO)

Market Environment and Performance

Q1 The fiscal year ended March 31, 2011 closed on record net sales and was a very good year for Capcom. What factors contributed to this success?

A1 The challenge of our development and sales strategy has become a success and we produced five titles selling one million units or more. Almost all businesses were successful at increasing revenues and profits.

1. The Market Environment Surrounding Games

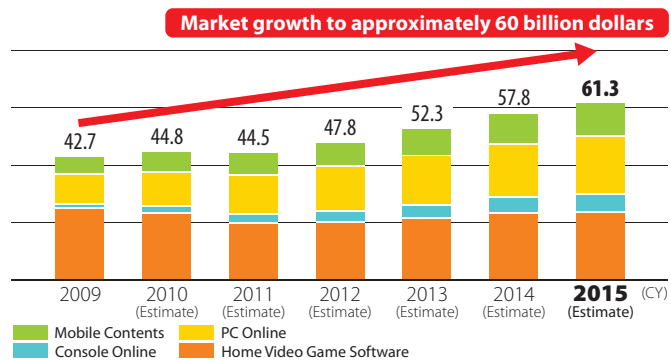
With last year's platform expansion, the definition of the environment surrounding the game market itself is changing. A game market is emerging that includes the traditional home video game software (package), the use of those contents for PC online and mobile contents, as well as the home video game digital download market. In 2010, this new game market demonstrated healthy growth and was worth 44.8 billion dollars (up 4.9% from the previous year) (See Diagram 1). This can be attributed to (1) being "in a transitional period" as a next generation game console is about to be released. Accordingly, sales of software are sluggish and unit prices are low, yet at the same time, (2) growth in the PC online and mobile markets was robust as the global adoption of mobile technology continued its rapid spread.

2. Factors Contributing to Increases in Sales and Profits

Given these conditions, Capcom's net sales were a record-breaking 97.716 billion yen (up 46.2% from the previous fiscal year), operating income was 14.295 billion yen (up 155.8% from the previous fiscal year), and ordinary income came to 12.861 billion yen (up 132.6% from the previous fiscal year), resulting in a net income of 7.75 billion yen (up 257.6% from the previous fiscal year).

There were two major factors behind these results. The first is that Consumer Online Games, one of our core businesses, created "Monster Hunter Freedom 3" amid a weak market environment, a franchise that spawned five separate million-unit selling titles, achieving record sales of 20.5 million units. The other factor was that almost all businesses (with the exception of the Arcade Operations Business affected by the disaster) actualized the effects of the growth strategies and structural reforms implemented from last year. I will discuss both in detail.

Diagram 1 Home Video Game/PC Online/Mobile Market (Billions of dollars)



3. Fulfilling Our Commitment

At the beginning of the year, I promised to address three issues. The first was to pull off a V-shaped recovery. The second was to level earnings by distributing core software from our Consumer Online Games Business in the fourth quarter. The third was to improve poorly-earning gaming machine-related businesses. In terms of resolving these issues, first of all, with respect to rescheduling the release of large titles normally released in the fourth quarter that was definitely successful at eliminating the overemphasis on earnings during that time of year. In the Pachinko & Pachislo Business, new improvement measures were implemented through a business partnership with a major sales company, with a large jump in profitability. As a result, we achieved a V-shaped recovery and kept our promise, fulfilling our commitment to our stakeholders (See P29-40 "Overview of Capcom's Business and Outlook for the Future" for more details).

Achievement of this fiscal year's commitments Achieved

1	Achieve a V-shaped recovery of the Company's performance	◎
2	Realize smooth performance resulting from quarterly distribution of core software in the Consumer Online Games Business	◎
3	Improve poor profitability of gaming machine-related business	◎

Q₂ The fiscal year ending March 31, 2012 is expected to be another year of reversal, one of lower sales and profits. What do you think the primary drivers of these conditions will be?

A₂ Although we are on a growth track, we are in a transitional period in terms of title sales planning. The impact of the Great East Japan Earthquake is the other obvious factor.

1. Market Outlook

At 44.5 billion dollars (down 0.6% from the previous year), the 2011 game market looks to be leveling off. This can be attributed to (1) continued high growth resulting from further network developments in the PC online and mobile markets causing (2) a prolonged "transitional period" phenomenon for three straight years in the package market as consumers postpone purchases and waited for the release of next generation game consoles such as the Nintendo 3DS (See Diagram 1).

2. Factors Contributing to Declines in Sales and Profits

In terms of the earnings forecast for the next fiscal year (the period ending March 31, 2012), net sales are forecast to be 86 billion yen (down 12% from the previous fiscal year), operating income at 12.1 billion yen (down

15.4% from the previous fiscal year), ordinary income at 12 billion yen (down 6.7% from the previous fiscal year) and net income at 7 billion yen (down 9.7% from the previous fiscal year) (See Diagram 2, 3 and 4).

There are three main factors that can be attributed to the decline in sales and profits. The first is the transitional period in terms of title sales planning in the Consumer Online Games Business. In the year ended March 31, 2011, we did not prepare a major title lineup that surpassed previous sales records, and our sales plan of 18 million units was only 87.8% of the previous fiscal year's sales. The other factor is that, in addition to the impact of the disaster on the Arcade Operations Business, the popularity of social games on the Mobile Content Business has given rise to costs as we struggle to learn how to retain new players at the initial stages of game play.

3. A New Year, A New Commitment

Issues faced in the fiscal year ending March 31, 2012 are clear. They are (1) retain profitability in the face of lower sales and profits with thorough cost management, (2) strengthen single year major title lineup investment while creating an organization that delivers stable earnings each year and (3) strengthen Mobile Contents Business development to create content with high growth and profitability potential, achieve growth rate higher than that of market.

To fulfill our commitment and achieve these goals, we will make proactive use of overseas developers to secure development resources while at the same time constructing new development facilities to enhance our number of SNS titles and strive to surpass our earnings forecast. I go on to talk about this in more detail here (See P21 "Growth Strategy 1" and P23 "Growth Strategy 3" for more details).

Commitment

1	Improve profit margins through thorough cost management
2	Strengthen major title lineup and create structure to stabilize earnings each year
3	Strengthen development of Mobile Contents Business and achieve growth that outpaces market growth rate

Diagram 2 Net Sales (Millions of yen)

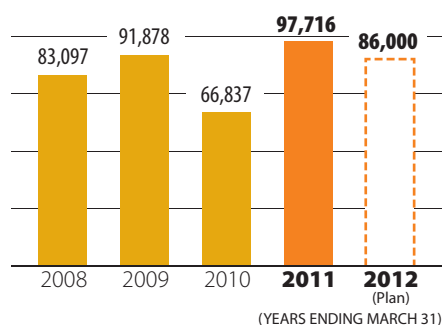


Diagram 3 Operating Income (Millions of yen)

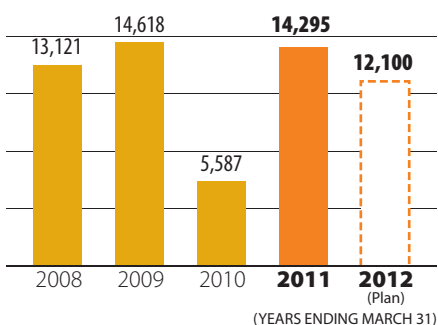
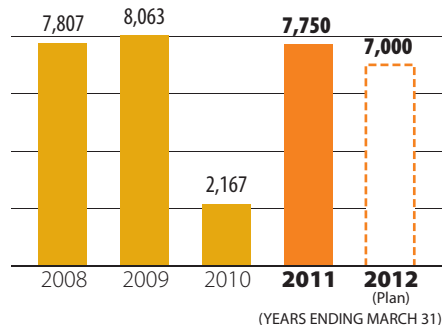


Diagram 4 Net Income (Millions of yen)



Summary of Medium-Term Goals

Q₃ Please give your opinion of your level of achievement of the medium-term business goals “increase sales by 10% each year” and “maintain an operating margin of 15%” since the fiscal year ended March 31, 2007.

A₃ As far as the “each year” is concerned, we fell short of that goal only one year. I think “an average sales growth rate of 7.0%” and “an average operating margin of 14.9%” speaks for itself.

1. Capcom's 5-Year Management

First, I'd like to explain what we mean by Capcom's 5-year management.

The environment surrounding the contents industry is constantly changing, and for that reason I take a look at the state of the company every five years. Of course, looking at single-year, sales decrease compared to previous years, product sales often appear to fall short of forecasts, but the important thing is that you learn to see when times are changing.

We create a report with calculations in five-year increments then compare current numbers with numbers from five years ago and rates of change become apparent. When times are changing growth has stopped in one area, while changes are clearly taking place in another area where new elements are emerging, indicating new opportunities. In this way, five years is a very important time frame for Capcom management.

2. Issues and Status Regarding Medium-Term Goal Achievement

Regarding the status of the goals to “increase sales by 10% each year” and “maintain an operating margin of 15%” established in the fiscal year ended March 31, 2007, as Diagram 5 shows, with the exception of the fiscal year ended March 31, 2010, we achieved the established goals in the other three years. The four-year average sales growth rate was 7.0%, the average operating margin was 14.9% and although we fell short of the “each year” goal by one year, I think we did a fine job of achieving the goals we set out to accomplish.

This achievement was made possible by the success of the first stage of our structural reforms conducted in 2003, centered on “development, sales and marketing” and “creating a more solid financial foundation”, the lynchpin to realizing medium-term growth focused on rapidly growing overseas markets and quickly rising development costs associated with next-generation console titles.

During the past two years we have postponed or canceled title releases, announced downward earnings revisions because of the impact of yen appreciation, and we are cognizant of the concerns of investors regarding

earnings volatility caused by the second half of our platform cycle (4th-5th year after game console sales).

To overcome these issues, we strengthened our developmental and organizational framework, as I discuss in detail in Q4. On P19, the COO explains “Our Strategy for Growth” and how we will achieve stable growth in detail.

Status of former medium-term business goals

		Achieved
1	Maintain an annual sales growth rate of 10% and achieve an operating margin of 15%	<input type="radio"/>

Second Stage of Structural Reforms

Q₄ For the past four years, you have maintained an average sales growth rate of 7.0%, an average operating margin of 14.9% and pursued sustainable growth. Can you please talk about the background and details involved in the second stage of your structural reforms?

A₄ We strengthened our developmental and organizational framework to achieve growth in this volatile market. At present, we are entering the final stages.

1. Second Stage of Structural Reforms

Capcom has responded to changes that occur in the contents industry approximately every ten years with continued growth, but the global economy of late and the advent of cloud computing, ubiquitous services, etc., indicate an era of unprecedented change whose impact will completely change the market landscape.

For the game industry—including Capcom—this period of dramatic change means that the time has come for us also to change our business model.

Rapid growth in the mobile phone and SNS game markets, as well as the combining of formerly independent package sales areas of home video game and PC software, has led to a merging of platforms. Capcom already provides content in the SNS market, and we see an opportunity in these latest market changes. We must respond quickly organizationally and strategically to the changing market to maintain a stable growth track and transform Capcom into a company that can compete globally.

2. Details Regarding Implementation of Second Stage of Structural Reforms

The second stage of structural reforms began in October 2009 and lasted for approximately a year and a half. Currently, they are entering the final phase (See Diagram 6).

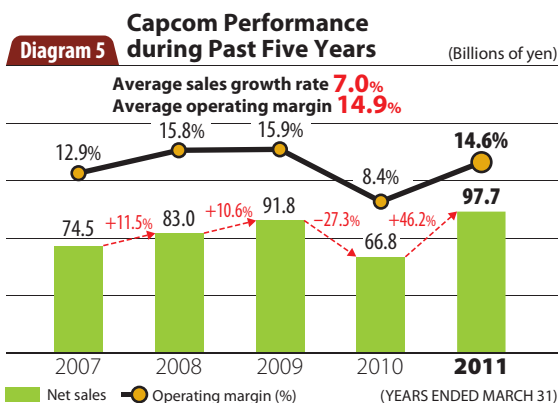
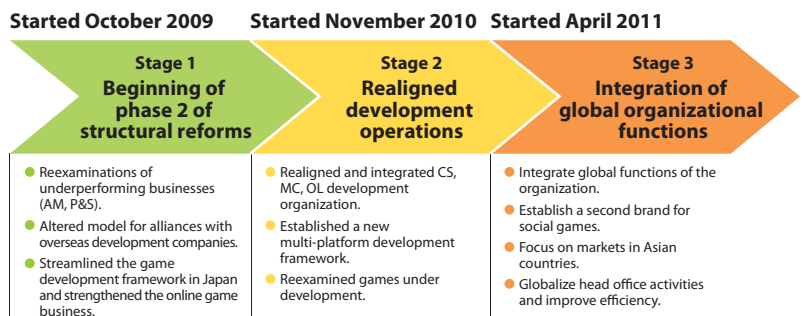


Diagram 6 Stages of Phase 2 of Structural Reforms



The first phase, launched in October 2009, began with a comprehensive review of poorly-earning businesses, such as the Arcade Games Sales and Pachinko & Pachislo Business, and included the change in business model to partnerships with overseas outsourcing companies in May 2010, the revamping of our domestic development framework, the upgrading and expanding of our downloadable content and the strengthening our Online Business.

The second phase, launched in November 2010, accomplished a major HR and organizational reshuffling after development management resigned. To respond immediately to changes in the game market in particular, we integrated our hitherto vertically structured consumer, mobile and online development organization. We also changed to a multi-platform development structure for compatibility with all hardware. Capcom is proactively engaged in keeping up with the latest trends for smartphones, social games.

In terms of the balance sheet, we also performed careful due diligence from the perspectives of asset health and domestic and overseas outsourcing projects, and conducted a review of our home and online game title lineups as of March 2011. As a result of this detailed check of work-in-progress game software, we recorded a special loss on asset depreciation and discontinuation of development of 1,453 million yen in the year ended March 31, 2011.

The third phase, launched in April 2011, is positioned as the completion phase. To enhance our organizational function, in April 2011 we established Beeline Interactive Japan Co., Ltd., and second brand "Beeline", which will not make use of Capcom content. We have nearly completed preparations that will enable us to prioritize initiatives, invest and advance in the mobile market and grow our Online Game Business in Asia over the next five years.

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-Term Business Goals

We established new medium-term business goals for the company from the perspectives of the achievement status of our previous goals and the Capcom five-year management approach I explained in Q3. These goals, cumulative for the five year period beginning in the fiscal year ended March 31, 2011 and ending in the fiscal year ending March 31, 2015, are (1) "operating margins of 15% or more" as the priority, as well as (2) net sales of 500 billion yen and (3) operating profits of 75 billion yen (See Diagram 7).

Up to now, business goals have too often been short-term in nature, such as "growing net sales by 10% every year", which has sometimes made priority investments in rapidly changing markets difficult. In fact, some investors are of the opinion that there is no need to adhere so strictly to such rigid annual plans. In consideration of these factors, we formulated the five-year timeframe for achieving growth. Our main priority is to gradually improve our operating margin until we consistently achieve 15% or higher, then we can focus on net sales of 500 billion yen (up 29.3% compared to the previous five years) and operating income of 75 billion yen (up 51.5% compared to the previous five years).

3. Medium- and Long-Term Strategies

The key to achieving these goals lies in the continuation of our growth strategies of enhancing our Online Business and upgrading and expanding our development lineup.

The composition of the Online Business is going to change so fundamentally that the idea of product cost will virtually disappear as it will become so remarkably profitable.

By promoting strengthened development of the PC Online Game Business in Asia, increasing titles for smartphones and SNS games and providing more downloadable content for home video games in the highly profitable Online Business, Capcom will grow net sales from 13 billion yen at end of the this year to 30 billion yen by the fiscal year ending March 31, 2015 (See Diagram 8).

By increasing the Online Business sales composition ratio, we can

New Medium-Term Goals

Q5 After the second stage of structural reforms, how do you see the company, and what are your new medium-term business goals? Please also discuss your specific strategy for achieving those goals.

A5 I see Capcom as a comprehensive entertainment company developing multifaceted content, with five-year cumulative operating margins of 15% or more as the priority, as well as net sales of 500 billion yen and operating profits of 75 billion yen.

1. Corporate Philosophy and the Direction of Management

Our corporate philosophy is to create "entertainment culture" through the

Diagram 7 New Medium-Term Business Goals (for the five years ending 2015) (Billions of yen)

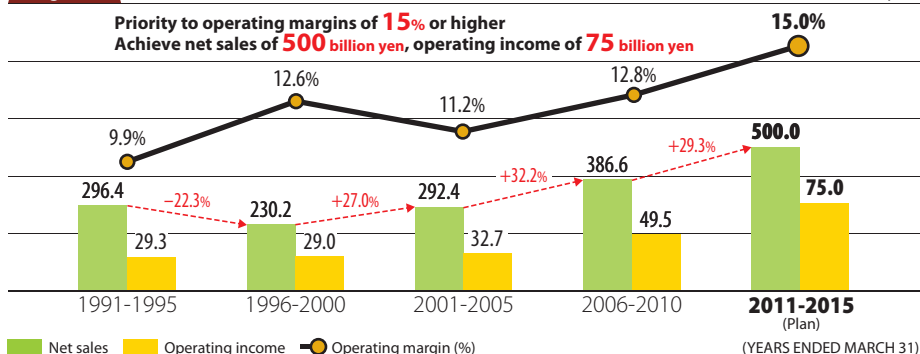
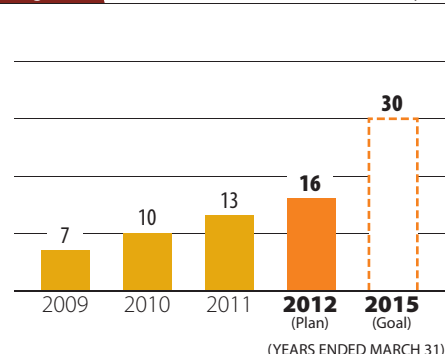


Diagram 8 Growth in Sales of Online Contents (Billions of yen)



gradually improve the consolidated earnings operating margin higher than 15%.

In the Consumer Online Games Business, we have expanded and upgraded our title lineup, securing development resources that “make use of overseas developers” and “shorten the sales cycle of popular series”. We allocate 90% of management resources to these two growth businesses, which is linked to increased net sales.

In addition to this, the development of our Single Content Multiple Usage strategy to acquire multifaceted profit opportunities is critical to maximizing profits. As indicated in the “Sengoku BASARA” example on P25, 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 Consumer Online Games Business and other businesses as well. We have positioned these as peripheral businesses to which we will allocate 10% of management resources in an effort to ensure stable earnings.

Our Views on M&A and Business Partnerships

Q6 Some say M&A is necessary—even indispensable—for medium- to long-term global growth. What are your thoughts on acquisitions and partnerships?

A6 In an amicable way, we engage in acquisitions and partnerships that enhance development of titles for overseas and are in line with our Single Content Multiple Usage strategy.

1. Basic Position on Acquisitions and Partnerships

Capcom’s stable future growth depends on our ability to increase our sales in the Consumer Online Games Business 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

This fiscal year, we made game development partner Blue Castle Games (Canada) a wholly owned subsidiary, and we developed titles with overseas development partners Slant Six Games (Canada) and Ninja Theory (U.K.) as part of our attempt to strengthen our overseas development line (See Diagram 9).

To further develop our position in the vast Asian market, Capcom partnered with Korean game developer Neowiz Games and Taiwanese online game management company Game Flier International. Examining the effect of acquisitions and partnerships thus far, there is evidence of merit-worthiness; most notably the 2.2 million units of “Dead Rising 2” sold overseas in the year ended March 31, 2011. In the next fiscal year, we will continue to partner with prominent developers, and already have more than five major titles for overseas markets scheduled. We aim to make overseas net sales 65% or more of overall sales.

R&D Investment and Fund Procurement

Q7 To achieve your medium-term business goals, what investment areas will you focus on and what fund procurement methods will you use in support of your growth strategy?

A7 We will focus investment on the core of Capcom’s growth, the Consumer Online Games and Mobile Contents Businesses. Fund procurement will be primarily through debt finance.

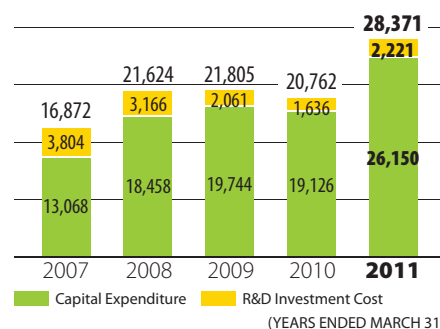
1. Investment Size and Focus

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 Consumer Online Games Businesses (see item 3 of Q5, “Medium- and Long-Term Strategies” for details), where significant growth in the size of each market is expected. Additionally, to cultivate the Mobile Contents and other future core businesses, we must strengthen our partnerships

Diagram 9 List of Recent Major Acquisitions / Partnerships

Company name	Business	Concern	Main product
Blue Castle Games	Canadian developer	Acquisition	“Dead Rising 2”
Slant Six Games	Canadian developer	Partnership	“Resident Evil: Operation Raccoon City”
Ninja Theory	British developer	Partnership	“DmC Devil May Cry”
Neowiz Games	Korean developer	Partnership	“Mega Man Online”
Game Flier International	Taiwanese development/management company	Partnership	“Monster Hunter Frontier Online”

Diagram 10 Capital Expenditure and R&D Investment Cost (Millions of yen)



with development companies, the recruitment of developers and next-generation console basic research.

Accordingly, we will invest 90% of our management resources (development investment funds and capital expenditures amounting to 33.7 billion yen), or 31 billion yen (up 18.8% from the previous fiscal year) on growth businesses (See Diagram 10).

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, and the development line is also increasing. 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 (35 billion yen) as well as an unused 26.5 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 (See Diagram 11).

flows generated from this fiscal year's business will be used as capital for business investment focused on future growth.

In terms of shareholder return, (1) Capcom will enhance its corporate value through investment and growth; (2) the company will continue to provide shareholders with stable dividends in line with earnings.

3. Dividends for This Fiscal Year and the Next

This fiscal year (the period ended March 31, 2011), amid intense competition, Capcom achieved record net sales and exceeded all forecasts of sales and profits for the past several years. In accordance with these results, the dividend for the fiscal year ended March 31, 2011 is increased five yen to an annual dividend of 40 yen. As a result, the dividend payout ratio increased to 30.5% (See Diagram 12,13).

The next fiscal year (the period ending March 31, 2012), although we expect decreased sales and profits, we expect to maintain an annual dividend of 40 yen (payout ratio of 33.8%). Going forward, we will continue to strengthen shareholder return by securing investment capital, buying back shares and gradually raising the dividend in line with earnings.

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.



Kenzo Tsujimoto

Chairman and Chief Executive Officer (CEO)

Dividend Policy

Q8 After having such a good year, are you thinking about raising the dividend?

A8 While ensuring sufficient resources for investment in the future, we have implemented a modest five yen increase in the dividend.

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 Q7, "Investment Size and Focus", we believe that now is the time to invest in our future growth. To this end, free cash

Diagram 11 Liquidity in Hand (Millions of yen)

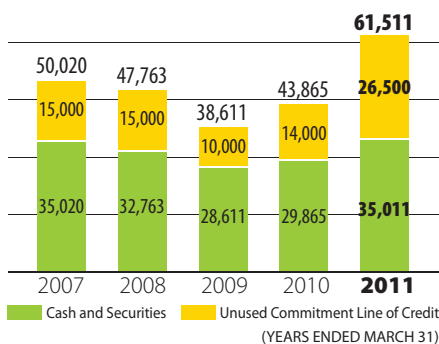


Diagram 12 Cash Dividends Applicable to the Year Per Share (Yen)

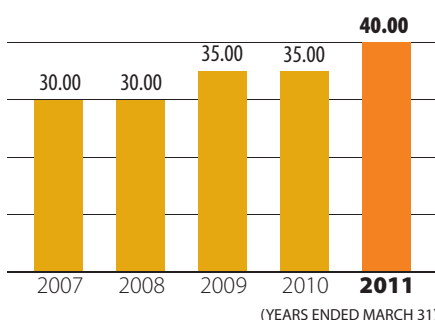
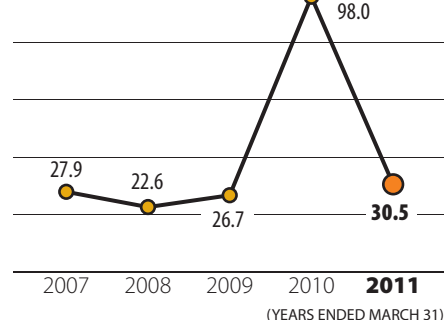


Diagram 13 Dividend Payout Ratio (%)



Aiming to Further Expand Earnings Potential by Pursuing Opportunities in the Changing Game Market



This fiscal year (the period ended March 31, 2011), Capcom achieved significantly higher sales and earnings, primarily in the Consumer Online Games business, by making the most of its “world-class development capabilities” and “leading contents”, the strengths of the Company’s growth strategy. This section will explain that growth strategy, as well as Capcom’s medium-term business goals, achievements up to now, and new opportunities for profit in the changing game market.

Haruhiro Tujimoto

President and Chief Operating Office (COO)

Capcom’s No. 1 Strength:

World’s Leading Development Capabilities

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 Consumer Online Games Business’ “ability to provide superior content” through the utilization of strong development capabilities for creating a large amount of original game content.

Capcom’s superior development capabilities maintain “developer creativity” and an “organizational structure that enables developers to hone their skills”, two factors successfully realized through the first phase of structural reforms.

Capcom’s No. 2 Strength:

Extensive Collection of Leading Content

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 continue to be one of our biggest strengths.

Furthermore, “possessing scores of content (intellectual properties) with universal market appeal” enables us to develop our Single Content Multiple Usage strategy worldwide. Based on our success in the Consumer Online Games Business, we have engaged in the multiple development of popular content for various forms of media which has led to success in other businesses, and we are now creating a business model to realize multiple profits in the contents market as well.

Strategy for Growth

Game Market Changes and Three Growth Strategies

As a result of last fiscal year’s platform expansion, the game market was worth 44.8 billion dollars in 2010 (up 4.9% from the previous year). The market is expected to grow steadily to 61.3 billion dollars in 2015 (See Diagram 14).

Growth in the online game market, which was worth 21.3 billion dollars in 2010 (up 20.3% from the previous year), was particularly robust. Reasons for this include (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, (4) the expansion of social networking services (SNS) and (5) home video game console online functionality that enables online game platform connecting PC, smartphone, iPad and a wide range of other consoles to the home video game console. As a result, the online game market is expected to grow steadily to 37.5 billion dollars in 2015 (up 76% from 2010).

The traditional home video game market was worth 23.4 billion dollars in 2010 (down 6.4% from the previous year). The market is expected to remain flat, growing slightly to 23.8 billion dollars in 2015 (up 1.7% from 2010). Despite this outlook, we nevertheless foresee maintaining these operations on some scale five years hence (See Diagram 15).

Diagram 14 Changes in the Game Market

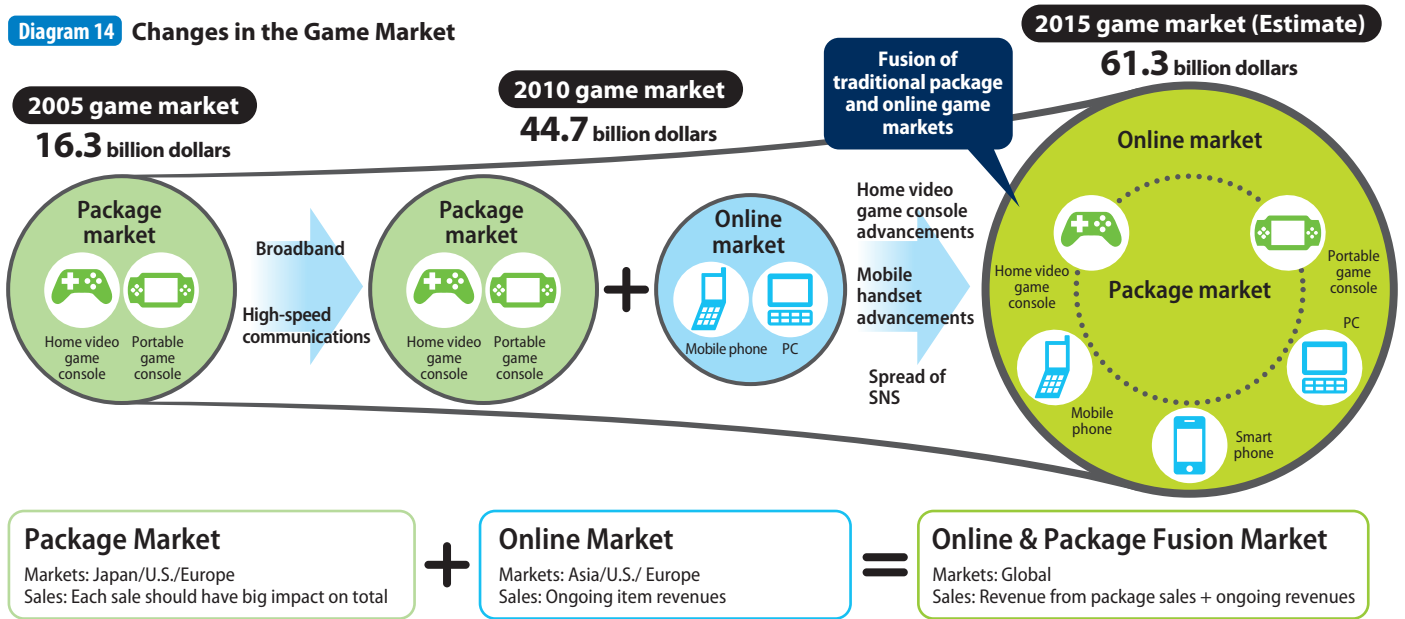


Diagram 15 Home Video Game/PC Online/Mobile Market (\$ Billion)

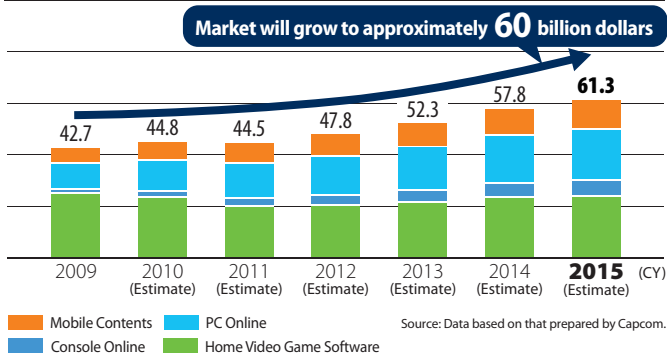


Diagram 16 New Game Markets and Capcom

Market	Market Characteristics	Capcom's Strength
Mobile games	<ul style="list-style-type: none"> Handsets are increasing rapidly around the world User base is wide and diverse 	<ul style="list-style-type: none"> Make use of popular Capcom contents Gain mobile development expertise overseas
	<ul style="list-style-type: none"> Users can share information with one another Focus is on light users 	<ul style="list-style-type: none"> Create SNS game hit making use of other company's contents Establish business model
PC online games	<ul style="list-style-type: none"> Development is focused in Asia Large number of core users 	<ul style="list-style-type: none"> Make use of popular Capcom contents Gain further operational expertise in Japan

In response to the changing market environment, and to achieve our medium-term business goals, Capcom has outlined three major strategies for growth, which are: "strengthening of our Online Games Business", "expanding our line-up of games under development" and the expansion of "Single Content Multiple Usage".

One of the factors behind our planned drop in revenue next fiscal year (the period ending March 31, 2012), is "partiality toward a particular timing in terms of our title portfolio". 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 mobile and PC online markets (See Diagram 16). Furthermore, we will continue to focus efforts on the development of Single Content Multiple Usage, which is at the core of our business development.

On the following pages, I will explain each of our three growth strategies in detail.

Three Strategies in Response to the Changing Game Market



Strengthening Online and Mobile Businesses Worldwide

Full Online Support for Popular Home Video Games as Well as PC Online Games

Within this rapidly changing market environment, Capcom will continue to promote the achievement of medium-term business goals including the “strengthening of our Online Games Business”, “expanding our line-up of games under development” (please see “CEO’s Discussion on the Summary of This Year’s Performance and Medium- and Long-Term Business Goals”, Q5, on P16), and allocating 90% of management resources to the Consumer Online Games and Mobile Contents businesses, all part of our growth strategy.

The outline of the online business strategy involves (1) strengthening of the Asian development of PC online games, (2) comprehensive downloadable content for home video games and (3) increase of smartphone and SNS game titles.

Moving forward with this strategy, we forecast online contents net sales of 16 billion yen in the next fiscal year (up 23.1% from the previous fiscal year), growing to net sales of 30 billion yen in the fiscal year ending March 31, 2015 (Please refer to Diagram 17).

To achieve the goals of the current medium-term business objectives, Capcom implemented a second phase of structural reforms aimed at integrating the development organizational structure, which had been organized vertically and separated into the Consumer, Mobile, Online divisions, but now have been integrated and transformed into a new multi-platform development structure compatible with any hardware.

In terms of specific measures and (1) “strengthening of the Asian development of PC online games”, we will develop PC online games in the Asian region making use of Capcom home video games popular throughout the world. At present, “Monster Hunter Frontier Online” is distributed in Japan and Taiwan, but ultimately our sights are set on China, the world’s biggest market. We are steadily working our way there, expanding market by market. Moreover, to minimize exposure to various country risks when developing operations in new countries, Capcom seeks to establish business alliances with leading local management companies to avoid risk, acquire knowledge and an understanding of the local culture. At the same time, this also facilitates domestic regular major updates, maintains user interest, and improves earnings stability.

Furthermore, in terms of (2) comprehensive downloadable content for home video games, all major titles will be put online and made available for download. By introducing a system that enables users to play one another across the globe, and by continually introducing additional downloadable items, user playing time will increase, and we can acquire new users who cross over from package users while receiving addition revenue in the form of additional item purchases. Also, we will promote sales of downloads of past popular video games through the effective use of our extensive collection of titles (See Diagram 18).

Diagram 17 Online Contents Sales (Billions of yen)

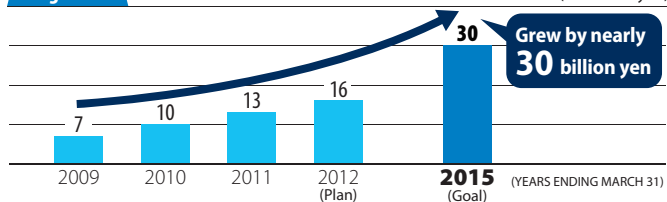
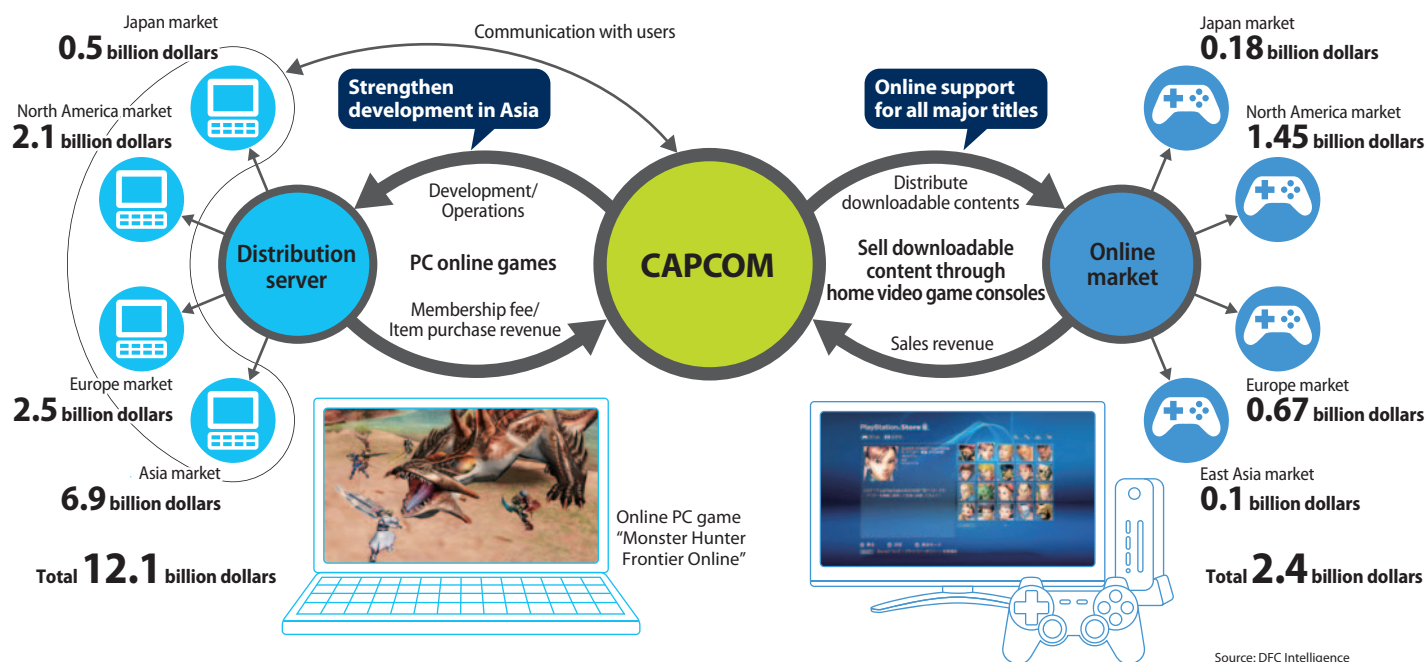


Diagram 18 Online Game Overview



Source: DFC Intelligence
"Online Game Market Forecasts 2010"

Aiming for Online Contents Net Sales of 30 Billion Yen in 2015 through SNS Response and Use of New Brand

In the next fiscal year, we will focus particular attention on (3) increase smartphone and SNS game titles. There are two important components to this strategy.

The first component of the strategy involves making thorough use of the “Capcom brand” to target our core segment, while the other involves establishing a second brand to capture customers in the light user segment, while aiming to deepen our reach into both segments simultaneously (See Diagram 19 and 20).

The Capcom brand strategy involves developing popular titles in-house at development facilities in Japan that make use of our brand power and multi-platform development in an attempt to realize synergy with home video games. For example, “Sengoku BASARA” and “Resident Evil” are distributed on Japan’s largest SNS platforms, Mobage and Gree, where they not only appeal to the casual segment, but they link to a promotion of the sale of the home version of the game. In this way, mobile light users are encouraged to purchase the home game, and home users are encouraged to try the mobile version. At the same time, we are making further efforts to capture light users with “Monster Hunter Dynamic Hunting” for smartphones, which is based on the popular home video game.

Our “second brand” strategy making use of the “Beeline” brand is focused on strengthening our social games for smartphones. The reason for creating a second brand is because Capcom brand games have an image of difficulty and complexity about them, creating obstacles that would prevent most light users who normally don’t play games from purchasing a casual download. Developing a new brand circumvents these obstacles altogether. Furthermore, development facilities in North America, Europe and Japan—where a new facility was completed in April 2011—are developing social games that incorporate distinctive characteristics to

acquire users in developing regions where home video game consoles have yet to be adopted. Next fiscal year, the overseas title lineup will include eight social game titles that make use of popular characters from other companies. We will attempt to establish brands like “Smurfs’ Village” early on.

In terms of overseas social game development, we will introduce the Capcom real-time analysts for marketing (CRAM) system. CRAM analyzes the user line of flow and estimates the efficacy of advertising. In addition, it also functions as a means of announcing new titles and content renewal to existing users, and contributes to helping track user activity.

In light of these initiatives, we aim for a total of 45 million overseas social game downloads by fiscal year end, and our online contents net sales goal is 30 billion yen by fiscal 2015.

Diagram 20 Developing the Mobile and SNS Markets with Two Brands

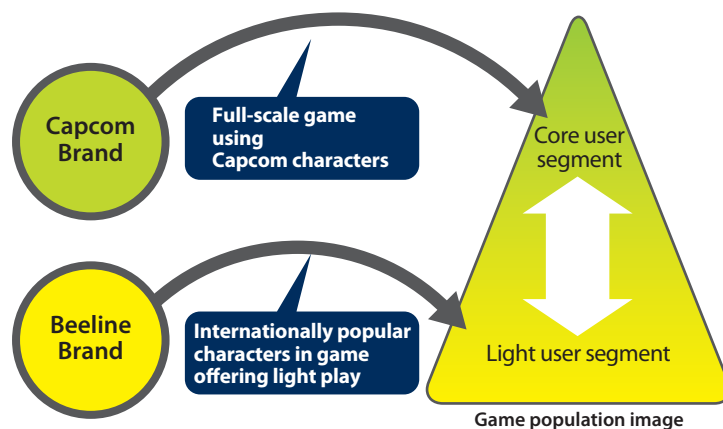
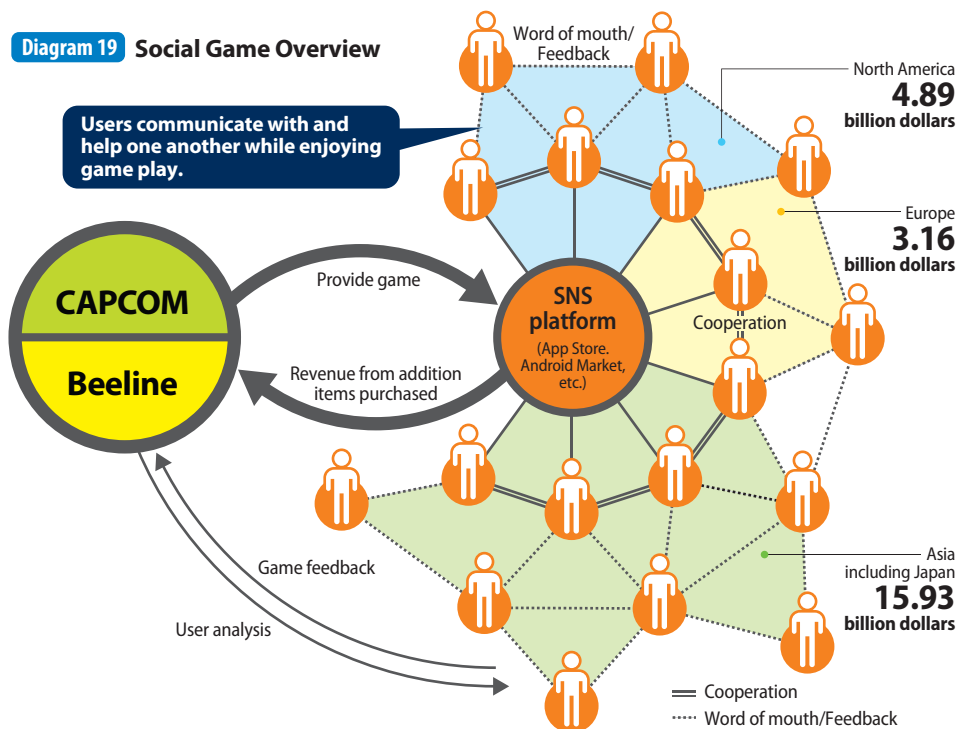


Diagram 19 Social Game Overview



“Zombie Cafe”



“Smurfs’ Village”

© Peyo – 2010 – Licensed through Lafig Belgium – www.smurf.com. All game code ©2011 Beeline Interactive, Inc.

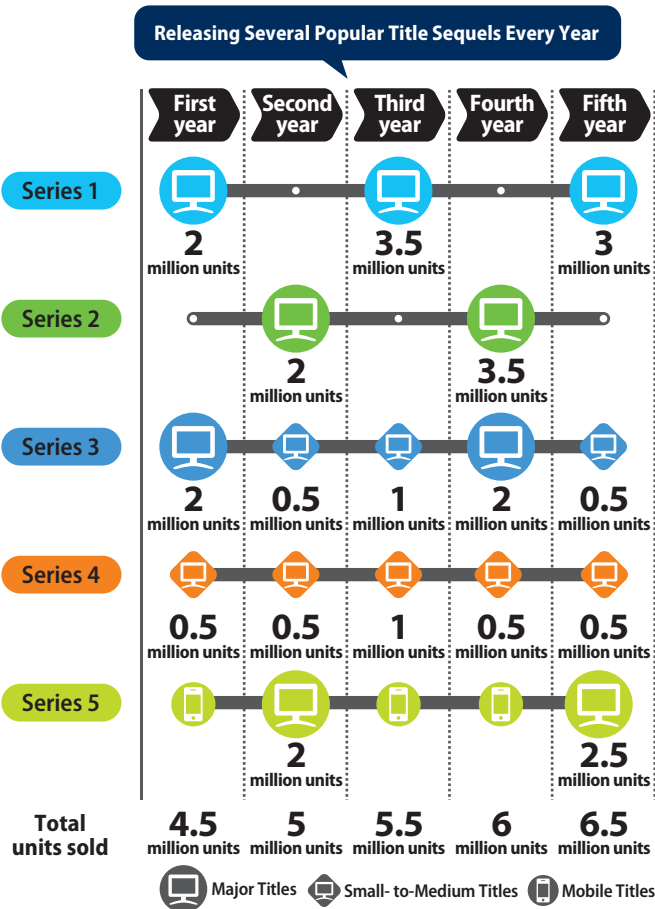
Efficient Development Structure Producing Ongoing Additions to Popular Series

Aiming for Sustainable, Stable Growth by Expanding the Lineup of Games under Development

This section explains the second component of our growth strategy, which involves “expanding our line-up of games under development”, necessary for achieving medium-term business goals.

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 in the first phase of structural reforms. By organizing efficient development teams according to this plan, we are able to invest in sequels to multiple popular games each year, which enables stable growth in the Consumer Online Games Business. Also, we must further increase single-year sales of major software to achieve sustainable growth (See Diagram 21).

Diagram 21 Portfolio Strategy Image



* The above figures are provided to facilitate understanding of the strategy. This is not the planned objective.

To this end, we are promoting (1) the establishment of a new brand, (2) a shorter sales cycle for popular series titles and (3) proactive use of overseas development companies.

Capturing New Fans with a New Brand

(1) Having “established the new brand”, Capcom will allocate approximately 20% of development investment funds to enhance the strength of a new hit title-creating lineup. The reason is because popular games have a solid fan base, and when they become a series, there is a high probability that users and retailers will purchase and stock the sequel based on past game content and sales performance, which, in turn, increases the likelihood of a string of hits. In the next fiscal year, we plan to release new titles including “Dragon’s Dogma” and “Asura’s Wrath”.

Diagram 22 Shortening the Development Cycle with the “MT Framework”

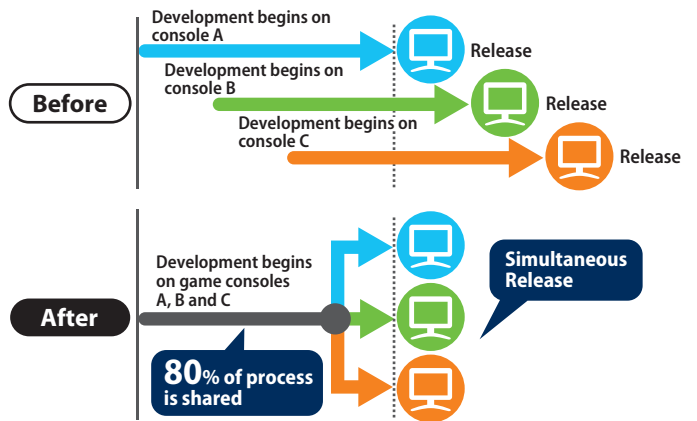
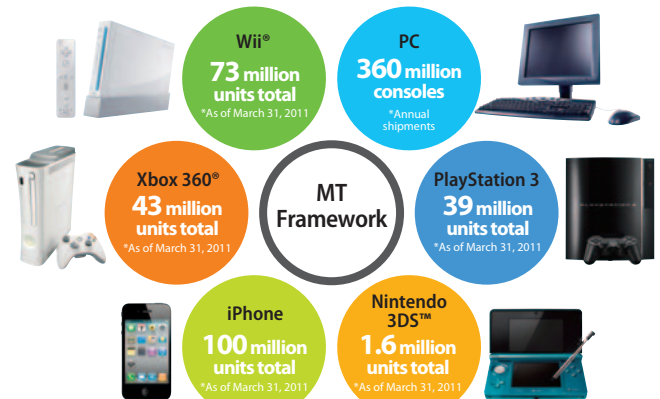


Diagram 23 Platforms Compatible with the “MT Framework”



*1 “Wii” and “Nintendo 3DS” are registered trademarks of Nintendo Co., Ltd.
 *2 “PlayStation” is a registered trademark of Sony Computer Entertainment, Inc.
 *3 “Xbox 360” is a registered trademark of Microsoft Corporation.
 *4 iPhone is a registered trademark of Apple Inc. of the United States.

Source: Data based on that prepared by Capcom.

Shortening the Development Cycle of Popular Series Sequels

(2) In terms of “shortening the sales cycle of popular series titles”, we launch sales of popular series titles held by the Company approximately every two years. This is because the development of a single major title usually requires 3-4 years; in the event that there are few hits, it will be difficult to create a series title every year and earnings will be adversely impacted. For this reason, it is important either to maintain a large number of popular titles or shorten the sales cycle to ensure stable earnings. Among the multitude of major titles held by Capcom, such as “Monster Hunter”, “Street Fighter”, “Resident Evil”, “Devil May Cry”, “Lost Planet”, “Dead Rising” and many others, we will promote shortening of the sales cycle in pursuit of further earnings stabilization and growth.

Specifically, teams developing major titles will be limited to 100 members, with multiple sequel titles developed at the same time. Also, as it will be necessary to create a large-scale development structure for shortening the development process, we will strengthen in-house development staff recruitment. In addition, we will increase the number of titles released in a single year and expand earnings using a hybrid development model whereby the core portions of the project are developed in-house by Capcom and the process-work is outsourced to outside development companies.

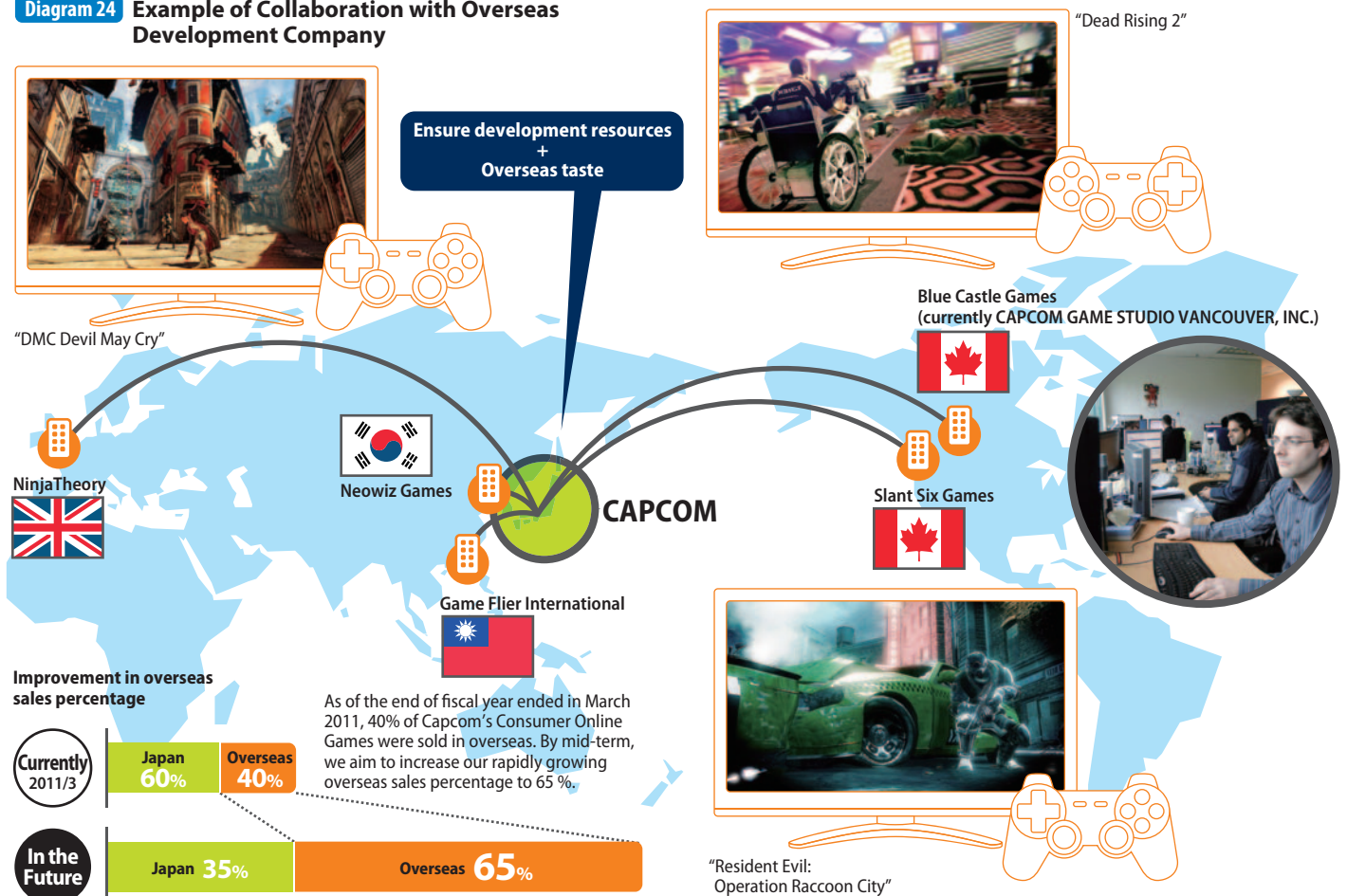
Furthermore, 80% of Capcom’s proprietary integrated development environment “MT Framework” development process is common to the Xbox 360, PS3 and PC platforms, realizing development efficiency that significantly reduces costs and shortens time to completion to one-third of the traditional time required for development (See Diagram 22). In response to market needs, we are always expanding platform compatibility, which now includes the Nintendo 3DS, Wii and the iPhone (See Diagram 23).

Leveraging Overseas Development Companies to Create New Games

(3) Regarding “proactive use of overseas development companies”, Capcom proactively engages in alliances with overseas development companies in an attempt to secure development resources and expand overseas sales (See Diagram 24). Popular products fusing overseas and Capcom tastes resulted from popular series such as “Resident Evil”, developed primarily by an overseas developer. In the next fiscal year, we will release “Resident Evil: Operation Raccoon City”, developed in collaboration with a Canadian development company.

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.

Diagram 24 Example of Collaboration with Overseas Development Company



Expand Single Content Multiple Usage Domain

Multiple Revenue Streams from Single Hit Content

This section will explain the expansion of "Single Content Multiple Usage" in terms of the aforementioned three growth strategies formulated to achieve the medium-term business goals.

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 game play. 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











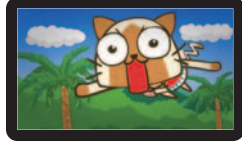






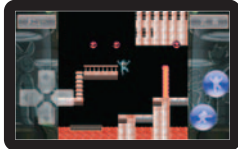
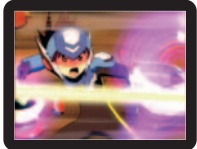

opportunities other than the Consumer Online Games Business; (2) creating heightened excitement through increased exposure by simultaneous multiple-field development (promotional effects); (3) absorbing customers obtained from other business segments as home video game users; and (4) reducing profit 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 Consumer Online Games Business to the success of other businesses (Mobile, Pachinko & Pachislo, Arcade Games, Movies, Publishing, Character Goods, etc.) (See Diagram 25 and 26).

Diagram 25 Single Contents Multiple Usage



Diagram 26 Past Success with Multi-Use of Leading Content

	 Home video games	 Mobile games	 Film and TV animation projects	 Merchandising and licensing
"Resident Evil"	 66 titles	 13 titles	 5 titles	 Figures, lighters, apparel and other novelties mainly for men
"Monster Hunter"	 17 titles	 9 titles	 2 titles	 A wide range of products for men and women, from large medal machines to fancy goods
"Street Fighter"	 68 titles	 14 titles	 4 titles	 Mainly adult-oriented items, such as pachislo machines and DVDs
"Mega Man"	 129 titles	 29 titles	 3 titles	 Items from snacks and toys to stationary, mainly targeting young people

©2010 Sony Pictures Entertainment(J) Inc. All Rights Reserved.
©2010 CAPCOM/GENEON UNIVERSAL
©CAPCOM CO., LTD./Based on Capcom's Street Fighter Video Games
©CAPCOM, 小学館, ShoPro, テレビ東京

Media Development to Expand Various Genres

This fiscal year (the period ended March 31, 2011), in the movie-related business, "Resident Evil: Afterlife 3D" was made into a Hollywood movie for global distribution, bringing in a record-breaking 300 million dollars at the box office. In Japan, animated series "Sengoku BASARA 2" and "MONHAN NIKKI GIRIGIRI AIRU MURA" were broadcast on television.

Other examples of multi-development include "Monster Hunter", the sales launch of home video game "Monster Hunter Freedom 3" as well as the release of "MONHAN NIKKI POKAPOKA AIRU MURA" for the PSP and SNS game "MONHAN NIKKI MOBILE AIRU MURA". Furthermore, in addition to sponsoring the "Monster Hunter World" event at amusement park Greenland (Kumamoto Prefecture) where fans can experience the "Monster Hunter" world, we also began airing broadcasts of animation on TV. Events were held at the hot spring resort Shibu in Nagano Prefecture, "Monster Hunter X Shinshu Hot Springs" and at event spaces at Shidax Community Corporation, "Monster Hunter X Shidax—Hunting OK! Monster Hunter Freedom 3 Contest Hall", bringing together 10,000 and 30,000 people at

each event, respectively, and creating a sense of synergy.

As the "Sengoku BASARA" series enters its fifth year, we have planned promotional activities to coincide with the release of "Sengoku BASARA: Samurai Heroes" that include stage production "Sengoku BASARA Stage Adaptation second stage", the second installment of the "Visit Lands Dear to the Warlords" package tour offered by JTB, TV animation and a "Sengoku BASARA" attraction was installed at Fuji-Q Highland.

Furthermore, we will hold an event, the "Sengoku BASARA Five Year Anniversary Budokan Feast", to commemorate this auspicious achievement, while continuing to contribute to regional activities through the use of Capcom characters in tie-ups with regional municipalities, the sales of local products, regional vitalization efforts and other assistance initiatives.

With the objective of continuous multimedia development of popular Capcom content focused mainly on "Monster Hunter" and "Sengoku BASARA", starting next fiscal year we will attempt to improve brand value and profitability by not only making as wide an appeal to as many customers as possible, but also by contributing to regional revitalization.

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

Capcom's Real Power Starting to Emerge in the Online and Mobile Markets

With the success of social game "Smurfs' Village", Capcom took a new step in the global online business. Analyst Soichiro Fukuda, an expert on the world of video games, discusses growth strategy in core home video games software and other businesses with Capcom president Haruhiro Tsujimoto.

How to Navigate Changes in the Game Market

Fukuda: In Japan, the U.S., European and other developed nations, social and freemium (paid content in-game) online businesses are growing rapidly. How does Capcom view these new markets?

Tsujimoto: Capcom views these markets as an opportunity. There was always a risk with package software that you would never know if it would sell until you put it out into the market, but with the online business, you are connected directly to the user, even after distribution, and can make improvements in real time, thereby appealing to users over the long-term.

Fukuda: In truth, social game "Smurfs' Village" for the iPhone (hereinafter "Smurfs") is a global hit. The only Japanese game company to achieve global success with a mobile social game is Capcom.

Tsujimoto: Our success was due to our ability to foresee the potential for social games in North America, and then quickly seize the opportunity that presented itself. Since the iPhone App Store platform is globally compatible, we were able to expand sales worldwide simultaneously and accelerate global development without the need to adjust specifications for nations or regions.



Independent Strategy for New Brand "Beeline"

Fukuda: It's unusual for Capcom to use "Smurfs", the characters from another company. However, they are distributed under the "Beeline" brand rather than the "Capcom" brand. How do you plan on using the two different brands?

Tsujimoto: The mobile market represents a wide-ranging and diverse market. Naturally, there are many users who aren't very well-versed in the world of gaming. The "Beeline" brand was established to approach this type of user. Rather than relying solely on Capcom characters, "Beeline" will utilize well-known and popular overseas characters such as the "Smurfs".

Fukuda: The "Smurfs" certainly were a smash hit, but one hit does not create stable earnings, nor will it impress the stock market. What are your future development plans?

Tsujimoto: Capcom conducted paid content, price point and user data analysis based on the success of the "Smurfs", all of which pointed to the cultivation of management expertise as being an extremely vital competent of this success. From now, we plan on various types of development in Japan and overseas. In addition the recent announcement of "Snoopy (TBD)", we are also developing various other contents. Thanks to the "Smurfs", we are receiving offers for collaborations from various popular contents holders from around the world.

Haruhiro Tsujimoto

Conver

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

Fukuda: I see, so you are in the process of building a structure for producing popular “Beeline” titles as well.

Tsujimoto: That’s right. In line with our basic strategy of creating high quality contents developed on a global multi-platform, I think the whole environment has manifested its true value. Regardless of whether it is the “Capcom” brand or the “Beeline” brand, our basic philosophy of continuing to create enjoyment for users will never change.

Succeeding in the Online Mobile Game Market

Fukuda: The PC online game market in Asia—and China in particular—is very robust right now. We expect a full-fledged 3G market to emerge there soon. I think grabbing hold of this market is extremely important. How does this market figure into your strategy?

Tsujimoto: We are already developing PC online game “Monster Hunter Frontier Online”, which is a paid content scheme where our expertise in control methods is really starting to pay off. We are thinking about collaborations with local management companies to distribute content in the method most convenient for local users. Of course, we will aggressively target the 3G and smartphone markets, as well.

Fukuda: Looking ahead, from a global perspective, multinational competition will increase in the game market as the emerging markets of developing nations grow and smartphones continue to spread. What road will Capcom take amid all these changes?

Tsujimoto: As long as we continue to create superior content unmatched by any other company, I am confident that we will continue to have a place in the global market. As I already mentioned, the expertise Capcom has cultivated in the online business is extremely important. Looking ahead, we plan to use this expertise to promote paid content download of home video games, and the purchase of package games online, in an attempt to fuse online and home video games.

Fukuda: Up to now, start-up IT companies had been the ones advancing the online game market, but I have a feeling that game specialty companies like Capcom have finally come into their own.

Tsujimoto: The game business is not simply about “whoever is fastest, wins”. If you have a solid foundation, and even if you lead, there will be those who think they can pass you by. The online business changes so rapidly that it is impossible to tell its future, but its potential is limitless. Capcom is determined to cultivate new profitable businesses in this area by employing all the capabilities at our disposal.



After the Conversation

Capcom is consistently the only Japanese game maker seen in the global market. And, with the worldwide hit “Smurfs”, Capcom’s attitude is very clear. Issues the company faces include whether or not they can develop another hit title to follow up “Smurfs”. With a few successive hits, shareholder outlook can change significantly. Also, I found the discussion regarding expertise cultivated in the online business used in the package game business very interesting. With a clear business model combining growth from the online and mobile businesses with the high earnings power of core business, expectations for the market should be increasingly heightened.

sation

Soichiro Fukuda

Analyst
Citigroup Global Markets Japan Inc.

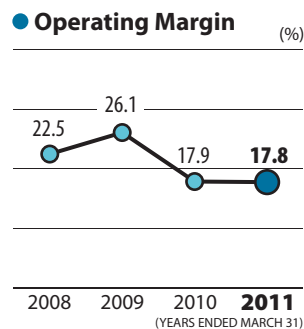
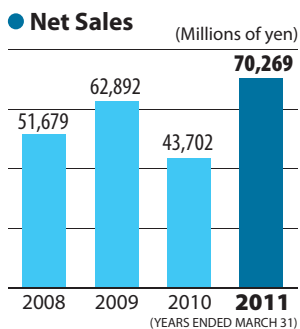
Over 10 years as analyst covering games, software, the Internet and broadcast media. Graduated from Tokyo University, after which was employed at Chuo Mitsui Trust and Banking, IBJ Securities and the Microsoft Corporation. At present, Mr. Fukuda is an analyst at Citigroup Global Markets Japan.





Consumer Online Games

This business is engaged in the development and sales of home video games and the development and operation of PC online games. We will continue concentrating management resources on this business, which represents 70% of company sales, and developing games that meet diverse user needs. We consider action and adventure games our forte, and have released many creative million-seller titles worldwide.



*1 Before the fiscal year ended March 31, 2009, the Consumer Online Games Business is described as the Home Video Games Business.
 *2 In the fiscal year ended March 31, 2011, Capcom restructured its business segment divisions, and as a result, some figures before the fiscal year ended March 31, 2009 have been retroactively adjusted.

SWOT Analysis

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

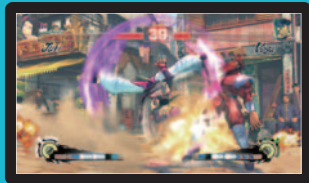
S: Strength W: Weakness O: Opportunities T: Threats

Market Trends

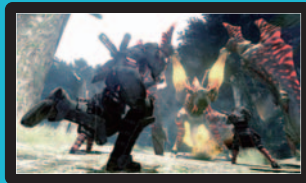
Although the package market is contracting, the online market continues to expand as platforms diversify.

In 2010, the home video game (package) market was worth 23.4 billion dollars (down 6.4% from the previous year), the second straight year of negative growth. As in the previous year, the reasons for this include (1) a decline in game console annual unit sales, as manufacturers have not introduced new hardware for five years, (2) lower average retail prices of game software as a result of intensified competition, (3) the diversification of sales into digital distribution and other forms, etc.

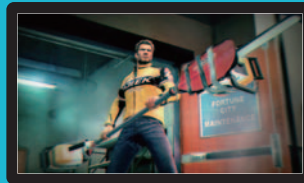
The market mainly consists of three regions: North America, Europe and Japan. While the ratio of each region's share was 5:3:2, respectively, around 2000, our overseas sales ratio is increasing every year due to the maturation of the Japanese market, caused by a falling birthrate and various other social factors, as well as the increase in the global gaming population combined with the growth of emerging gaming nations. In 2010, sales were 10.8 billion dollars (down 3.6% from the previous year) in North America, 9 billion dollars (down 11.8% from the previous year) in Europe and 3.6 billion dollars (up 5.9% from the previous year) in Japan, with foreign markets representing 85% of the overall market (See Diagram 27). The reason only the Japanese market experienced an increase was, as in the previous year, the domestic release of multiple major titles including "Monster Hunter Freedom 3".



"Super Street Fighter IV"



"Lost Planet 2"



"Dead Rising 2"



In the PC online game market and home video game software download content (PC consumer online) market, the establishment of a global network infrastructure spurred rapid growth in 2010 worth 14.4 billion dollars (up 23.1% from the previous year) (See Diagram 28).

In terms of the outlook for the next fiscal year (the period ending March 31, 2012), the package market in 2011 is expected to contract for the third straight year as a result of a new portable game console to be introduced for the Nintendo 3DS, with sales of the next generation console to hurt sales of the older console, being between seasons, and an expected market value of 19.9 billion dollars (down 15.0% from the previous year). From 2012, the full adoption of next generation consoles is expected to once again stimulate growth the market.

The PC and consumer online markets are expected to be worth 16.9 billion dollars (up 17.4% from the previous year) in 2011. The main driver of growth is the increase in the number of homes equipped with broadband and game consoles with network functionality. More importantly, the number of households with broadband, which is expected to grow from 311 million in 2010 to 415 million in 2015, means that the PC and consumer online markets can be expected to expand to 26.3 billion dollars, and the package market to grow to 23.8 billion dollars, by 2015.

Given the outlook for medium-term growth in the package and PC consumer online markets, the key for software makers in terms of maximizing earnings is investing each year in various software platforms with proven track records. However, that is only possible for companies that "possess multiple popular major titles" and "a development structure efficient enough to produce year after year". Going forward, the fight for survival among game software manufacturers will surely intensify.

Operating Results for This Fiscal Year

Achieved significantly higher sales and earnings on a solid performance in Online Games, with a record-breaking five titles selling over one million units.

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 29).

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, Wii and Nintendo 3DS 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.

This fiscal year (the period ended March 31, 2011), the feature title "Monster Hunter Freedom 3" (for PlayStation Portable), which was released on December 1, 2010 to long lines of customers nationwide, became a big hit with a total shipment of more than 4.6 million units and played the lead role in improving Capcom's business performance. Further, the major titles for PlayStation 3 and Xbox 360 targeted at overseas markets fully leveraged their characteristics to achieve market success, selling over one million units each with shipments totaling 2.2 million units for "Dead Rising 2", 2 million units for "MARVEL VS. CAPCOM 3 Fate of Two Worlds", 1.6 million units for "Super Street Fighter IV", and 1.5 million units for "Lost Planet 2". The result was a history-making milestone of five million-seller titles in total. Additionally, "Sengoku BASARA: Samurai Heroes" (for PlayStation 3 and Wii), the newest in the series that gained stable popularity, also enjoyed steady growth in sales.

Diagram 27 Home Video Game Software Markets (package) (\$ Billion)

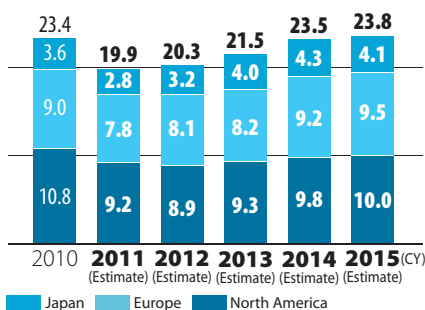


Diagram 28 PC and Consumer Online Games Market (\$ Billion)

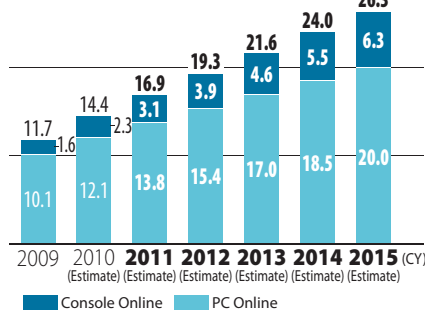


Diagram 29 Total Number of Units of Major Titles Sold (As of March 2011)

Major Titles	Number of Products	Total Number of Units Sold (Thousands)
Resident Evil	64 titles	45,000
Street Fighter	66 titles	31,000
Mega Man	128 titles	28,000
Monster Hunter	16 titles	18,000
Devil May Cry	13 titles	10,000
Lost Planet	11 titles	4,700
Dead Rising	6 titles	4,500
Ace Attorney	15 titles	4,100
Sengoku BASARA	15 titles	2,400

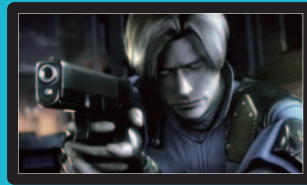


"Monster Hunter Freedom 3"

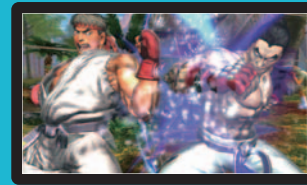


"MARVEL VS. CAPCOM 3 Fate of Two Worlds"

TM & © 2011 Marvel Entertainment, LLC and its subsidiaries.
Licensed by Marvel Characters S.V. www.marvel.com. All rights reserved.
©CAPCOM CO., LTD. 2011, ©CAPCOM U.S.A., INC. 2011 ALL RIGHTS RESERVED.



"Resident Evil: Operation Raccoon City"



"Street Fighter X Tekken"

"MONHAN NIKKI POKAPOKA AIRU MURA" (for PlayStation Portable), a spin-off from the "Monster Hunter" series, which attracted users with its widely popular character "Airu" (known as "Felyne" in English) became a smash hit.

Meanwhile, the online exclusive title "Monster Hunter Frontier Online" (for PC, Xbox 360) also showed solid performance.

In 2010, our market shares in the respective markets where we operate were as follows: Japan 11.0% (up 4.9% from the previous year), North America 1.6% (down 1.0% from the previous year) and Europe 1.6% (down 0.5% from the previous year) (See Diagram 30). The reason for the increase in Japanese market share was due to major hit "Monster Hunter Freedom 3", while in North America, the decrease in market share was a reflection of the fact that only two major titles were released during the calendar year. Converting the accounting period the assumption for Europe and North America is approximately 2.0% or roughly the same as the previous year's share.

As a result, Capcom released a total of 53 titles and shipped a total of 20.5 million units (up 64.0% from the previous fiscal year). The resulting net sales increased to 70.269 billion yen (up 60.8% from the previous fiscal year), and the operating income was 12.499 billion yen (up 59.5% from the previous fiscal year).

Outlook for the Next Fiscal Year

Strengthening alliances with development companies in Japan and overseas, while focusing efforts on online games and the development of new series.

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%. To

achieve this medium-term business goal, in the next fiscal year, we will continue promoting the business developments begun this fiscal year, namely (1) shortening of the series title sales cycle, (2) proactive use of overseas developers, (3) creation of new titles and (4) strengthening of online contents (See P19 "Our Strategy for Growth").

With respect to (1), we are renovating our domestic development structure in an attempt to strengthen our lineup through reorganization and more efficient development. Through hybrid development, which involves outsourcing the labor-intensive aspects of core content developed in-house by Capcom to outside developers, we can shorten the development period, increase the number of titles released in a single year, and expand profitability.

In terms of (2), we are proactively pursuing partnerships with overseas development companies to expand overseas sales and secure development resources. Outsourcing the development of "Resident Evil" and "Devil May Cry" enables us to promote product development that combines "overseas tastes" with "Capcom tastes".

With regard to (3), achieving the aforementioned efficiencies will enable us to allocate approximately 20% of development resources toward the development of new titles and the creation of the next generation of popular new series, further strengthening our future lineup.

Finally, with regard to (4), we are aggressively developing the PC online game and download businesses. We will improve earnings with a major domestic update to "Monster Hunter Frontier Online" for the PC, which we also continue to strengthen in the Asia region.

Furthermore, we plan to release several major titles in the next fiscal year, including "Resident Evil: Operation Raccoon City", "Street Fighter X Tekken", "Dragon's Dogma" and "Dead Rising 2: Off the Record".

With these initiatives, we expect to release 55 new game titles and ship 18 million units in the next fiscal year. We forecast net sales of 58 billion yen and operating income of 12.5 billion yen.

Diagram 30 Market Share by Region (CY2010)

Japanese Market		North American Market		European (UK) Market	
Company name	Share (%)	Company name	Share (%)	Company name	Share (%)
1. Nintendo	18.7	1. A		1. Electronic Arts	17.9
2. Namco Bandai	12.1	2. B		2. Activision	14.4
3. Capcom	11.0	3. C		3. Nintendo	12.3
4. Square-Enix	10.7	4. D		4. Ubisoft	11.0
5. Pokemon	8.4	5. E		5. Microsoft	6.0
6. Konami	8.4	6. F		6. TAKE 2	6.0
7. Sega	5.1	7. G		7. SCE	5.2
8. SCE	3.6	8. H		8. Sega	4.5
9. TECMO KOEI GAMES	2.9	∴	∴	∴	∴
10. Level Five	2.9	13. Capcom	1.6	14. Capcom	1.6
Others	16.2			Others	21.1
Total	100.0	Total	100.0	Total	100.0

Source: Enterbrain, Inc.

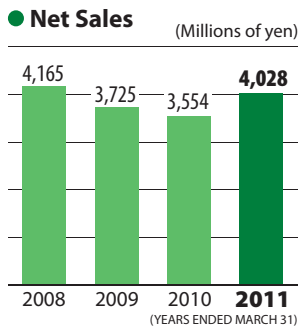
Source: "The NPD Group / Retail Tracking Service"
* Data concerning our competitors are not disclosed by request of the market research company.

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

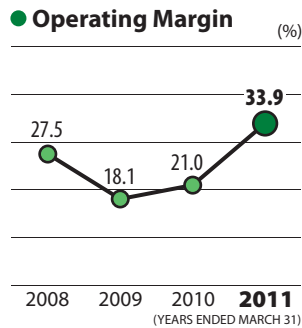


Mobile Contents

This business segment develops and distributes games for mobile phones. In the high growth mobile content market, we are able to respond flexibly to advances in smart phones and tablet PCs with our own brand titles and licensed content from other companies, enabling us to expand earnings even further.



* In the fiscal year ended March 31, 2011, Capcom restructured its business segment divisions, and as a result, some figures before the fiscal year ended March 31, 2009 have been retroactively adjusted.



SWOT Analysis

<ul style="list-style-type: none"> Pioneering position in overseas social game market Practical use of plentiful in-house content Possess overseas social game management expertise 	<ul style="list-style-type: none"> Lack of domestic social game expertise Lack of development staff
<ul style="list-style-type: none"> Improved game quality resulting from high-performance handsets Rise of other social games and new genres Expanded adoption of smartphones in developing regions 	<ul style="list-style-type: none"> Standard mobile phone usage decline Barriers to entry are low, significant competitor presence

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

Market Trends

Rapid growth increased the global mobile contents market by 15.5% Expanding opportunities for development companies.

The mobile content market has been growing worldwide and was worth 6.93 billion dollars (up 15.5% from the previous year) in 2010 (See Diagram 31). Factors underlying this growth include the worldwide spread of standard mobile phones, as well as the rise of smartphones led by the iPhone, driven by the growth of developing nation economies and the burgeoning world population.

By region, the North American market was worth 1.12 billion dollars (up 11.7% from the previous year) and the European market was worth 830 million dollars (up 17.3% from the previous year) and the Far East/China market including Japan was worth 3.8 billion dollars (up 14.0% from the previous year). Emerging market India was worth 230 million dollars (up 73.9% from the previous year) due to a sudden and significant increase in mobile phone subscribers.

For the past two years, the mobile content market has been in a period of great upheaval. This is because of (1) changes in the ways that users purchase games and (2) changes in development company business models.

With regard to the first point, up to now games were purchased using a "sell-out" model, where the user purchased a single download of their



"MONHAN NIKKI MOBILE AIRU MURA"



"Sengoku BASARA Mobile"



"Ghost Trick"



"Street Fighter IV"



"Smurfs' Village"

© Peyo - 2010 - Licensed through Lafig Belgium - www.smurf.com. All game code ©2011 Beeline Interactive, Inc.

chosen game. Recently, the trend has shifted toward the "Freemium" model, where the game can be downloaded for free, but a premium is charged for access to additional items and other game content the user may require. As a result, of the 4.4 billion dollars generated by the "sell-out" model, more than half (63.5%) was contributed by the "Freemium" model, which grew 28.2% over the previous year.

In regards to the second point, for development companies, the standard mobile phone market has been largely unprofitable for two reasons. (1) The OS used for the handsets of each mobile phone company differed, and distributing games across a jumble of disparate networks required transplantation costs, and (2) to distribute games to users required interfacing with several companies (the handset maker, the telecommunications provider, etc.), which led to high fees (50% of sales in the United States and Europe). However, with the introduction of open source operating systems such as Apple's iOS and Google's Android in the smartphone market, (1) development companies are now able to distribute content to a wide range of users with these limited OS platforms without the need for transplantation costs and (2) with fewer companies to interface with along the way, fees are lower (30% of sales with iOS). For development companies, this represents a significant opportunity for improved profitability (See Diagram 32).

Looking ahead, in anticipation of an increase in App Stores and other global distribution systems, as well as an increase in the smartphone population, we forecast shipments of smartphones in excess of about 630 million, and shipments of computers to surpass 430 million in 2012 (See Diagram 33). For development companies, high-performance handsets and a limited OS enables the multi-development of home video games, which in turn

enables the provision of games that appeal to a broad segment of consumers around the world, from light to core users. As a result, the mobile contents market is expected to grow significantly over the next few years, and forecast to be worth 11.23 billion dollars by 2015 (an annual growth rate of 11.0%).

Operating Results for This Fiscal Year

With successive smash hit SNS games in and outside Japan, we established our position as a top brand, with net sales increasing 13.3% and operating income soaring 83.2%.

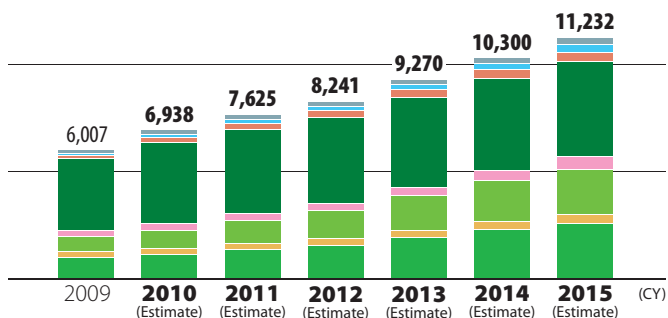
One of Capcom's strengths in the Mobile Contents Business is our ability to make effective use of the expertise and content developed through home video games under the Capcom brand, which is then distributed to mobile phones worldwide. Another of our strengths is the ability to acquire light users who differ from traditional Capcom users by using popular characters and novel content from other companies in games distributed to smartphones globally.

Amid the rapid growth of social games, which are highly compatible with mobile phones, we surpassed one million members for distribution of "MONHAN NIKKI MOBILE AIRU MURA" through Japan's largest mobile social game site "Mobage". "Ghost Trick", released in this fiscal year (the period ended March 31, 2011) for the iPhone/iPod touch/iPad is faring well, and "Street Fighter IV", released in the previous fiscal year (the period ended March 31, 2010), continues to perform on track.

In terms of overseas developments, we joined with Facebook to begin distribution of "Smurfs' Village", which ranked first as the "Top Selling App" in Apple's App Store in 62 countries. Nearly 90% of iTunes Store user reviews gave the game five stars, the highest rating in the freemium market,

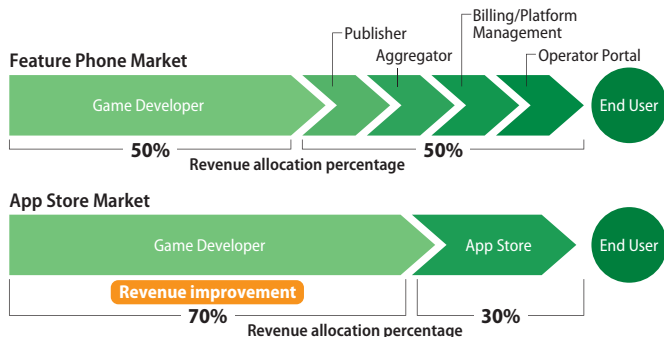
Diagram 31 Mobile Content Market

(\$ Million)



Source: Juniper Research 2010

Diagram 32 Comparison of Feature Phone and Smartphone Markets





"Zombie Cafe"



"Lil' Pirates"



"Monster Hunter Dynamic Hunting"



demonstrating the wide appeal the game has around the world and its firmly established position as the top brand. In addition, "Zombie Cafe" and "Lil' Pirates" membership also increased significantly, with all three titles achieving a total of 15 million downloads among other pleasant surprises.

As a result, net sales were 4,028 million yen (up 13.3% from the previous fiscal year) and operating income was 1,366 million yen (up 83.2% from the previous fiscal year).

Outlook for the Next Fiscal Year

Strengthen global smartphone and SNS contents with two brands—Capcom and Beeline—and increase net sales by 16.7%.

Regarding business developments in the next year (the period ending March 31, 2012), we will continue to focus on developing content for the smartphone and SNS game markets, where high growth remains the forecast for the foreseeable future both in Japan and overseas.

We have a two-pronged strategy that involves (1) making thorough use of the Capcom brand to target our core segment and (2) establishing a second brand to target light and other users in non-core customer segments.

The Capcom brand strategy attempts to achieve synergy with home video games through multi-platform development using the brand power of popular Capcom titles created in Japan. For example, "Sengoku BASARA" and "Resident Evil", which are distributed on leading Japanese social game sites "Mobage" and "GREE", not only appeal to the casual user, they also serve as a link to the promotion of the home version of the game. In this way, the mobile version draws the light user to the home version, and the home version draws the core user to the mobile version. Similarly, we are

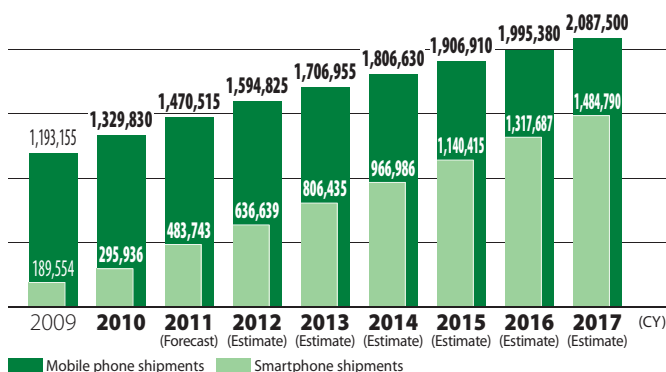
further striving to acquire light users with content for smartphones based on popular home video game series "Monster Hunter Dynamic Hunting".

Our "second brand" strategy making use of the "Beeline" brand is focused on strengthening our social games for smartphones. The reason for creating a second brand is because Capcom brand games have an image of difficulty and complexity about them, creating obstacles that would prevent most light users who normally don't play games from purchasing a casual download. Developing a new brand circumvents these obstacles altogether. Furthermore, development facilities in North America, Europe and Japan—where a new facility was completed in April—are developing social games that incorporate distinctive characteristics to acquire users in developing regions where home video game consoles have yet to be adopted. In the next fiscal year, the overseas title lineup will include eight social game titles that make use of popular characters from other companies. We will attempt to establish brands like "Smurfs' Village" early on.

In terms of overseas social game development, we will introduce the Capcom Real-time Analysts for Marketing (CRAM) system. CRAM analyzes the user line of flow and estimates the efficacy of advertising. In addition, it also functions as a means of announcing new titles and content renewal to existing users, and contributes to helping track user activity. In light of these initiatives, we aim for a total of 45 million overseas social game downloads by fiscal year end (See Diagram 34).

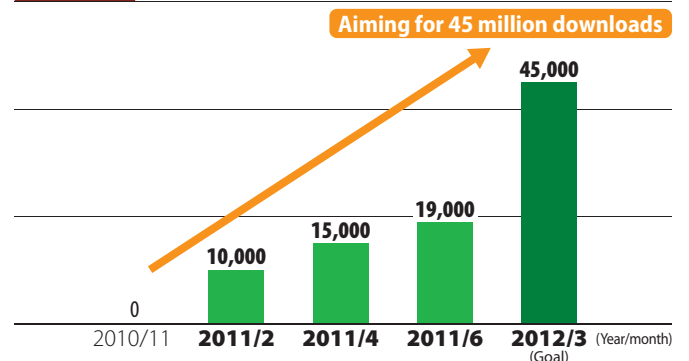
The forecast for the Mobile Contents Business in the next fiscal year is for net sales of 4.7 billion yen and operating income of 800 million yen.

Diagram 33 Mobile Phone Market Shipments (Thousands of units)



Source: "Results of Smartphone Market-Related Research 2011" by Yano Research Institute Ltd. (July 26, 2011)
 *1 On a manufacturer shipment basis *2 Forecasts and estimates are as of June 2011
 *3 32 countries and one region covered in target region *4 While smartphones are included in mobile phone market shipment figures, PHS, digital photo frames and tablet PCs are not.

Diagram 34 Capcom SNS Game Downloads (Thousands of downloads)



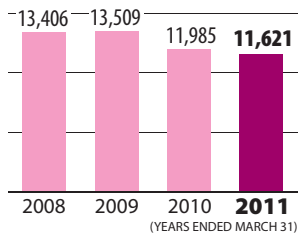


Arcade Operations

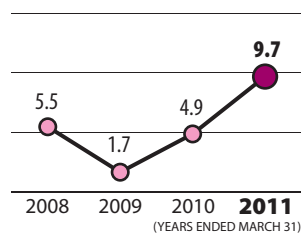
We operate "Plaza Capcom" amusement facilities in Japan. These arcades are predominantly in large commercial complexes and host various events designed to attract families and female customers. We have diligently followed a scrap-and-build policy to maximize our efficiency in arcade operations.



● Net Sales (Millions of yen)



● Operating Margin (%)



● SWOT Analysis

<ul style="list-style-type: none"> Specialize in opening mall-based large-scale facilities which secure a stable customer base Thorough scrap and build focused on investment efficiency ensure sustainable earnings 	<ul style="list-style-type: none"> Low profitability compared to other business Little synergy with proprietary contents
<ul style="list-style-type: none"> Expanded ability to attract customers through installation of new machines Hedges risks through inverse relationship to home video game market 	<ul style="list-style-type: none"> Reduced desire to consume resulting from natural disasters or brownouts Decline in number of suburban mall-based large-scale facilities

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

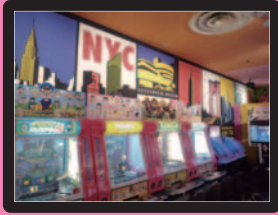
Market Trends

Leisure activities that are inexpensive, nearby and short in duration are expected to intensify, with sales of existing operations rising above last years, indicating signs of a recovery.

During the previous fiscal year (the period ended March 31, 2010), the domestic arcade facility market shrank for the third straight year, its value decreasing to 504.3 billion yen (down 12.0% from the previous year). This reflects the impact of a stagnant domestic economy as well as the spreading fear of swine flu contamination that gave rise to "nesting consumers" who avoided going out, resulting in fewer customers in arcades. At the same time, multi-player network games grew in popularity, further reducing the number of customers to arcades (See Diagram 35). Also, facilities operated by major game center operators continued to close, with a total of 19,213 facilities (down 11.4% from the previous year). Plagued by low profitability and poor future viability, these numbers will surely continue to fall in the years to come.

The growth rate of shopping malls and other large-scale facilities was the same as last year. The number of arcades with more than 101 game machines grew to 6,753, comprising more than 35% of all facilities (See Diagram 36).

In this fiscal year (the period ended March 31, 2011), the market was expectedly weak, but from summer, sales in each company picked up, indicating a turnaround. Indicators of a recovery included (1) each company reducing facility numbers, thereby lessening competition and (2) "nesting



Plaza Capcom Kichijoji



Plaza Capcom Kyoto



Plaza Capcom Hanyu



consumers” being provided with some relief from the sense that the Japanese economy had bottomed out.

Regarding the future outlook, while the effect of the Great East Japan Earthquake has withered the consumer mind, and the rolling blackouts affect and shorten facility business hours, consumers will likely exercise voluntary restraint with respect to large-scale leisure activities, preferring instead inexpensive, nearby and short-duration leisure activities—such as arcades—which can be expected to experience heightened activity. In this way, the disaster will likely continue to have both positive and negative impacts.

Operating Results for This Fiscal Year

Although some of our facilities were badly damaged in the disaster, the impact on sales was negligible, as we achieved profits 91.5% higher than the previous year.

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.

In this fiscal year, with the entire industry focusing on energizing the market through implementing customer appreciation day on a “Game Day” (November 23 each year) to thank arcade fans, customer-oriented efforts were made in operating the arcades in this business segment. Sponsoring a variety of events, renovating arcades, and offering special discount days are just a few examples of such efforts.

Further, Capcom also worked to expand its customer base to include female, family and older-generation customers, while endeavoring to improve the earning capacity by controlling investments, reducing costs, and operating arcades in line with current market conditions.

Meanwhile, 10 of Capcom’s arcades seriously suffered damages and loss of properties by the Great East Japan Earthquake in March 2011. Although they were forced to shut down temporarily, three of the 10

subsequently managed to reopen for business. All arcades were able to resume business by April.

Since we closed one unprofitable arcade, the total number of our arcades became 37 as of this fiscal year.

As a result, despite achieving 99% of previous year existing store sales, net sales decreased to 11.621 billion yen (down 3.0% from the previous fiscal year) while operating income increased to 1.131 billion yen (up 91.5% from the previous fiscal year).

Outlook for the Next Fiscal Year

The disaster has created many uncertainties in the market. Nevertheless, we will attempt to increase capital expenditure and improve the profitability of existing operations.

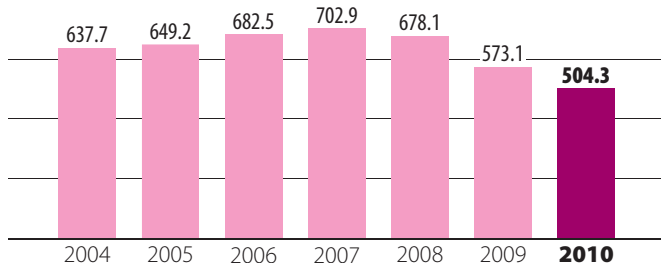
Regarding business developments next fiscal year (the period ending March 31, 2012), despite indications of a recovery in the arcade operations market, the impact of the Great East Japan Earthquake has created uncertainties under which some facilities will have to shorten, temporarily halt or permanently cease operations. A considerable amount of time is necessary before the situation returns to normal. For now, Capcom will restrict the opening of new facilities while increasing capital expenditure and investing in carefully selected projects, including renovation of existing facilities and machines, to improve the profitability of existing operations. As in the previous fiscal year, we will strive to further improve operating efficiency by thoroughly reviewing all expense items, materials, prizes and components with high fixed-cost ratios.

Having closed unprofitable facilities this fiscal year, and in light of the disaster, to improve earnings we will limit the opening of new facilities until market conditions improve. Accordingly, in the next fiscal year, we will only open one new facility, and plan to close none.

We forecast net sales of 11 billion yen and operating income of 0.8 billion yen in the next fiscal year.

Diagram 35 Arcade Facilities Market Trends

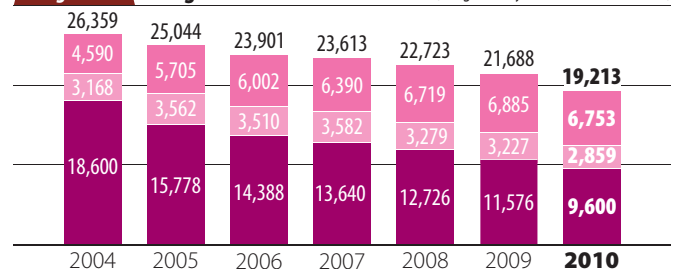
(¥ Billion)



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

Diagram 36 Change in Number of Storefronts

(categorized by # of arcade machine units)



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

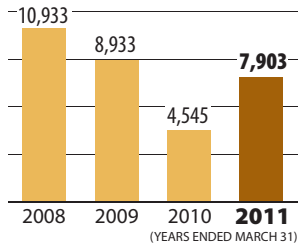


Amusement Equipments

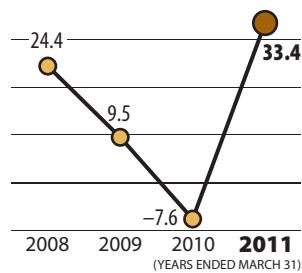
We are engaged in two other businesses based on the content used for our home video games. The Pachinko & Pachislo Business is involved in the development, manufacture and sales of frames and LCD devices for gaming machines as well as software. The Arcade Games Sales Business develops, produces and distributes arcade games for amusement facilities, creating synergy between businesses.



● Net Sales (Millions of yen)



● Operating Margin (%)



* In the fiscal year ended March 31, 2011, Capcom restructured its business segment divisions, and as a result, some figures before the fiscal year ended March 31, 2009 have been retroactively adjusted.

● SWOT Analysis

<ul style="list-style-type: none"> ● High quality development capabilities cultivated through home video games ● Multiple usage of plentiful in-house content ● Ability to observe real time market movements through company-owned arcades 	<ul style="list-style-type: none"> ● Lack of title lineup ● Low profitability
<ul style="list-style-type: none"> ● Market recovery via introduction of popular machines ● Market expansion through network and 3D and other new technologies ● Market recovery from relaxation of regulation on business affecting public morals 	<ul style="list-style-type: none"> ● Declining operator investment appetite ● Long-term market stagnation ● Market fluctuations resulting from changes to regulation on business affecting public morals

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

Market Trends

The Pachinko & Pachislo market expanded for the first time in four years, as the arcade game market contracted for the third consecutive year.

The Amusement Equipments Business consists of two businesses that develop the content of our home video games, the Pachinko & Pachislo Business and the Arcade Games Sales Business.

This size of the Pachinko & Pachislo sales market during the previous fiscal year (the period ended March 31, 2010) was 1,204.7 billion yen (up 3.3% from the previous year), the first growth in four years (See Diagram 37). The reason for this can be attributed to the fact that many pachinko machine models with comparatively high gaming aspects were sold, and while the numbers were low, the unit prices were high.

During this fiscal year (the period ended March 31, 2011), in accordance with the modification to the gaming aspect of Pachinko machines under the "Regulations on the Entertainment and Amusement Trades Rationalizing Act" revised in 2004, the market has until now continued to focus on decreasing Pachislo and increasing Pachinko, heightening the backlash of Pachinko machine's speculative characteristics, with players even sometimes seen avoiding new machines, placing a drag on overall business.

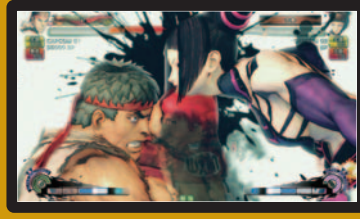
In terms of the outlook for the future, the uncertainties caused by the Great East Japan Earthquake may cause players to play less pachinko, resulting in an even more challenging operating environment. On the other hand, advancements in the quality of Pachislo machines fitted with LCD screens, including a hit model that shipped over 50,000 units, means that we should be able to expect growth in parlors.



"Onimusha: Dawn of Dreams"
©CAPCOM CO., LTD. ALL RIGHTS RESERVED.
©Sammy
©RODEO



"Sengoku BASARA 2"



"Super Street Fighter IV Arcade Edition"



"New Super Mario Brothers Wii Coin World"

©2009 Nintendo Licensed by Nintendo
©CAPCOM CO., LTD. 2010 ALL RIGHTS RESERVED.



Next, in the previous fiscal year, the arcade game domestic product sales market was, like the facilities market, affected by the sluggish economy and in contraction for the third consecutive year, totaling 156.6 billion yen in value (down 14.3% from the previous year) (See Diagram 38). In terms of trends by genre, game machines easily affected by the economy (prize-winning games, accounting for 19.2% of the market) totaled 30.1 billion yen (down 16.9% from the previous year). Despite the vigorousness of bold new large-game machines, coin-operated games (accounting for 18.5% of the market) did not see a surge in demand for new machines, ending at 28.9 billion yen (down 22.0% from the previous year).

In this fiscal year, although the facilities market seemed to be emerging from its slump, facilities operators nevertheless maintained a very cautious position with respect to its capital expenditure position as the sales market remains weak.

In terms of the outlook for the future, although there is still much uncertainty, while the Great East Japan Earthquake is expected to adversely affect the consumer mind, game centers are predicted to become sources of inexpensive, nearby and short-duration leisure activities.

Operating Results for This Fiscal Year

In addition to hit Pachislo machines two years in a row, video game console sales are also doing well, which resulted in significantly higher sales and earnings.

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 other companies, using our technological expertise in high-resolution image processing cultivated through the development of home video games is our strength.

In this fiscal year, the Pachinko & Pachislo Business sold 16,000 units of a "Sengoku BASARA 2" themed Pachislo machine, as well as launched "Onimusha: Dawn of Dreams" during the previous fiscal year, which remained a long-seller, contributing to improved profit.

The strength of the Arcade Games Sales Business 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.

While the market conditions remained weak for arcade game machines in the Arcade Games Sales Business in this fiscal year, this business segment saw the video game machine "Super Street Fighter IV Arcade Edition" perform solidly.

Meanwhile, profitability improved, thanks to cost reduction and other business-wide streamlining efforts.

The resulting net sales increased to 7.903 billion yen (up 73.9% from the previous fiscal year), and the operating income was 2.638 billion yen (the operating loss of the previous fiscal year was 347 million yen).

Outlook for the Next Fiscal Year

Capcom tends to lead the Pachislo market, and our arcade games are strongly differentiated from the products of other companies.

In terms of business developments in the next fiscal year, in the Pachinko & Pachislo Business, while the effects of the disaster are a concern, our specialized built-in LCD display technology is expected to stimulate demand and turn around the Pachislo market. To this end, we will employ the same successful strategy as with last year's "Sengoku BASARA 2", namely (1) expand the consignment business which is expected to contribute stable profits, (2) enter into an alliance with the Fields Corporation to enhance development capabilities and strengthen sales network and (3) introduce major popular home video game contents.

In the Arcade Games Sales Business, the maturity of the market and the impact of the disaster make us think that facility operators will continue to be cautious about the selection and concentration of their investments. For this reason, Capcom is concentrating on the development of coin-operated games that make use of extremely familiar and popular proprietary and other content including "New Super Mario Brothers Wii Coin World" in an attempt to differentiate our products from the competitors.

As a result of these measures, we forecast net sales of 8.8 billion yen and operating income of 1.2 billion yen.

Diagram 37 Major Gaming Machines Market (New Machine Sales) (¥ Billion)

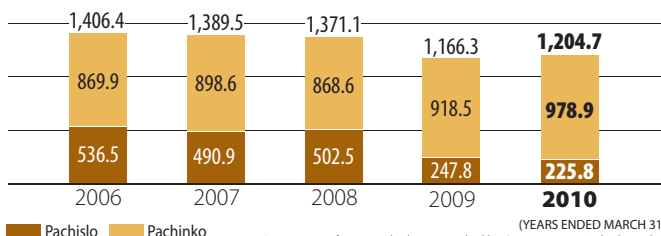
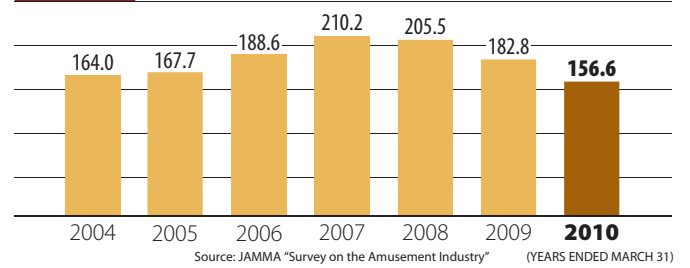


Diagram 38 Arcade Game Market Trends (¥ Billion)



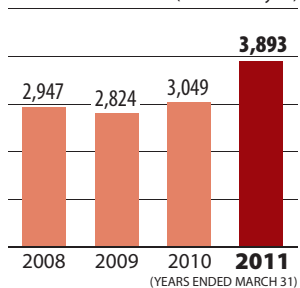


Other Businesses

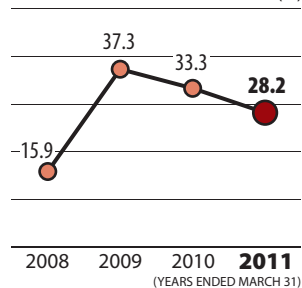
Based on a Single Content Multiple Usage strategy of developing game content for various media, we will pursue a variety of copyright-related business opportunities including publishing (walkthrough and strategy guides as well as game settings collections) and licensing (music CDs and licensed merchandise).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



● Net Sales (Millions of yen)



● Operating Margin (%)



● SWOT Analysis

<ul style="list-style-type: none"> ● Synergy effect from multiple use of abundant content ● Brand value increased through high media exposure ● High profitability 	<ul style="list-style-type: none"> ● Low return of sales of licensed products
<ul style="list-style-type: none"> ● Expansion of film, animation, comics, stage productions, orchestras and other development media 	<ul style="list-style-type: none"> ● Direct competition with other company's contents as a result of globalization

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

Operating Results for This Fiscal Year

In line with its Single Content Multiple Usage strategy, Capcom completed several film projects, which contributed a 27.7% increase to sales and a 8.0% increase to operating income.

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.

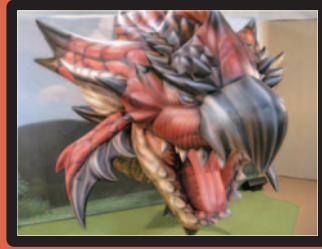
During this fiscal year (the period ended March 31, 2011), we continued to execute our Single Content Multiple Usage strategy (see "Growth Strategy 3" on P25), conducting various projects based on each game title to enhance the branding of our game content and maximize profits.

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 39).

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



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



Event "Monster Hunter World"



Movie "Sengoku BASARA
-The Last Party-"
©2011 CAPCOM/TEAM BASARA



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 (See Diagram 40).

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.

For example, the box-office take for the September release of "Resident Evil: Afterlife 3D" was a record-smashing 300 million dollars. One example of multi-development involves "Monster Hunter" when, in promotion to the lead up to the December 2010 launch of "Monster Hunter Freedom 3". In March, a theme park in Kumamoto Prefecture was transformed into Greenland, and an event was held where fans could have an authentic Monster Hunter experience. In August, TV animation broadcasts began. Even after the sales launch, events were held at the hot spring resort Shibu in Nagano Prefecture and at game spaces in collaboration with Shidax Community Corporation, bringing together more than 10,000 and 30,000 fans respectively, and creating a sense of synergy.

The result of this continuous, cross-sectional multiple-development is the social phenomenon known as "Monster Hunter Craze", which contributed to the huge hit which shattered the record with 4.6 million sales.

Other multi-development projects underway include titles such as "Street Fighter", "Resident Evil", "Ace Attorney", "Sengoku BASARA", "Devil May Cry" and "Dead Rising".

The resulting net sales increased to 3.893 billion yen (up 27.7% from the previous fiscal year), and the operating income was 1.098 billion yen

(up 8.0% from the previous fiscal year).

Outlook for the Next Fiscal Year

In addition to multiple film projects spanning several titles, Capcom furthered efforts to expand its user base through various events and other activities.

Looking ahead to the next fiscal year (the period ending March 31, 2012), we will continue to execute our Single Content Multiple Usage strategy. We are moving forward with the fifth installment of the "Resident Evil" series, and in the movie-related business, global titles for movie adaptation will include "Devil May Cry" and "Clock Tower".

Regarding domestic titles, in addition to "Sengoku BASARA" being used to create an animated movie, a theatrical production and a fan appreciation event, it will also be used in collaborations with regional municipalities. "Monster Hunter" continues the trend with the Monster Hunter Festival 2011, expected to draw 50,000 visitors and be the largest event for this series so far. The "Monster Hunter" fad will be sustained with a concert by the Tokyo Philharmonic Orchestra, an event held at Universal Studios Japan and other events in an attempt to draw as many and varied casual users as possible.

Functioning as horizontal deployment 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 0.8 billion yen.

List of Our Content that Has Been Adapted into Movies and Theatrical Productions

Diagram 39	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
Jun. 2011	Animated movie	Sengoku BASARA -The Last Party-	
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 AIRU MURA AIRU KIKI IPPATSU	
Jul. 2011	TV animation	MONHAN NIKKI GIRIGIRI AIRU MURA G	
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
	Oct. 2011	Theatrical production	Sengoku BASARA: Samurai Heroes

Revenue Ranking of Japanese Game Content that Has Been Adopted into Movies

Diagram 40	Title	Original writer company	Box-office revenue (worldwide)
1.	RESIDENT EVIL: AFTERLIFE 3D	Capcom	\$296,221,663
2.	RESIDENT EVIL: EXTINCTION	Capcom	\$147,717,833
3.	RESIDENT EVIL: APOCALYPSE	Capcom	\$129,394,835
4.	RESIDENT EVIL	Capcom	\$102,441,078
5.	STREET FIGHTER	Capcom	\$99,423,521
6.	SILENT HILL	Konami	\$97,607,453
7.	FINAL FANTASY: THE SPIRITS WITHIN	Square	\$85,131,830
8.	SUPER MARIO BROS.	Nintendo	\$20,915,465
9.	HOUSE OF THE DEAD	Sega	\$13,818,181
10.	STREET FIGHTER: THE LEGEND OF CHUN-LI	Capcom	\$12,764,201

* As of June, 2011 (Capcom figures)

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

Conver

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.

sation

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)

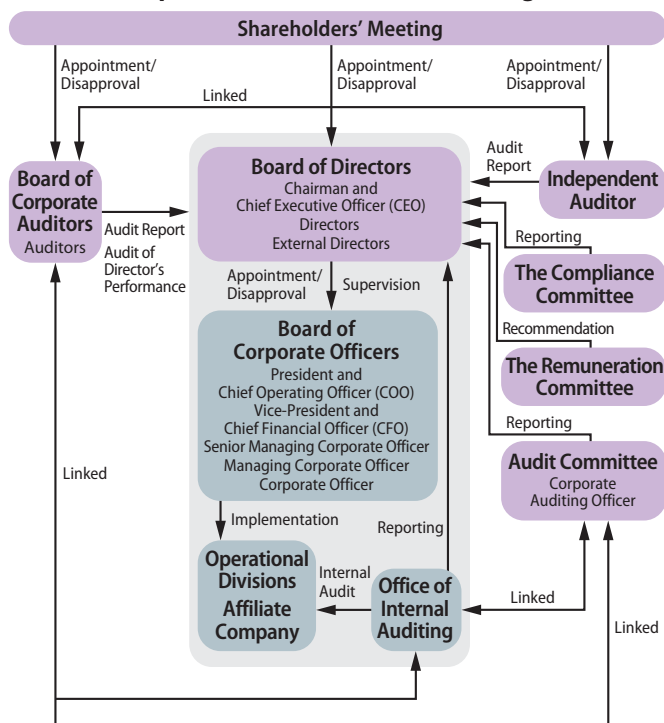
	No. of People	Remuneration Amount
Directors (External Directors)	9 (3)	¥403 million (¥32 million)
Corporate Auditors (External Auditors)	4 (2)	¥48 million (¥24 million)

* 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.

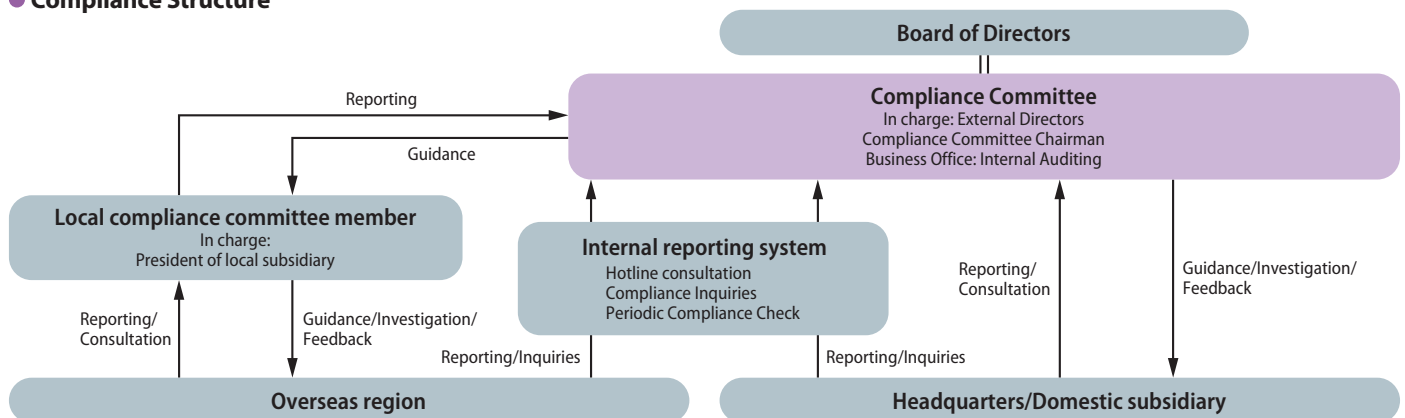
Furthermore, the “Capcom Code of Conduct” was formulated to strengthen our compliance system. Capcom is dedicated to proactively preventing illegal acts and misconduct, and ensuring legal compliance through the promulgation of corporate ethics and principles.

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

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)

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

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

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.

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 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 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

Financial Section

- 54 **Financial Strategy According to the CFO:
R&D Investment and Fund Procurement**
- 55 **Financial Review**
- 59 **Consolidated Balance Sheets**
- 61 **Consolidated Statements of Income /
Consolidated Statements of Comprehensive Income**
- 62 **Consolidated Statements of Changes in Net Assets**
- 63 **Consolidated Statements of Cash Flows**
- 64 **Notes to Consolidated Financial Statements**
- 83 **Report of Independent Auditors**

Net Cash Strategy for Supporting Investments in Online Game Development

Capcom has set a financial goal of improving net cash to build a lean financial foundation without waste while at the same time securing funding to invest in growth and increasing shareholder returns.

The reason behind the goal is the significant evolution underway in the game software market due to the incorporation of mobile and SNS platforms in addition to home games and PC online games, which represents a business opportunity for Capcom. We have therefore formulated growth strategies for our online and mobile businesses in addition to our basic strategy of developing high-quality content, and have sought to reinforce our investments in development.

We will seek stable growth over the medium- and long-term by raising profitability through our growth strategies and generating high level of cash flows.



Tamio Oda

Director and Executive Vice President and Chief Financial Officer (CFO)

1. Securing Funding to Invest in Growth

Capcom believes this is the right time for investing in growth. We have therefore been improving our net cash position and preparing to meet the funding needs of annual growth in development investments by maximizing our free cash flows.

Net cash generated in the year ended March 2011 was 27.6 billion yen, due to factors including the success of several major titles, increasing by 15.5 billion yen over the previous year.

Analysis of past fiscal years showed that net cash used in the year ended March 1996 was 66.2 billion, excluding interest-bearing debt from cash deposits. Considering that net cash generated in the year ended March 2011 was 27.6 billion, this represents an improvement of nearly 100 billion yen over the past 15 years.

Next, from the standpoint of the “first stage of structural reforms” for substantially strengthening management, net cash used in the year ended March 2004 was 17 billion yen compared with 27.6 billion yen in net cash generated in the year ended March 2011. Following the first and second stage of structural reforms, our cash position has improved by approximately 45 billion yen over the past seven years. During this period, net cash used for convertible bonds was 13.5 billion yen, with 11.5 billion yen generated by issuing bonds and 25 billion yen used to redeem the bonds at maturity, which means we have been generating nearly 60 billion yen from operating activities to offset the net cash used.

2. Increasing Shareholder Returns

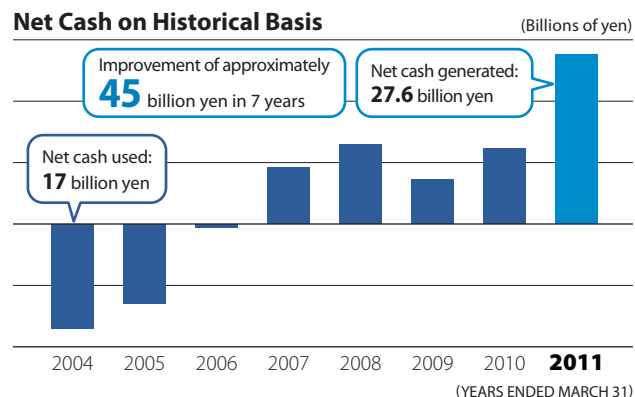
Capcom believes it is important to provide returns to shareholders and seeks to: (1) enhance corporate value by achieving growth through

investments and other means and (2) maintain stable dividend payments commensurate with business performance.

For the year ended March 2011, we raised our dividend payment by 5 yen to a total annual dividend of 40 yen. As a result, our payout ratio was 30.5%.

Following analysis of past fiscal years, Capcom paid 20 yen per share from the year ended March 1998 to the year ended March 2006. From the year ended March 2007, we increased dividends to 30 yen per share as the structural reforms enabled us to establish a stable profit base. Since the year ended March 2009, we had been paying 35 yen per share, but at present, we are paying a dividend of 40 yen per share.

We have also acquired approximately 13 billion yen in treasury stock since the year ended March 2004. We will seek further improvement in net cash to continue strengthening investments for growth and to deliver returns to shareholders.



Financial Review

1. Operating Results

Capcom Co., Ltd. would like to announce that net sales for the current fiscal year increased to 97,716 million yen (up 46.2% from the previous fiscal year). As for profits, operating income increased to 14,295 million yen (up 155.8% from the previous fiscal year), and ordinary income increased to 12,861 million yen (up 132.6% from the previous fiscal year). Net income for the current fiscal year increased to 7,750 million yen (up 257.6% from the previous fiscal year) in spite of special losses on restructuring (1,453 million yen), disaster (105 million yen) and others.

2. Sales and Profits

(1) Net Sales

Net sales in the current fiscal year were 97,716 million yen (up 46.2% from the previous fiscal year). This was primarily a result of record-breaking sales of "Monster Hunter Freedom 3" for the PSP, a flagship title developed by our core Consumer Online Games Business that sold over 4.6 million units in the shortest time ever, playing a lead role in earnings improvement.

The major titles "Dead Rising 2" and "MARVEL VS. CAPCOM 3 Fate of Two Worlds" targeting overseas markets sold over 2 million units each, and through the success of the distinctive characteristics of each type of content, earnings received a boost from a total of five million-seller titles.

In the Mobile Contents Business, we began distributing "Smurfs' Village" through a tie-up with Facebook, and have received a far greater number of downloads than initially anticipated. In the Amusement Equipments Business, the "Sengoku BASARA 2" Pachislo machine continues to perform well, with the entire segment (excluding Arcade Operations) performing better than the previous fiscal year.

As a result of these conditions, net sales were significantly higher

than the previous fiscal year, and the Company's highest net sales on record at 66,837 million yen.

(2) (Cost of sales, Selling, general and administrative expenses) Operating Income

Cost of sales was 60,371 million yen (up 42.6% from the previous fiscal year), gross profit was 37,304 million yen (up 50.9% from the previous fiscal year) and selling, general and administrative expenses were 23,009 million yen (up 20.3% from the previous fiscal year).

In the current fiscal year, the Consumer Online Business produced a total of five million-seller titles, and incurred development costs related to the sales of major titles, resulting in cost of sales increases of 18,032 million yen compared to the previous fiscal year.

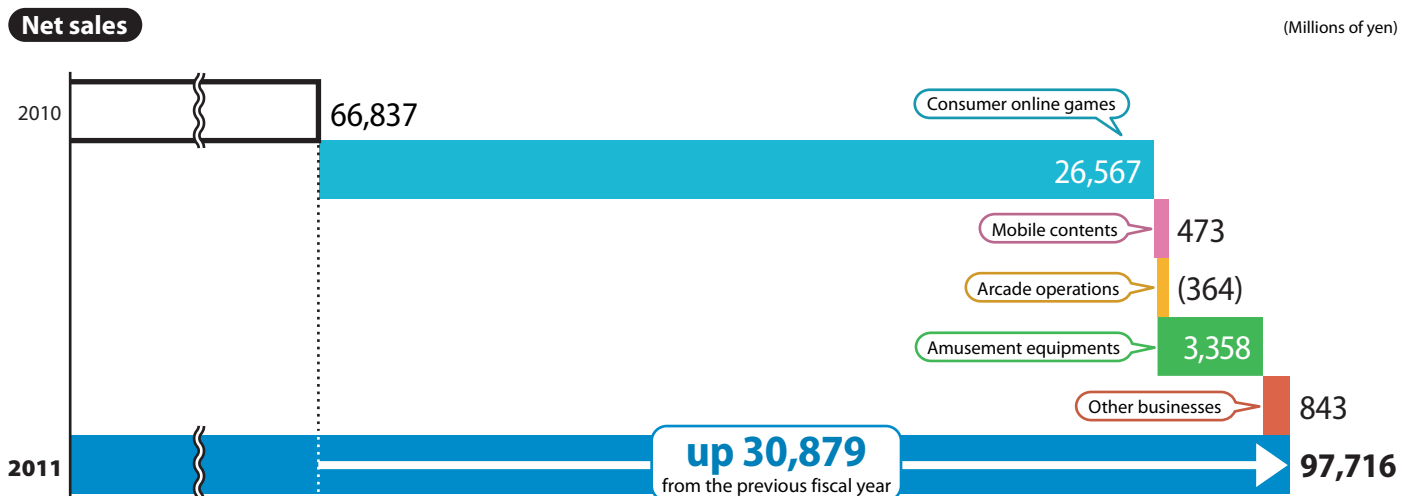
Also, increased advertising expenses related to major titles developed by the Consumer Online Business resulted in selling, general and administrative expense increases of 3,876 million yen compared to the previous fiscal year.

As a result, operating income was 14,295 million yen (up 155.8% from the previous fiscal year) and the operating margin was 14.6%, a significant improvement in earnings.

(3) Other Earnings (expenses), Net Income

Non-operating income in the current fiscal year totaled 231 million yen, and non-operating expenses, which posted foreign exchange loss on assets denominated in foreign currencies, was 1,664 million yen.

Also, in the current fiscal year, execution of the second phase of our structural reforms required us to record a 1,453 million yen loss on restructuring resulting from a review of the development title lineup in our Consumer Online Business, among other activities. Furthermore, the Great East Japan Earthquake, which struck on March 2011 and damaged arcade operations in the Tohoku and Kanto regions, required the Company to record further losses of 105 million yen.



Note: Figures for the fiscal year ended March 31, 2010, have been retroactively adjusted to match the new segment classifications.

As a result, despite recording special losses totaling 2,281 million yen, Capcom recorded net income of 7,750 million yen (up 257.6% from the previous fiscal year).

3. Status of Each Operational Department

(1) Consumer Online Games

In this business segment, the feature title "Monster Hunter Freedom 3" (for PlayStation Portable), which was released on December 1, 2010 to long lines of customers nationwide, became a big hit with a total shipment of more than 4.6 million units and played the lead role in improving Capcom's business performance.

Further, the major titles for PlayStation 3 and Xbox 360 targeted at overseas markets fully leveraged their characteristics to achieve market success, selling over one million units each with shipments totaling 2.2 million units for "Dead Rising 2", 2 million units for "MARVEL VS. CAPCOM 3 Fate of Two Worlds", 1.6 million units for "Super Street Fighter IV", and 1.5 million units for "Lost Planet 2". The result was a history-making milestone of five million-seller titles in total.

Additionally, "Sengoku BASARA: Samurai Heroes" (for PlayStation 3 and Wii), the newest in the series that gained stable popularity, also enjoyed steady growth in sales. "MONHAN NIKKI POKAPOKA AIRU MURA" (for PlayStation Portable), a spin-off from the "Monster Hunter" series, which attracted users with its widely popular character "Airu" (known as "Felyne" in English) became a smash hit.

Meanwhile, the online exclusive title "Monster Hunter Frontier Online" (for PC, Xbox 360) also showed solid performance.

The resulting net sales increased to 70,269 million yen (up 60.8% from the previous fiscal year), and the operating income was 12,499 million yen (up 59.5% from the previous fiscal year).

(2) Mobile Contents

As social games that are highly compatible with mobile phones underwent

rapid growth, we were able to reach diverse new users, with members exceeding one million people for "MONHAN NIKKI MOBILE AIRU MURA" distributed exclusively through one of the Japanese mobile SNS "Mobage".

In addition to "Ghost Trick" that was released for iPhone/iPod touch fared well, "Street Fighter IV" released in the previous term also achieved its projected sales.

Meanwhile, there have been positive surprises as well, such as the number of downloads of "Smurfs' Village", distributed through Facebook, United States, exceeding our projection by far, as well as the steady increase in the membership of "Zombie Cafe".

The resulting net sales increased to 4,028 million yen (up 13.3% from the previous fiscal year), and the operating income was 1,366 million yen (up 83.2% from the previous fiscal year).

(3) Arcade Operations

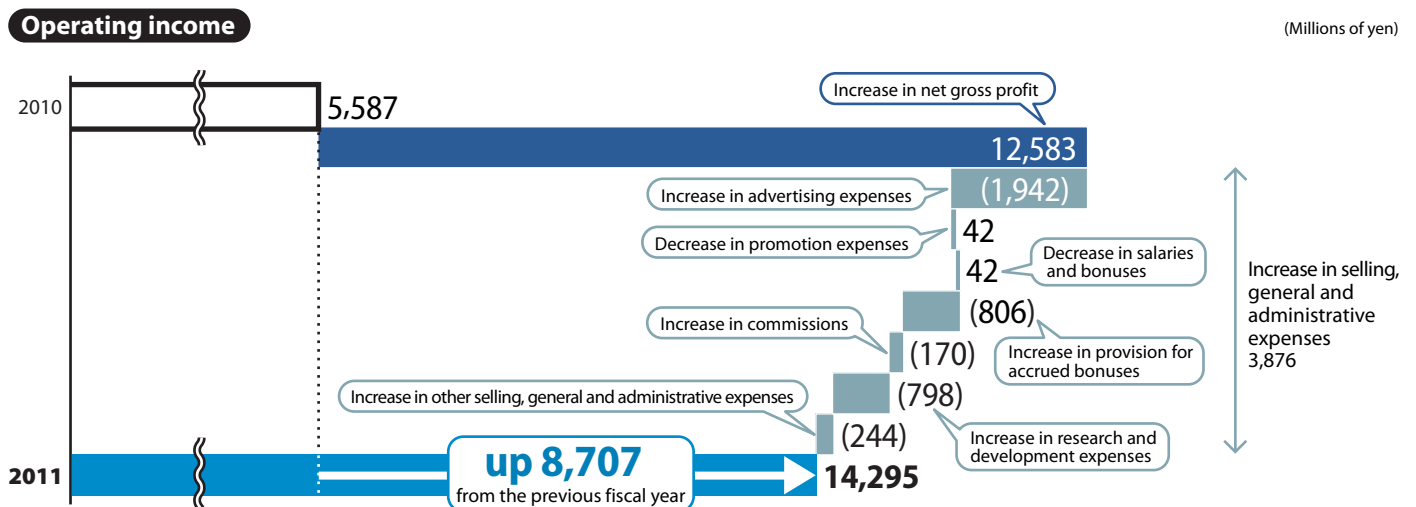
With the entire industry focusing on energizing the market through implementing customer appreciation day on a "Game Day" (November 23 each year) to thank arcade fans, customer-oriented efforts were made in operating the arcades in this business segment. Sponsoring a variety of events, renovating arcades, and offering special discount days are just a few examples of such efforts.

Further, Capcom also worked to expand its customer base to include female, family and older-generation customers, while endeavoring to improve the earning capacity by controlling investments, reducing costs, and operating arcades in line with current market conditions.

Meanwhile, ten of Capcom's arcades seriously suffered damages and loss of properties by the Great East Japan Earthquake in March 2011. Although they were forced to shut down temporarily, three of the ten subsequently managed to reopen for business.

Since we closed one unprofitable arcade, the total number of our arcades became 37 as of the end of the current fiscal year.

As a result, while net sales decreased to 11,621 million yen (down 3.0%



from the previous fiscal year), the operating income increased to 1,131 million yen (up 91.5% from the previous fiscal year).

(4) Amusement Equipments

While the market conditions remained soft for arcade game machines, this business segment saw the video game machine “Super Street Fighter IV: Arcade Edition” perform solidly.

As for the Pachislo machine business, in addition “Sengoku BASARA 2” showing strong performance, “Onimusha: Dawn of Dreams” launched during the previous fiscal year remained a long-seller, contributing to improved profit.

Meanwhile, profitability improved, thanks to cost reduction and other business-wide streamlining efforts.

The resulting net sales increased to 7,903 million yen (up 73.9% from the previous fiscal year), and the operating income was 2,638 million yen (compared with the operating loss of 347 million yen for the previous fiscal year).

(5) Other Businesses

The net sales from other businesses, mainly character-related licensing royalties, increased to 3,893 million yen (up 27.7% from the previous fiscal year), and the operating income was 1,098 million yen (up 8.0% from the previous fiscal year).

4. Analysis of Assets, Liabilities and Net Assets

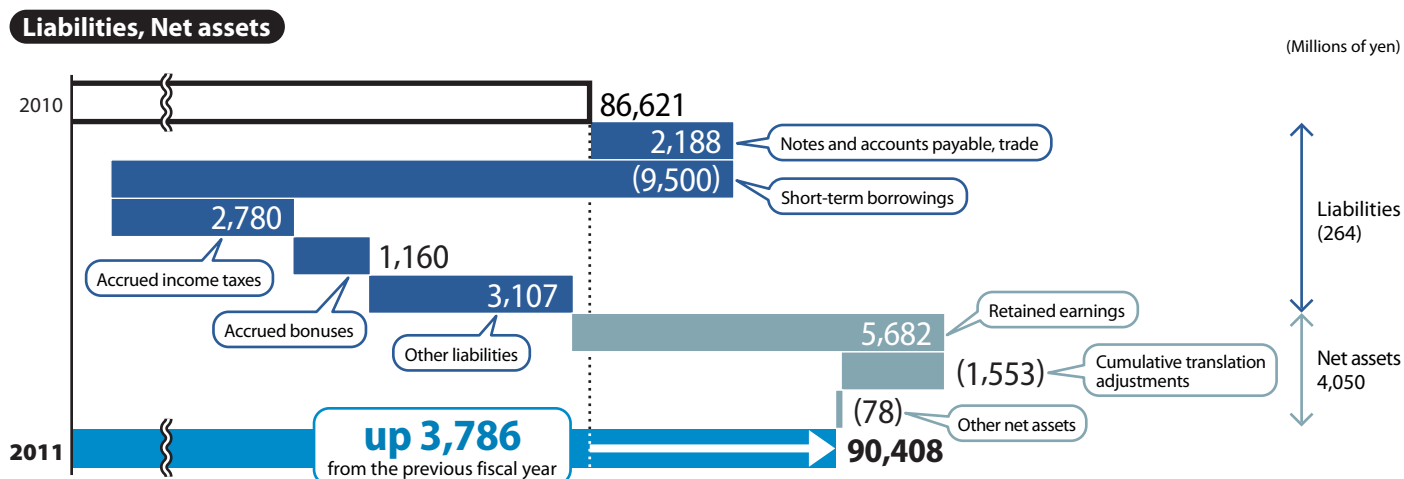
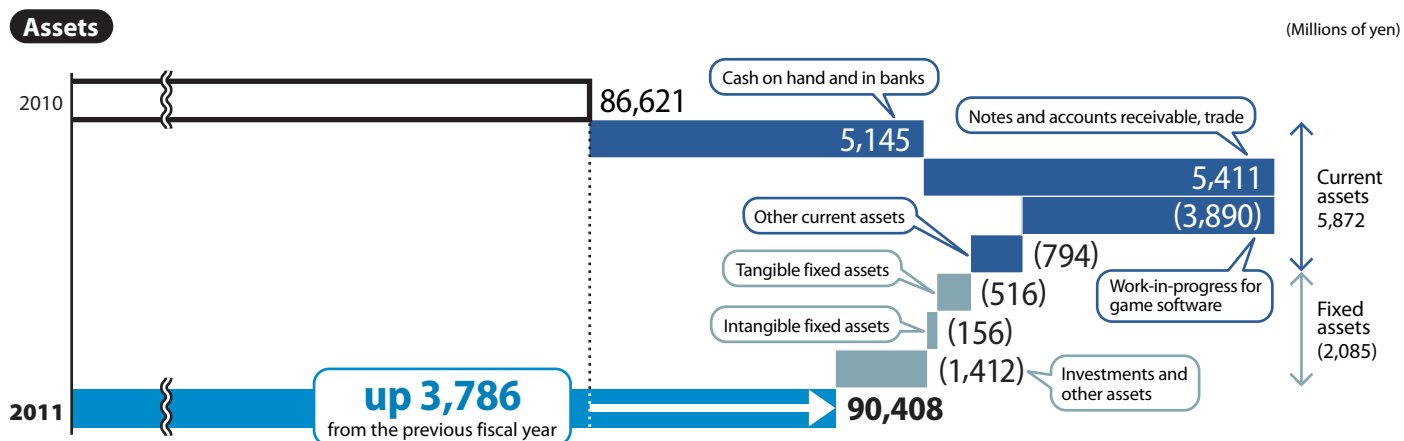
(1) Assets

Total assets increased by 3,786 million yen from the previous fiscal year to 90,408 million yen.

The primary components of the change were increase in cash on hand and in banks of 5,145 million yen and in notes and accounts receivable, trade of 5,411 million yen, and decrease in work-in-progress for game software of 3,890 million yen.

(2) Liabilities

Liabilities decreased by 264 million yen from the previous fiscal year



to 32,400 million yen.

The primary components of the change were increase in accrued income taxes of 2,780 million yen, in notes and accounts payable, trade of 2,188 million yen and in accrued bonuses of 1,160 million yen, and decrease in short-term borrowings of 9,500 million yen.

(3) Net assets

Net assets increased by 4,050 million yen from the previous fiscal year to 58,007 million yen.

The primary components of the change were net income of 7,750 million yen, cash dividends of 2,068 million yen and decrease in cumulative translation adjustments of 1,553 million yen (for the foreign currency translation of the net assets of consolidated overseas subsidiaries).

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 5,196 million yen from the previous fiscal year to 35,011 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 to 22,392 million yen (14,320 million yen in the previous fiscal year).

Some of the main contributors to the increase were the following: 10,807 million yen in net income before income taxes (1,124 million yen in the previous fiscal year); increase in other current liabilities of 3,186 million yen (decrease of 1,296 million yen in the previous fiscal year); depreciation and amortization of 3,315 million yen (3,368 million yen in the previous fiscal year); decrease in work-in-progress for game software of 3,246 million yen (increase of 5,545 million yen in the previous fiscal year); increase in notes and accounts payable, trade of 2,264 million yen (decrease of 5,952 million yen in the previous fiscal year); increase in accrued bonuses of 1,180 million yen (decrease of 755 million yen in the previous fiscal year). The decrease is attributable mainly to increase in notes and accounts receivable, trade of 5,531 million yen (decrease of 20,897 million yen in the previous fiscal year).

(2) Cash flows from investing activities

Net cash used in investing activities increased to 2,046 million yen (1,618 million yen in the previous fiscal year).

Some of the main contributors to the increase were the following: 1,734 million yen in payment for acquisitions of tangible fixed assets (1,693 million yen in the previous fiscal year); 482 million yen in purchase of investments in subsidiaries; 429 million yen in payment for acquisitions of intangible fixed assets (289 million yen in the previous fiscal year). The decrease was attributable mainly to 290 million yen in Proceeds from sales of investments in securities.

(3) Cash flows from financing activities

Net cash used in financing activities increased to 12,919 million yen (10,747 million yen in the previous fiscal year).

This increase was mainly attributable to the following: 12,500 million yen in repayments of short-term borrowings (2,555 million yen in the previous fiscal year); 2,064 million yen in dividends paid by parent company (1,829 million yen in the previous fiscal year). The decrease was attributable mainly to 3,000 million yen in proceeds from long-term borrowings.

Trends of Cash Flow Indicators

	Year ended March 2009	Year ended March 2010	Year ended March 2011
Shareholders' equity ratio to total assets (%)	55.9	62.3	64.2
Shareholders' equity ratio to total assets based on fair market value (%)	101.5	120.5	103.9
Debt amortization ratio to cash flows from operating activities (%)	—	122.7	32.8
Interest coverage ratio (times)	—	86.9	155.8

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, debt amortization ratio to cash flows from operating activities and interest coverage ratio have been omitted.

Consolidated Balance Sheets

CAPCOM CO., LTD. AND ITS CONSOLIDATED SUBSIDIARIES. MARCH 31, 2011 AND 2010

	Previous fiscal year (As of March 31, 2010)	Current fiscal year (As of March 31, 2011)	Current fiscal year (As of March 31, 2011)
	Millions of yen	Millions of yen	Thousands of U.S. dollars
(Assets)			
Current assets :			
Cash on hand and in banks [Note 10 (1) and 12]	29,865	35,011	421,824
Notes and accounts receivable, trade [Note 12]	6,288	11,700	140,969
Merchandise and finished goods	849	849	10,235
Work-in-progress	183	340	4,100
Raw materials and supplies	1,698	1,075	12,960
Work-in-progress for game software	14,333	10,443	125,825
Deferred tax assets [Note 15 (1)]	3,204	5,210	62,775
Other	4,927	2,582	31,115
Allowance for doubtful accounts	(48)	(37)	(454)
Total current assets	61,303	67,176	809,351
Fixed assets :			
Tangible fixed assets, net of accumulated depreciation [Note 6 (1)]			
Buildings and structures, net [Note 6 (2)]	5,259	5,455	65,733
Machinery and vehicles, net	43	28	346
Tools, fixtures and furniture, net	823	894	10,771
Rental equipment, net	13	0	0
Equipment for amusement facilities, net	2,251	1,815	21,868
Land [Note 6 (2)]	4,386	4,408	53,118
Leased assets, net [Note 11 (2)]	965	924	11,140
Construction-in-progress	305	5	68
Total tangible fixed assets	14,049	13,532	163,047
Intangible assets			
Goodwill	179	412	4,973
Other	3,048	2,658	32,030
Total intangible assets	3,227	3,071	37,003
Investments and other assets			
Investments in securities [Notes 6 (3) and 13]	957	390	4,702
Long-term loans receivable	0	—	—
Deferred tax assets [Note 15 (1)]	1,339	1,150	13,861
Claim in bankruptcy and reorganization	909	922	11,112
Lease deposits [Note 12]	5,266	4,741	57,128
Other	586	392	4,726
Allowance for doubtful accounts	(1,019)	(968)	(11,674)
Total investments and other assets	8,040	6,628	79,858
Total fixed assets	25,318	23,232	279,909
Total assets	86,621	90,408	1,089,260

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

	Previous fiscal year (As of March 31, 2010)	Current fiscal year (As of March 31, 2011)	Current fiscal year (As of March 31, 2011)
	Millions of yen	Millions of yen	Thousands of U.S. dollars
(Liabilities)			
Current liabilities :			
Notes and accounts payable, trade [Note 12]	3,477	5,665	68,257
Short-term borrowings [Notes 6 (2), 12 and 24]	13,211	3,711	44,711
Lease obligations [Note 24]	578	507	6,114
Accrued income taxes	663	3,443	41,488
Deferred tax liabilities [Note 15 (1)]	58	30	372
Accrued bonuses	1,318	2,478	29,864
Allowance for sales returns	90	130	1,576
Other	5,814	8,982	108,220
Total current liabilities	25,211	24,950	300,604
Long-term liabilities :			
Long-term borrowings [Notes 6 (2), 12 and 24]	4,355	3,644	43,911
Lease obligations [Note 24]	459	461	5,557
Deferred tax liabilities [Note 15 (1)]	4	232	2,801
Accrued retirement benefits for employees [Note 14 (2)]	1,388	1,383	16,670
Asset retirement obligations [Notes 17 and 25]	—	340	4,107
Other	1,244	1,387	16,720
Total long-term liabilities	7,453	7,450	89,768
Total liabilities	32,665	32,400	390,372
(Net assets)			
Shareholders' equity :			
Common stock	33,239	33,239	400,473
Capital surplus	21,328	21,328	256,974
Retained earnings	17,262	22,945	276,448
Treasury stock	(13,141)	(13,143)	(158,350)
Total shareholders' equity	58,689	64,370	775,545
Accumulated other comprehensive income :			
Net unrealized gain or loss on securities, net of tax	19	(56)	(683)
Cumulative translation adjustments	(4,752)	(6,305)	(75,974)
Total accumulated other comprehensive income	(4,732)	(6,362)	(76,657)
Total net assets	53,956	58,007	698,887
Total liabilities and net assets	86,621	90,408	1,089,260

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

Consolidated Statements of Income / Consolidated Statements of Comprehensive Income

Consolidated statements of income

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

	Previous fiscal year (From April 1, 2009 to March 31, 2010)	Current fiscal year (From April 1, 2010 to March 31, 2011)	Current fiscal year (From April 1, 2010 to March 31, 2011)
	Millions of yen	Millions of yen	Thousands of U.S. dollars
Net sales	66,837	97,716	1,177,306
Cost of sales	42,339	60,371	727,370
Gross profit	24,497	37,344	449,936
Reversal of allowance for sales returns	222	—	—
Provision of allowance for sales returns	—	40	485
Net gross profit	24,720	37,304	449,451
Selling, general and administrative expenses [Notes 7 (1) and (3)]	19,133	23,009	277,221
Operating income	5,587	14,295	172,229
Non-operating income :			
Interest income	411	122	1,479
Dividend income	26	19	235
Other	193	89	1,074
Total	631	231	2,788
Non-operating expenses :			
Interest expense	165	143	1,732
Exchange loss, net	171	1,102	13,283
Provision of allowance for doubtful accounts	2	—	—
Commissions	119	60	726
Loss on closing amusement facilities	121	—	—
Contributions	—	141	1,698
Other	106	217	2,615
Total	687	1,664	20,056
Ordinary income	5,530	12,861	154,962
Special gains :			
Reversal of allowance for doubtful accounts	70	38	459
Reversal of accrued bonuses	162	—	—
Gain on sales of investments in securities	—	45	542
Net gain on the change of the retirement benefits plans [Note 14 (2)]	—	139	1,676
Other	—	4	53
Total	233	226	2,731
Special losses :			
Loss on sales and/or disposal of fixed assets [Note 7 (2)]	76	95	1,146
Loss on revaluation of investments in securities [Note 13 (2)]	5	259	3,125
Loss on adjustment for changes of accounting standard for asset retirement obligations	—	204	2,460
Impairment loss [Note 7 (4)]	223	149	1,806
Loss on settlement of litigation	152	—	—
Loss on restructuring [Note 7 (5)]	4,182	1,453	17,507
Loss on disaster	—	105	1,276
Other	—	13	165
Total	4,639	2,281	27,487
Net income before income taxes	1,124	10,807	130,205
Income taxes-current	1,299	4,654	56,082
Income taxes-from previous fiscal years	(1,761)	—	—
Income taxes-deferred	(582)	(1,598)	(19,261)
Total	(1,043)	3,056	36,821
Net income before minority interests	—	7,750	93,384
Net income	2,167	7,750	93,384

Consolidated statements of comprehensive income

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

	Previous fiscal year (From April 1, 2009 to March 31, 2010)	Current fiscal year (From April 1, 2010 to March 31, 2011)	Current fiscal year (From April 1, 2010 to March 31, 2011)
	Millions of yen	Millions of yen	Thousands of U.S. dollars
Net income before minority interests	—	7,750	93,384
Other comprehensive income [Note 8 (2)]			
Net unrealized gain or loss on securities, net of tax	—	(76)	(921)
Cumulative translation adjustments	—	(1,553)	(18,715)
Total other comprehensive income	—	(1,629)	(19,637)
Comprehensive income [Note 8 (1)]	—	6,121	73,747
Comprehensive income attributable to:			
Owners of the parent	—	6,121	73,747
Minority interests	—	—	—

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, 2009) to March 31, 2010)	Current fiscal year (From April 1, 2010) to March 31, 2011)	Current fiscal year (From April 1, 2010) to March 31, 2011)
	Millions of yen	Millions of yen	Thousands of U.S. dollars
Shareholders' equity			
Common stock			
Opening balance	33,039	33,239	400,473
Change of items during the fiscal year			
Issuance of new stocks	200	—	—
Total changes of items during the fiscal year	200	—	—
Ending balance	33,239	33,239	400,473
Capital surplus			
Opening balance	21,129	21,328	256,974
Change of items during the fiscal year			
Issuance of new stocks	199	—	—
Disposition of treasury stock	0	(0)	(0)
Total changes of items during the fiscal year	199	(0)	(0)
Ending balance	21,328	21,328	256,974
Retained earnings			
Opening balance	17,000	17,262	207,979
Decrease by change in accounting policies for foreign subsidiaries [Note 9 (4)]	(74)	—	—
Change of items during the fiscal year			
Cash dividends [Note 9 (3)]	(1,831)	(2,068)	(24,916)
Net income	2,167	7,750	93,384
Total changes of items during the fiscal year	336	5,682	68,468
Ending balance	17,262	22,945	276,448
Treasury stock			
Opening balance	(8,015)	(13,141)	(158,326)
Change of items during the fiscal year			
Repurchase of treasury stock	(5,125)	(2)	(24)
Disposition of treasury stock	0	0	0
Total changes of items during the fiscal year	(5,125)	(2)	(24)
Ending balance	(13,141)	(13,143)	(158,350)
Total shareholders' equity			
Opening balance	63,152	58,689	707,101
Decrease by change in accounting policies for foreign subsidiaries	(74)	—	—
Change of items during the fiscal year			
Issuance of new stocks	400	—	—
Cash dividends	(1,831)	(2,068)	(24,916)
Net income	2,167	7,750	93,384
Repurchase of treasury stock	(5,125)	(2)	(24)
Disposition of treasury stock	0	0	0
Total changes of items during the fiscal year	(4,389)	5,680	68,444
Ending balance	58,689	64,370	775,545

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

	Previous fiscal year (From April 1, 2009) to March 31, 2010)	Current fiscal year (From April 1, 2010) to March 31, 2011)	Current fiscal year (From April 1, 2010) to March 31, 2011)
	Millions of yen	Millions of yen	Thousands of U.S. dollars
Accumulated other comprehensive income			
Net unrealized gain or loss on securities, net of tax			
Opening balance	(12)	19	238
Change of items during the fiscal year			
Net changes of items other than shareholders' equity	32	(76)	(921)
Total changes of items during the fiscal year	32	(76)	(921)
Ending balance	19	(56)	(683)
Cumulative translation adjustments			
Opening balance	(3,790)	(4,752)	(57,258)
Change of items during the fiscal year			
Net changes of items other than shareholders' equity	(962)	(1,553)	(18,715)
Total changes of items during the fiscal year	(962)	(1,553)	(18,715)
Ending balance	(4,752)	(6,305)	(75,974)
Total accumulated other comprehensive income			
Opening balance	(3,803)	(4,732)	(57,020)
Change of items during the fiscal year			
Net changes of items other than shareholders' equity	(929)	(1,629)	(19,637)
Total changes of items during the fiscal year	(929)	(1,629)	(19,637)
Ending balance	(4,732)	(6,362)	(76,657)
Total net assets			
Opening balance	59,349	53,956	650,080
Decrease by change in accounting policies for foreign subsidiaries	(74)	—	—
Change of items during the fiscal year			
Issuance of new stocks	400	—	—
Cash dividends	(1,831)	(2,068)	(24,916)
Net income	2,167	7,750	93,384
Repurchase of treasury stock	(5,125)	(2)	(24)
Disposition of treasury stock	0	0	0
Net changes of items other than shareholders' equity	(929)	(1,629)	(19,637)
Total changes of items during the fiscal year	(5,318)	4,050	48,806
Ending balance	53,956	58,007	698,887

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

Consolidated Statements of Cash Flows

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

	Previous fiscal year (From April 1, 2009 to March 31, 2010)	Current fiscal year (From April 1, 2010 to March 31, 2011)	Current fiscal year (From April 1, 2010 to March 31, 2011)
	Millions of yen	Millions of yen	Thousands of U.S. dollars
Cash flows from operating activities :			
Net income before income taxes	1,124	10,807	130,205
Depreciation and amortization	3,368	3,315	39,946
Impairment loss	223	149	1,806
Amortization of goodwill	229	239	2,885
Decrease in allowance for doubtful accounts	(351)	(56)	(685)
Increase (decrease) in accrued bonuses	(755)	1,180	14,220
Increase (decrease) in allowance for sales returns	(222)	40	485
Decrease (increase) in accrued retirement benefits for employees	216	(4)	(56)
Decrease in accrued retirement benefits for directors	(406)	—	—
Interest and dividend income	(438)	(142)	(1,714)
Interest expense	165	143	1,732
Exchange loss, net	162	1,039	12,529
Loss on sales and/or disposal of fixed assets	76	95	1,146
Gain on sales of investment in securities	—	(45)	(542)
Loss on revaluation of investments in securities	5	259	3,125
Loss on adjustment for changes of accounting standard for asset retirement obligations	—	204	2,460
Loss on settlement of litigation	152	—	—
Loss on restructuring	4,182	1,453	17,507
Loss on disaster	—	105	1,276
Increase (decrease) in accounts receivable, trade	20,897	(5,531)	(66,645)
Decrease in inventories	1,095	409	4,932
Decrease (increase) in work-in-progress for game software	(5,545)	3,246	39,108
Increase (decrease) in notes and accounts payable, trade	(5,952)	2,264	27,282
Decrease (increase) in other current assets	(230)	57	696
Increase (decrease) in other current liabilities	(1,296)	3,186	38,393
Bonuses to directors	(84)	—	—
Other	225	913	11,011
Sub total	16,839	23,331	281,107
Interest and dividends received	335	141	1,707
Interest paid	(167)	(144)	(1,743)
Payment for settlement of litigation	—	(161)	(1,948)
Income taxes paid	(2,687)	(774)	(9,330)
Net cash provided by operating activities	14,320	22,392	269,791
Cash flows from investing activities :			
Payment for acquisition of tangible fixed assets	(1,693)	(1,734)	(20,903)
Proceeds from sales of tangible fixed assets	0	1	15
Payment for acquisition of intangible assets	(289)	(429)	(5,171)
Payment for purchase of investments in securities	(12)	(12)	(149)
Proceeds from sales of investments in securities	—	290	3,498
Collection of loans receivable	44	1	14
Purchase of investments in subsidiaries	—	(482)	(5,814)
Payment for other investing activities	(225)	(166)	(2,001)
Proceeds from other investing activities	557	485	5,852
Net cash used in investing activities	(1,618)	(2,046)	(24,659)
Cash flows from financing activities :			
Repayments of short-term borrowings	(2,555)	(12,500)	(150,602)
Proceeds from long-term borrowings	—	3,000	36,144
Repayments of long-term borrowings	(711)	(711)	(8,571)
Repayments of lease obligations	(525)	(640)	(7,721)
Payment for repurchase of treasury stock	(5,125)	(2)	(24)
Proceeds from sales of treasury stock	0	0	0
Dividends paid by parent company	(1,829)	(2,064)	(24,877)
Net cash used in financing activities	(10,747)	(12,919)	(155,652)
Effect of exchange rate changes on cash and cash equivalents	(751)	(2,230)	(26,876)
Net increase in cash and cash equivalents	1,203	5,196	62,603
Cash and cash equivalents at beginning of year	28,611	29,815	359,220
Cash and cash equivalents at end of year [Note 10 (1)]	29,815	35,011	421,824

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 ¥83=U.S.\$1, the approximate current rate of exchange prevailing on March 31, 2011, 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 GAME STUDIO VANCOUVER, INC. (Canada)
 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)
 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 (\$6,656 thousand)) is amortized over 15 years.

Unrecognized prior service liabilities are amortized over 8 years, the average remaining service period, commencing from the date on which they are incurred.

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.

(Additional information)

The Company and some of its domestic subsidiaries have abolished the funded non contributory pension plans to replace them with the defined contribution pension plans since January 1, 2011. The Company and some of its domestic subsidiaries treated the above change as "Net gain on the change of the retirement benefits plans" to book ¥139 million (\$1,676 thousand) in accordance with "Guidance on Accounting for Transfers between Retirement Benefit Plans" (The Accounting Standard Board of Japan (hereinafter referred to as "ASBJ") Guidance No.1 issued on January 31, 2002).

(10) 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.

(11) 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.

(12) Amortization of goodwill

Goodwill is amortized by the straight-line method over 3 to 4 years. In the case its amount is minor, it is amortized at one time.

(13) 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) Equity method**

Effective from the fiscal year ended March 31, 2011, the Companies have adopted the "Accounting Standard for Equity Method of Accounting for Investments" (ASBJ Statement No.16 issued on March 10, 2008) and "Practical Solution on Unification of Accounting Policies Applied to Associates Accounted for Using the Equity Method" (ASBJ PITF No.24 issued on March 10, 2008).

This accounting change has no impact on the consolidated statement of income for the current fiscal year.

(2) Asset retirement obligations

Effective from the fiscal year ended March 31, 2011, the Companies have adopted "Accounting Standard for Asset Retirement Obligations" (ASBJ Statement No.18 issued on March 31, 2008) and "Guidance on Accounting Standard for Asset Retirement Obligations" (ASBJ Guidance No.21 issued on March 31, 2008).

This accounting change has decreased operating income and ordinary income by ¥33 million (\$401 thousand), respectively and net income before income taxes by ¥237 million (\$2,861 thousand) for the current fiscal year.

(3) Business combinations

Effective from the fiscal year ended March 31, 2011, the Companies have adopted "Accounting Standard for Business Combinations" (ASBJ Statement No.21 issued on December 26, 2008), "Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No.22 issued on December 26, 2008), "Partial amendments to Accounting Standard for Research and Development Costs" (ASBJ Statement No.23 issued on December 26, 2008), "Accounting Standard for Business Divestitures" (ASBJ Statement No.7 issued on December 26, 2008), "Accounting Standard for Equity Method of Accounting for Investments" (ASBJ Statement No.16 issued on December 26, 2008), and "Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No.10 issued on December 26, 2008).

4. Changes in presentation

(1) Consolidated statements of income

Effective from the fiscal year ended March 31, 2011, the Companies have adopted the Cabinet Office Ordinance No.5 issued on March 24, 2009 for partial amendment to regulations for the financial statements in accordance with "Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No.22 issued on December 26, 2008).

As a result, "Net income before minority interests" has been separately presented for the current fiscal year.

5. Additional information

(1) Consolidated statements of comprehensive income

Effective from the fiscal year ended March 31, 2011, the Companies have adopted "Accounting Standard for Presentation of Comprehensive Income" (ASBJ Statement No.25 issued on June 30, 2010).

However, "Accumulated other comprehensive income" and "Total accumulated other comprehensive income" as of March 31, 2010 on the accompanying balance sheet were presented as "Valuation and translation adjustments" and "Total valuation and translation adjustments", respectively in the previous fiscal year.

6. Notes to consolidated balance sheets

(1) Accumulated depreciation of tangible fixed assets

	Previous fiscal year (As of March 31, 2010)	Current fiscal year (As of March 31, 2011)	Current fiscal year (As of March 31, 2011)
	Millions of yen	Millions of yen	Thousands of U.S. dollars
Accumulated depreciation of tangible fixed assets	16,105	16,688	201,070

(Note) The above balances include the accumulated impairment loss of tangible fixed assets.

(2) Pledged assets and secured debts

	Previous fiscal year (As of March 31, 2010)	Current fiscal year (As of March 31, 2011)	Current fiscal year (As of March 31, 2011)
	Millions of yen	Millions of yen	Thousands of U.S. dollars
① Pledged assets			
Land	3,902	3,902	47,016
Buildings	4,411	4,285	51,630
Total	8,313	8,187	98,647
② Secured debts			
Long-term borrowings due within one year	700	700	8,433
Long-term borrowings	1,330	630	7,590
Total	2,030	1,330	16,024

(3) Investments in affiliated companies

	Previous fiscal year (As of March 31, 2010)	Current fiscal year (As of March 31, 2011)	Current fiscal year (As of March 31, 2011)
	Millions of yen	Millions of yen	Thousands of U.S. dollars
Investments in securities	0	0	0

(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, 2010)	Current fiscal year (As of March 31, 2011)	Current fiscal year (As of March 31, 2011)
	Millions of yen	Millions of yen	Thousands of U.S. dollars
Total credit line	26,500	26,500	319,277
Borrowings	12,500	—	—
Unexercised balance	14,000	26,500	319,277

7. Notes to consolidated statements of income

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

	Previous fiscal year (From April 1, 2009 to March 31, 2010)	Current fiscal year (From April 1, 2010 to March 31, 2011)	Current fiscal year (From April 1, 2010 to March 31, 2011)
	Millions of yen	Millions of yen	Thousands of U.S. dollars
Advertising expenses	3,680	5,622	67,742
Promotion expenses	1,619	1,576	18,992
Salaries and bonuses	4,473	4,431	53,385
Depreciation and amortization	844	867	10,449
Provision for accrued bonuses	469	1,275	15,365
Provision for retirement benefits for employees	94	85	1,030
Commissions	1,212	1,382	16,657
Research and development expenses	2,125	2,924	35,232

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

	Previous fiscal year (From April 1, 2009 to March 31, 2010)	Current fiscal year (From April 1, 2010 to March 31, 2011)	Current fiscal year (From April 1, 2010 to March 31, 2011)
	Millions of yen	Millions of yen	Thousands of U.S. dollars
Tools, fixtures and furniture	16	13	165
Equipment for amusement facilities	7	71	863
Other	52	9	117
Total	76	95	1,146

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

	Previous fiscal year (From April 1, 2009 to March 31, 2010)	Current fiscal year (From April 1, 2010 to March 31, 2011)	Current fiscal year (From April 1, 2010 to March 31, 2011)
	Millions of yen	Millions of yen	Thousands of U.S. dollars
Research and development expenses	2,125	2,924	35,232

(4) Impairment loss

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

Usage	Account	Previous fiscal year (From April 1, 2009 to March 31, 2010)	Current fiscal year (From April 1, 2010 to March 31, 2011)	Current fiscal year (From April 1, 2010 to March 31, 2011)
		Millions of yen	Millions of yen	Thousands of U.S. dollars
Assets to be disposed of	Equipment for amusement facilities	124	149	1,806
Assets to be disposed of	Rental equipment	47	—	—
Assets to be disposed of	Leased assets	37	—	—
Idle assets	Land	5	—	—
Other	Goodwill	9	—	—

(Previous fiscal year)

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.

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

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 and recognized the impairment loss as shown above. The recoverable value for the assets to be disposed of 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 recognized 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 and recognized the impairment loss as shown above.

The recoverable value for the goodwill was estimated at zero.

(Current fiscal year)

To measure an impairment, assets are principally grouped based on business segments such as "Consumer online games", "Arcade operations", etc.

Whereas, rental assets, idle assets, assets to be disposed and online game contents are evaluated as separate groups.

The Companies made a decision on changing some business policies to a few stores in the "Arcade operations" business.

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 and recognized the impairment loss as shown above. The recoverable value for the assets to be disposed of was estimated at zero.

(5) Loss on restructuring

(Previous fiscal year)

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 of loss on restructuring for the previous fiscal year.

(Current fiscal year)

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

As a result, the Companies wrote down some of the assets and booked ¥1,453 (\$17,507 thousand) million of loss on restructuring for the current fiscal year.

8. Notes to consolidated statements of comprehensive income

Current fiscal year (From April 1, 2010 to March 31, 2011)

	Millions of yen	Thousands of U.S. dollars
(1) Comprehensive income for the previous fiscal year		
Comprehensive income attributable to:		
Owners of the parent	1,238	14,917
Minority interests	—	—
Total	1,238	14,917

	Millions of yen	Thousands of U.S. dollars
(2) Other comprehensive income for the previous fiscal year		
Net unrealized gain or loss on securities, net of tax	32	393
Cumulative translation adjustments	(962)	(11,592)
Total	(929)	(11,199)

9. Notes to consolidated statements of changes in net assets

Previous 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	—	67,723

(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	8,636

(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 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

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 18, 2010	Common stock	¥1,181 million	Retained earnings	20	March 31, 2010	June 21, 2010

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

The Company's U.S. and Canadian subsidiaries have 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 of decrease in retained earnings as the cumulative effect up to the end of the previous fiscal year.

Current fiscal year (From April 1, 2010 to March 31, 2011)

(1) Number of outstanding shares

Type of share	Number of shares as of March 31, 2010	Increase in the number of shares	Decrease in the number of shares	Number of shares as of March 31, 2011
Common stock (thousands shares)	67,723	—	—	67,723

(Note) No change in the number of shares during the current fiscal year

(2) Number of treasury stocks

Type of share	Number of shares as of March 31, 2010	Increase in the number of shares	Decrease in the number of shares	Number of shares as of March 31, 2011
Common stock (thousands shares)	8,636	1	0	8,637

(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

(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 18, 2010	Common stock	¥1,181 million	20	March 31, 2010	June 21, 2010 (Effective after the meeting)
Board of directors' meeting held on October 28, 2010	Common stock	¥886 million	15	September 30, 2010	November 19, 2010

Resolution	Type of share	Amount of dividends	Dividend per share (U.S. dollars)	Record date	Effective date
General shareholders' meeting held on June 18, 2010	Common stock	\$14,237 thousand	0.24	March 31, 2010	June 21, 2010 (Effective after the meeting)
Board of directors' meeting held on October 28, 2010	Common stock	\$10,678 thousand	0.18	September 30, 2010	November 19, 2010

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 17, 2011	Common stock	¥1,477 million	Retained earnings	25	March 31, 2011	June 20, 2011

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 17, 2011	Common stock	\$17,796 thousand	Retained earnings	0.30	March 31, 2011	June 20, 2011

10. Notes to consolidated statements of cash flows

(1) Cash and cash equivalents at end of year

	Previous fiscal year (As of March 31, 2010)	Current fiscal year (As of March 31, 2011)	Current fiscal year (As of March 31, 2011)
	Millions of yen	Millions of yen	Thousands of U.S. dollars
Cash on hand and in banks	29,865	35,011	421,824
Time deposits with maturities over three months	(50)	—	—
Cash and cash equivalents	29,815	35,011	421,824

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

The Companies booked ¥237 million of the acquisition cost of the leased assets for the previous fiscal year and ¥590 million (\$7,112 thousand) for the current fiscal year, respectively.

The Companies booked ¥340 million (\$4,107 thousand) of the principal of the asset retirement obligations for the current fiscal year.

11. 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, 2009 to March 31, 2010)			Current fiscal year (From April 1, 2010 to March 31, 2011)			Current fiscal year (From April 1, 2010 to March 31, 2011)		
	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	9	4	12	10	1	149	128	21
Tools, fixtures and furniture	145	80	65	119	81	37	1,434	977	457
Equipment for amusement facilities	2,071	1,512	559	275	199	76	3,316	2,399	916
Total	2,230	1,601	629	406	290	115	4,900	3,505	1,395

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

② Future lease payments

	Previous fiscal year (From April 1, 2009 to March 31, 2010)	Current fiscal year (From April 1, 2010 to March 31, 2011)	Current fiscal year (From April 1, 2010 to March 31, 2011)
	Millions of yen	Millions of yen	Thousands of U.S. dollars
Due within one year	553	74	893
Due over one year	119	44	542
Total	652	119	1,435

(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, 2009 to March 31, 2010)	Current fiscal year (From April 1, 2010 to March 31, 2011)	Current fiscal year (From April 1, 2010 to March 31, 2011)
	Millions of yen	Millions of yen	Thousands of U.S. dollars
Lease payments	978	394	4,749
Depreciation expense	938	377	4,544
Estimated interest expense	27	8	98

- 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	Current fiscal year	Current fiscal year
	(From April 1, 2009 to March 31, 2010)	(From April 1, 2010 to March 31, 2011)	(From April 1, 2010 to March 31, 2011)
	Millions of yen	Millions of yen	Thousands of U.S. dollars
Due within one year	234	212	2,557
Due over one year	581	410	4,941
Total	816	622	7,499

(For impairment loss)

No impairment losses were recognized for leased assets.

12. Financial instruments

- 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 are as follows.

(1) Previous fiscal year (As of March 31, 2010)

	Millions of yen		
	Carrying value	Fair value	Difference
(1) Cash on hand and in banks	29,865	29,865	—
(2) Notes and accounts receivable, trade	6,288	6,288	—
(3) Lease deposits	5,266	5,056	(210)
Total	41,421	41,210	(210)
(1) Notes and accounts payable, trade	3,477	3,477	—
(2) Short-term borrowings	13,211	13,211	—
(3) Long-term borrowings	4,355	4,377	22
Total	21,044	21,065	22

(2) Current fiscal year (As of March 31, 2011)

	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	35,011	35,011	—	421,824	421,824	—
(2) Notes and accounts receivable, trade	11,700	11,700	—	140,969	140,969	—
(3) Lease deposits	4,741	4,637	(104)	57,128	55,874	(1,254)
Total	51,453	51,349	(104)	619,922	618,667	(1,254)
(1) Notes and accounts payable, trade	5,665	5,665	—	68,257	68,257	—
(2) Short-term borrowings	3,711	3,711	—	44,711	44,711	—
(3) Long-term borrowings	3,644	3,619	(24)	43,911	43,612	(299)
Total	13,021	12,996	(24)	156,880	156,581	(299)

(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

(1) Previous fiscal year (As of March 31, 2010)

	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

(Additional information)

Effective from the fiscal year ended 31 March, 2010, the Companies have 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)

(2) Current fiscal year (As of March 31, 2011)

	Millions of yen				Thousands of U.S. dollars			
	April 1, 2011 to March 31, 2012	April 1, 2012 to March 31, 2016	April 1, 2016 to March 31, 2021	April 1, 2021 and thereafter	April 1, 2011 to March 31, 2012	April 1, 2012 to March 31, 2016	April 1, 2016 to March 31, 2021	April 1, 2021 and thereafter
(1) Cash on hand and in banks	35,011	—	—	—	421,824	—	—	—
(2) Notes and accounts receivable, trade	11,700	—	—	—	140,969	—	—	—
(3) Lease deposits	671	3,247	530	291	8,090	39,130	6,396	3,512
Total	47,383	3,247	530	291	570,883	39,130	6,396	3,512

13. Investments in securities

(1) Previous 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		
	Acquisition cost	Carrying value	Difference
Securities with book value exceeding their acquisition cost			
(1) Equity securities	123	78	44
(2) Bonds	—	—	—
(3) Others	—	—	—
Total	123	78	44
Securities with book value not exceeding their acquisition cost			
(1) Equity securities	284	309	(24)
(2) Bonds	—	—	—
(3) Others	—	—	—
Total	284	309	(24)

(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

Not applicable

(2) Current fiscal year (From April 1, 2010 to March 31, 2011)

① Available-for-sale securities with a readily determinable fair value (As of March 31, 2011)

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	102	78	24	1,234	942	291
(2) Bonds	—	—	—	—	—	—
(3) Others	—	—	—	—	—	—
Total	102	78	24	1,234	942	291
Securities with book value not exceeding their acquisition cost						
(1) Equity securities	240	321	(80)	2,898	3,873	(974)
(2) Bonds	—	—	—	—	—	—
(3) Others	—	—	—	—	—	—
Total	240	321	(80)	2,898	3,873	(974)

(Note) The same with the previous fiscal year

② Investments in securities sold during the current fiscal year

Classification	Millions of yen			Thousands of U.S. dollars		
	Acquisition cost	Carrying value	Difference	Acquisition cost	Carrying value	Difference
(1) Equity securities	290	45	—	3,498	542	—
(2) Bonds	—	—	—	—	—	—
(3) Others	—	—	—	—	—	—
Total	290	45	—	3,498	542	—

③ Investments in securities impaired during the current fiscal year

The acquisition cost on the "① Available-for-sale securities with a readily determinable fair value" is the book value after impairment.

During the current fiscal year, the Companies booked "Loss on revaluation of investments in securities" of ¥259 million (\$3,125 thousand).

14. Retirement benefits for employees

(1) Summary of retirement benefit plan

The Company and its domestic subsidiaries have unfunded lump-sum benefit plans and defined contribution pension plans, which have replaced the conventional funded non-contributory pension plans since 1st January, 2011. Some foreign subsidiaries have defined contribution pension plans.

(2) Accrued retirement benefits

	Previous fiscal year (As of March 31, 2010)	Current fiscal year (As of March 31, 2011)	Current fiscal year (As of March 31, 2011)
	Millions of yen	Millions of yen	Thousands of U.S. dollars
A. Projected benefit obligations	(2,699)	(1,459)	(17,586)
B. Fair value of plan assets	915	—	0
C. Unfunded benefit obligations (A+B)	(1,783)	(1,459)	(17,586)
D. Unrecognized transition obligation	184	63	760
E. Unrecognized actuarial differences	211	106	1,287
F. Unrecognized prior service liabilities	—	(94)	(1,133)
G. Accrued pension liabilities recognized in the consolidated balance sheet (C+D+E+F)	(1,388)	(1,383)	(16,670)
H. Prepaid pension expenses	0	—	—
I. Accrued retirement benefits for employees (G - H)	(1,388)	(1,383)	(16,670)

(Note) Some subsidiaries apply simplified method to compute pension liabilities.
The effect of the change of the retirement benefits plans is as follows.

	Millions of yen	Thousands of U.S. dollars
Decrease in projected benefit obligations	1,334	16,074
Decrease in plan assets	(955)	(11,514)
Decrease in unrecognized transition obligations	(89)	(1,077)
Decrease in unrecognized actuarial differences	(149)	(1,805)
Decrease in unrecognized prior service liabilities	—	—
Decrease in accrued retirement benefits for employees	139	1,676

The total amount of the plan assets transferred to the defined contribution pension plans was ¥955 million (\$11,514 thousand).

(3) Retirement and pension cost

	Previous fiscal year (From April 1, 2009 to March 31, 2010)	Current fiscal year (From April 1, 2010 to March 31, 2011)	Current fiscal year (From April 1, 2010 to March 31, 2011)
	Millions of yen	Millions of yen	Thousands of U.S. dollars
A. Service costs	234	221	2,663
B. Interest costs	30	30	363
C. Expected return on plan assets	(17)	(17)	(206)
D. Amortization of transition obligation	36	31	380
E. Amortization of actuarial differences	69	44	531
F. Amortization of prior service liabilities	—	(3)	(36)
G. Net periodic benefit costs (A+B+C+D+E+F)	353	306	3,695
H. Net gain on the change of the retirement benefits plans	—	(139)	(1,676)
I. Other	—	58	704
J. Total (G+H+I)	353	225	2,722

Previous fiscal year

Current fiscal year

(Note) 1. Some foreign subsidiaries have adopted defined contribution pension plans and contributed ¥20 million during the year.

2. Retirement cost for some subsidiaries which have adopted the simplified method are included in the "Service costs".

(Note) 1. "Other" means the contribution to the defined contribution pension plans.

2. The same with the previous fiscal year

(4) Assumptions used in calculation of retirement benefits for employees

	Previous fiscal year (From April 1, 2009 to March 31, 2010)	Current fiscal year (From April 1, 2010 to March 31, 2011)
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 prior service liabilities	—	8 years (based on the straight-line method over the average estimated service years of employees)
E. Amortization period for actuarial differences	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)	9 years The same method with the previous fiscal year
F. Amortization period for transition obligations	15 years	15 years

15. Accounting for income taxes

(1) Significant components of deferred tax assets and liabilities

	Previous fiscal year (As of March 31, 2010)	Current fiscal year (As of March 31, 2011)	Current fiscal year (As of March 31, 2011)
	Millions of yen	Millions of yen	Thousands of U.S. dollars
(Deferred tax assets)			
Allowance for doubtful accounts	447	233	2,807
Accrued bonuses	514	835	10,070
Accrued retirement benefits for employees	562	559	6,745
Accrued retirement benefits for directors	166	166	2,007
Inventories	2,136	2,947	35,515
Prepaid expenses	365	273	3,300
Tax loss carry-forwards in the subsidiaries	1,124	416	5,015
Investments in subsidiaries and affiliated companies	224	224	2,706
Depreciation	179	84	1,013
Impairment loss	384	140	1,698
Unearned revenue	135	555	6,697
Other	1,576	1,612	19,430
Sub-total	7,817	8,051	97,009
Valuation allowance	(2,679)	(1,262)	(15,206)
Total deferred tax assets	5,137	6,789	81,803
(Deferred tax liabilities)			
Tax-deductible inventories for a foreign subsidiary	(643)	(629)	(7,584)
Other	(12)	(62)	(755)
Total deferred tax liabilities	(655)	(692)	(8,339)
Net deferred tax assets	4,482	6,097	73,463
Net deferred tax assets are reflected in the consolidated balance sheets as follows.			
Current assets—deferred tax assets	3,204	5,210	62,775
Non current assets—deferred tax assets	1,339	1,150	13,861
Current liabilities—deferred tax liabilities	(58)	(30)	(372)
Non current liabilities—deferred tax liabilities	(4)	(232)	(2,801)
Total	4,482	6,097	73,463

(2) Reconciliation of the difference between the statutory tax rate and the effective income tax rate

	Previous fiscal year	Current fiscal year
	(As of March 31, 2010)	(As of March 31, 2011)
	%	%
Statutory income tax rate	40.6	40.6
(Reconciliation)		
Change in valuation allowance	47.7	(13.1)
Tax credit	12.8	0.5
Amortization of goodwill	8.6	0.9
Different tax rates applied to foreign subsidiaries	(2.7)	(1.2)
Permanent difference (meals and entertainment etc.)	3.2	0.7
Unappropriated retained earnings of foreign subsidiaries	(5.1)	0.4
Tax adjustments resulting from consolidation elimination entries etc.	(14.6)	0.4
Income transferred from subsidiaries to the Company resulting from mutual agreement procedure of transfer pricing	(110.1)	—
Tax refund resulting from mutual agreement procedure of transfer pricing	(75.0)	—
Others	1.8	(0.9)
Effective income tax rate	(92.8)	28.3

16. Business combinations

(1) Previous fiscal year (From April 1, 2009 to March 31, 2010)
Not applicable

(2) Current fiscal year (From April 1, 2010 to March 31, 2011)
The note is omitted due to the minor of the total amount.

17. Asset retirement obligations

(1) Current fiscal year (As of March 31, 2011)

Asset retirement obligations on the balance sheet.

① Outline of asset retirement obligations

Obligations etc. to restore business offices and amusement facilities in the business of "Arcade operations" to their original state, which are specified in the real estate lease agreements.

② Calculation of asset retirement obligations

Asset retirement obligations are calculated with the future cash flows discounted.

For the business offices, their depreciation periods (mainly 15 years) are regarded as their estimated periods of use and the yields of the national government bonds, which correspond to respective depreciation periods are used as their discount rates (mainly 1.885%).

For the amusement facilities, their lease periods (mainly 6 to 10 years) are regarded as their estimated periods of use and the yields of the national government bonds, which corresponds to respective lease periods are used as their discount rates (mainly 0.723 to 1.395%).

③ Increase or decrease of the asset retirement obligations during the current fiscal year

	Millions of yen	Thousands of U.S. dollars
Opening balance (Note)	309	3,724
Increase due to purchase of tangible fixed assets	—	—
Adjustment due to passage of time	31	382
Decrease due to settlement of asset retirement obligations	—	—
Ending balance	340	4,107

(Note) The amount is the opening balance as of April 1, 2010 booked in accordance with "Accounting Standard for Asset Retirement Obligations" (ASBJ Statement No. 18 issued on March 31, 2008) and "Guidance on Accounting Standards for Asset Retirement Obligations" (ASBJ Guidance No. 21 issued on March 31, 2008), which the Companies have adopted effective from the fiscal year ended March 31, 2011.

18. Investment and rental property

(1) Previous fiscal year (From April 1, 2009 to March 31, 2010)
The note is omitted due to the minor of the total amount.

(2) Current fiscal year (From April 1, 2010 to March 31, 2011)
The note is omitted due to the minor of the total amount.

(Additional information)

Effective from the fiscal year ended March 31, 2010, the Companies have 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)

19. Segment information

(1) Business segments

① Previous 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

(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 ¥4,253 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 ¥35,872 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.

(2) Geographic areas

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

	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	47,269	10,825	7,813	928	66,837	(—)	66,837
(2) Inter-segment	6,690	1,717	119	54	8,581	(8,581)	—
Total	53,960	12,543	7,933	982	75,419	(8,581)	66,837
Operating expenses	42,185	14,615	7,796	828	65,426	(4,176)	61,250
Operating income	11,775	(2,072)	136	153	9,992	(4,405)	5,587
II. Total assets							
	41,632	6,431	4,841	734	53,640	32,981	86,621

(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 ¥4,253 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 ¥35,872 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.

(3) Overseas sales

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

	Millions of yen			Total
	North America	Europe	Other regions	
I. Overseas sales	11,773	7,014	2,331	21,120
II. Consolidated net sales				66,837
III. Percentage of foreign sales included in consolidated net sales	17.6%	10.5%	3.5%	31.6%

(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).

1. Outline of reportable segment

The business segments the Company reports are the business units for which the Company is able to obtain individual financial information separately in order for the board of directors to conduct periodic investigation to determine distribution of operational resources and evaluate their business performance.

The Company has several operational headquarters, which plan comprehensive business strategies in domestic and overseas markets for their products and services, and develops its business activities.

Therefore the Company's reportable segments are based on the products and services its operational headquarters deal in and are composed of the following 4 units; "Consumer online games", "Mobile contents", "Arcade operations" and "Amusement equipments".

"Consumer online games" develops and distributes video games for consumers.

"Mobile contents" develops mobile games to be distributed to mobile phone users.

"Arcade operations" operates amusement stores which install amusement equipments.

"Amusement equipments" manufactures arcade game machines and pachinko gambling machines etc. to be distributed to arcade operators and pachinko parlors.

2. Method of calculating sales and income (loss), identifiable assets and liabilities, and other items by reportable segment

The accounting procedure for the reportable segment is based on "Significant accounting policies".

Income by reportable segment is calculated based on operating income on the consolidated statements of income.

3. Information on net sales and operating income (loss), identifiable assets and liabilities, and other items by reportable segment

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

	Reportable segment					Other (Note 1)	Total	Adjustment (Note 2)	Consolidated total (Note 3)
	Consumer online games	Mobile contents	Arcade operations	Amusement equipments	Total				
Net sales									
(1) Customers	43,702	3,554	11,985	4,545	63,787	3,049	66,837	—	66,837
(2) Inter-segment	—	—	—	—	—	—	—	—	—
Total	43,702	3,554	11,985	4,545	63,787	3,049	66,837	—	66,837
Operating income (loss)	7,835	745	590	(347)	8,824	1,016	9,841	(4,253)	5,587
Identifiable assets	31,185	1,161	9,797	6,418	48,563	2,294	50,857	35,764	86,621
Other items									
Depreciation	488	134	1,744	242	2,610	249	2,859	509	3,368
Increase in tangible and intangible fixed assets	508	26	800	115	1,451	284	1,736	469	2,205

(Note) 1. "Other" incorporates operations not included in reportable segments, including character contents business etc.

2. Adjustments are as follows.

(1) Adjustments of operating income (loss) of (¥4,253) million include unallocated corporate operating expenses of (¥4,253) million. The corporate operating expenses, which do not belong to any reportable segments mainly consist of administrative expenses.

(2) Adjustments of identifiable assets of ¥35,764 million include unallocated corporate identifiable assets of ¥35,872 million.

(3) Adjustments of increase in tangible and intangible fixed assets of ¥469 million are capital investment by headquarters.

3. Operating income (loss) for segment is adjusted on operating income on the consolidated statements of income.

② Current fiscal year (From April 1, 2010 to March 31, 2011)

	Millions of yen								
	Reportable segment				Total	Other (Note 1)	Total	Adjustment (Note 2)	Consolidated total (Note 3)
	Consumer online games	Mobile contents	Arcade operations	Amusement equipments					
Net sales									
(1) Customers	70,269	4,028	11,621	7,903	93,823	3,893	97,716	—	97,716
(2) Inter-segment	—	—	—	—	—	—	—	—	—
Total	70,269	4,028	11,621	7,903	93,823	3,893	97,716	—	97,716
Operating income	12,499	1,366	1,131	2,638	17,636	1,098	18,734	(4,439)	14,295
Identifiable assets	30,038	1,936	8,668	9,136	49,779	2,767	52,547	37,861	90,408
Other items									
Depreciation	591	52	1,708	127	2,480	263	2,743	571	3,315
Increase in tangible and intangible fixed assets	1,404	86	926	171	2,588	115	2,703	54	2,758

	Thousands of U.S. dollars								
	Reportable segment				Total	Other (Note 1)	Total	Adjustment (Note 2)	Consolidated total (Note 3)
	Consumer online games	Mobile contents	Arcade operations	Amusement equipments					
Net sales									
(1) Customers	846,620	48,540	140,017	95,223	1,130,401	46,904	1,177,306	—	1,177,306
(2) Inter-segment	—	—	—	—	—	—	—	—	—
Total	846,620	48,540	140,017	95,223	1,130,401	46,904	1,177,306	—	1,177,306
Operating income	150,600	16,468	13,627	31,788	212,484	13,234	225,718	(53,489)	172,229
Identifiable assets	361,915	23,327	104,440	110,074	599,757	33,343	633,100	456,159	1,089,260
Other items									
Depreciation	7,128	631	20,586	1,540	29,885	3,173	33,059	6,886	39,946
Increase in tangible and intangible fixed assets	16,917	1,037	11,167	2,064	31,186	1,387	32,574	654	33,229

(Note) 1. "Other" incorporates operations not included in reportable segments, including character contents business etc.

2. Adjustments are as follows.

(1) Adjustments of operating income of (¥4,439) million ((¥53,489) thousand) include unallocated corporate operating expenses of (¥4,439) million ((¥53,489) thousand). The corporate operating expenses, which do not belong to any reportable segments mainly consist of administrative expenses.

(2) Adjustments of identifiable assets of ¥37,861 million (\$456,159 thousand) include unallocated corporate identifiable assets of ¥37,966 million (\$457,430 thousand).

(3) Adjustments of increase in tangible and intangible fixed assets of ¥54 million (\$654 thousand) are capital investment by headquarters.

3. Operating income for segment is adjusted on operating income on the consolidated statements of income.

(Additional information)

Effective from the fiscal year ended March 31, 2011, the Companies have adopted "Revised accounting standard for disclosures about segments of an enterprise and related information" (ASBJ statement No. 17 of March 27, 2009) and "Guidance on accounting standard for disclosures about segments of an enterprise and related information" (ASBJ Guidance No. 20 of March 21, 2008).

[Related information]

(1) Current fiscal year (From April 1, 2010 to March 31, 2011)

1. Information by product and service line

The Company's reportable segments are based on the products and services its operational headquarters deal in, and the details are as shown on "Sales (1) Customers" of "3. Information on net sales and operating income (loss), identifiable assets, and other items by reportable segment".

2. Information by country or region

(1) Net sales

	Millions of yen					Thousands of U.S. dollars				
	Japan	North America	Europe	Other regions	Total	Japan	North America	Europe	Other regions	Total
Net sales	65,017	20,986	9,106	2,606	97,716	783,337	252,846	109,721	31,401	1,177,306

(Note) 1. The sales amounts are classified by country or region where customers are located.

2. Countries or regions that are not in Japan.

(1) North America.....United States of America

(2) Europe.....European countries

(3) Other regions.....Asia and others

(2) Tangible fixed assets

The information is omitted as the balance of tangible fixed assets in Japan has exceeded 90% or more of the total balance of tangible fixed assets of the consolidated balance sheet.

3. Information by major customer

The information is omitted as the Companies do not have any major customers the sales amount of which has accounted for 10% or more of the total sales amount of the consolidated statement of income.

[Impairment loss by reportable segment]

(1) Current fiscal year (From April 1, 2010 to March 31, 2011)

	Millions of yen					Thousands of U.S. dollars				
	Reportable segment		Other	Corporate or elimination	Total	Reportable segment		Other	Corporate or elimination	Total
	Arcade operations	Sub-total				Arcade operations	Sub-total			
Impairment loss	149	149	—	—	149	1,806	1,806	—	—	1,806

[Amortization and balance of goodwill by reportable segment]

(1) Current fiscal year (From April 1, 2010 to March 31, 2011)

	Millions of yen					Thousands of U.S. dollars				
	Reportable segment		Other	Corporate or elimination	Total	Reportable segment		Other	Corporate or elimination	Total
	Consumer online games	Sub-total				Consumer online games	Sub-total			
Amortization	239	239	—	—	239	2,885	2,885	—	—	2,885
Balance	412	412	—	—	412	4,973	4,973	—	—	4,973

[Negative goodwill by reportable segment]

(1) Current fiscal year (From April 1, 2010 to March 31, 2011)

Not applicable

20. Related party transactions

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

Not applicable

(2) Current fiscal year (From April 1, 2010 to March 31, 2011)

Not applicable

21. Per share information

	Previous fiscal year (From April 1, 2009 to March 31, 2010)	Current fiscal year (From April 1, 2010 to March 31, 2011)	Current fiscal year (From April 1, 2010 to March 31, 2011)
	Yen	Yen	U.S. dollars
Net assets per share	913.18	981.76	11.83
Basic net income per share	35.71	131.18	1.58
Diluted net income per share	35.64	—	—

(Note) 1. The diluted net income per share for the current fiscal year is omitted as the Companies have no residual securities.

2. The basis for computation of net assets per share is as follows.

	Previous fiscal year (As of March 31, 2010)	Current fiscal year (As of March 31, 2011)	Current fiscal year (As of March 31, 2011)
	Millions of yen	Millions of yen	Thousands of U.S. dollars
Total amount of net assets	53,956	58,007	698,887
Amounts to be deducted from total amount of net assets	—	—	—
Ending balance of net assets attributable to common stock	53,956	58,007	698,887
Number of common stocks used for computation of net assets per share (thousands shares)	59,086	59,085	59,085

3. The basis for computation of basic and diluted net income per share is as follows.

	Previous fiscal year (From April 1, 2009 to March 31, 2010)	Current fiscal year (From April 1, 2010 to March 31, 2011)	Current fiscal year (From April 1, 2010 to March 31, 2011)
	Millions of yen	Millions of yen	Thousands of U.S. dollars
Basic net income per share			
Net income	2,167	7,750	93,384
Amount not allocated to common stock	—	—	—
Net income allocated to common stock	2,167	7,750	93,384
Average number of common stock outstanding during the fiscal year (thousands shares)	60,707	59,086	59,086
Diluted net income per share			
Adjustment made on net income	0	—	—
(Interest paid with tax adjustment)	—	—	—
(Administrative fees to commission banks with tax adjustment)	0	—	—
Increase of common stocks (thousands shares)	119	—	—
(Convertible bonds (thousands shares))	119	—	—
Outline of residual securities not included in the above computation of diluted net income per share due to lack of dilutive effect	—	—	—

22. Significant subsequent events

Previous fiscal year (From April 1, 2009 to March 31, 2010)	Current fiscal year (From April 1, 2010 to March 31, 2011)												
Not applicable	<p>The Company made a resolution to repurchase treasury stock through the board of directors' meeting held on June 8, 2011 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. The details are as follows.</p> <table border="0"> <tr> <td>① Reason for repurchase</td> <td>To flexibly implement capital policies to meet with changes in the business environment.</td> </tr> <tr> <td>② Type of shares</td> <td>Common stock</td> </tr> <tr> <td>③ Number of shares to be repurchased</td> <td>Up to 1.5 million shares</td> </tr> <tr> <td>④ Amount of shares to be repurchased</td> <td>Up to ¥3,000 million (\$36,144 thousand)</td> </tr> <tr> <td>⑤ Period of repurchase</td> <td>From June 9, 2011 to July 20, 2011</td> </tr> <tr> <td>⑥ Method of repurchase</td> <td>Repurchase in the market</td> </tr> </table>	① Reason for repurchase	To flexibly implement capital policies to meet with changes in the business environment.	② Type of shares	Common stock	③ Number of shares to be repurchased	Up to 1.5 million shares	④ Amount of shares to be repurchased	Up to ¥3,000 million (\$36,144 thousand)	⑤ Period of repurchase	From June 9, 2011 to July 20, 2011	⑥ Method of repurchase	Repurchase in the market
① Reason for repurchase	To flexibly implement capital policies to meet with changes in the business environment.												
② Type of shares	Common stock												
③ Number of shares to be repurchased	Up to 1.5 million shares												
④ Amount of shares to be repurchased	Up to ¥3,000 million (\$36,144 thousand)												
⑤ Period of repurchase	From June 9, 2011 to July 20, 2011												
⑥ Method of repurchase	Repurchase in the market												

23. Supplemental schedule of bonds

Not applicable

24. Supplemental schedule of borrowings

Category	Balance as of March 31, 2010 (¥ million)	Balance as of March 31, 2011 (¥ million)	Average interest rate (%)	Date of maturity
Short-term borrowings	12,500	—	—	—
Current portion of long-term borrowings due within one year	711	3,711	1.2	—
Current portion of lease obligations	578	507	1.8	—
Long-term borrowings (Excluding current portion)	4,355	3,644	0.8	From April 1, 2012 to September 14, 2015
Lease obligations (Excluding current portion)	459	461	1.8	From April 1, 2012 to April 4, 2017
Other interest-bearing dept	—	—	—	—
Total	18,605	8,324	—	—

Category	Balance as of March 31, 2010 (\$ thousand)	Balance as of March 31, 2011 (\$ thousand)	Average interest rate (%)	Date of maturity
Short-term borrowings	150,602	—	—	—
Current portion of long-term borrowings due within one year	8,571	44,711	1.2	—
Current portion of lease obligations	6,968	6,114	1.8	—
Long-term borrowings (Excluding current portion)	52,478	43,911	0.8	From April 1, 2012 to September 14, 2015
Lease obligations (Excluding current portion)	5,539	5,557	1.8	From April 1, 2012 to April 4, 2017
Other interest-bearing dept	—	—	—	—
Total	224,160	100,294	—	—

(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, 2012 (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	639	4	0	3,000
Lease obligations	221	131	53	36

	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	7,706	51	8	36,144
Lease obligations	2,665	1,580	648	443

25. Supplemental schedule of asset retirement obligations

The note is omitted because the balances of the asset retirement obligations as of the end of the previous and the current fiscal year are respectively 1% or less than the total balance of the liabilities and the net assets as of the end of the current fiscal year.

26. Supplemental schedule of other

Quarterly sales etc. for the current fiscal year

	1st quarter (From April 1, 2010 to June 30, 2010)	2nd quarter (From July 1, 2010 to September 30, 2010)	3rd quarter (From October 1, 2010 to December 31, 2010)	4th quarter (From January 1, 2011 to March 31, 2011)
Sales (¥ million)	19,037	21,669	30,067	26,942
Net income (loss) before income taxes (¥ million)	(261)	2,666	8,450	(48)
Net income (loss) (¥ million)	213	1,570	5,052	914
Net income (loss) per share (yen)	3.62	26.58	85.51	15.47

	1st quarter (From April 1, 2010 to June 30, 2010)	2nd quarter (From July 1, 2010 to September 30, 2010)	3rd quarter (From October 1, 2010 to December 31, 2010)	4th quarter (From January 1, 2011 to March 31, 2011)
Sales (\$ thousand)	229,364	261,073	362,258	324,610
Net income (loss) before income taxes (\$ thousand)	(3,155)	32,127	101,813	(579)
Net income (loss) (\$ thousand)	2,576	18,919	60,874	11,014
Net income (loss) per share (U.S. dollars)	0.04	0.32	1.03	0.19

To the Board of Directors of CAPCOM CO., LTD.

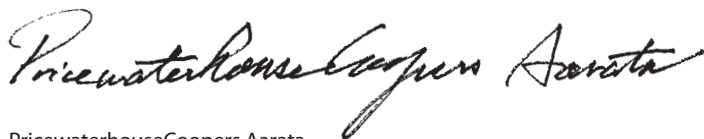
We have audited the accompanying consolidated balance sheet of CAPCOM CO., LTD. ("the Company") and its subsidiaries as of March 31, 2011, and the related consolidated statements of income, comprehensive income, changes in net assets and cash flows for the year then ended, all expressed in Japanese yen. 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, 2011, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Without qualifying our opinion, we draw attention to the following: As discussed in Note 22 to the consolidated financial statements, the Company's Board of Directors resolved to repurchase its treasury stock on June 8, 2011.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2011 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, 2011



Head Office



Tokyo Branch



R&D Building

Corporate Profile

(As of March 31, 2011)

Name of Company	CAPCOM CO., LTD.
Date of Establishment	May 30, 1979
Date of Initiation	June 11, 1983
Business Segments	Planning, development, production and sales of home video game software, mobile contents and arcade games, as well as arcade operations management
Paid-in Capital	¥ 33,239 million
End of Term	March 31
Number of Employees	2,089 (Including consolidated subsidiaries) 1,636 (Capcom CO., LTD.)

Capcom's Subsidiaries

- 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
- 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 home video 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 and Manufacture of amusement equipment
- BEELINE INTERACTIVE JAPAN, CO., LTD.**
 2-2-14 Awaji-cho, Chuo-ku, Osaka, 541-0047, Japan
 PHONE: 81-6-6920-7011 FAX: 81-6-6223-8007
<http://www.beeline-i.info/bij/index.html>
 Paid-in Capital: ¥ 300 million
 Business Segment: Development and distribution of mobile phone content
- 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/us/>
 Paid-in Capital: US\$ 159,949 thousand
 Business Segment: Holding company and administration of subsidiary in U.S.
- 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
- 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: Development and sale of home video games
- CE EUROPE LTD.**
 Metro Building, 3rd Floor, 1 Butterwick, Hammersmith, London W6 8DL, U.K.
 PHONE: 44-20-8600-6100 FAX: 44-20-8600-6197
<http://www.capcom-europe.com/>
 Paid-in Capital: £ 1 million
 Business Segment: Sale of home video games
- CEG INTERACTIVE ENTERTAINMENT GmbH**
 Barmbeker 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
- BEELINE 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.beeline-i.com/>
 Paid-in Capital: US\$ 0 thousand
 Business Segment: Distribution of mobile phone games
- BEELINE INTERACTIVE CANADA, INC.**
 405 The West Mall Suite 810 Toronto ON, M9C 5J1, Canada
 PHONE: 1-647-788-1600 FAX: 1-647-788-1601
 Paid-in Capital: Canada\$ 0 thousand
 Business Segment: Development and distribution of mobile phone games
- 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
- 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
- CAPCOM GAME STUDIO VANCOUVER, INC.**
 4401 Still Creek Drive, Suite200, Burnaby, BC, Canada V5C 6G9
 PHONE: 1-604-299-5626 FAX: 1-604-299-5653
<http://capcomvancouver.com/>
 Paid-in Capital: Canada\$ 2,961 thousand
 Business Segment: Development 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 Hatta, Iga, Mie, 518-1155, Japan PHONE: 81-595-20-2030 FAX: 81-595-20-2044

Stock Data

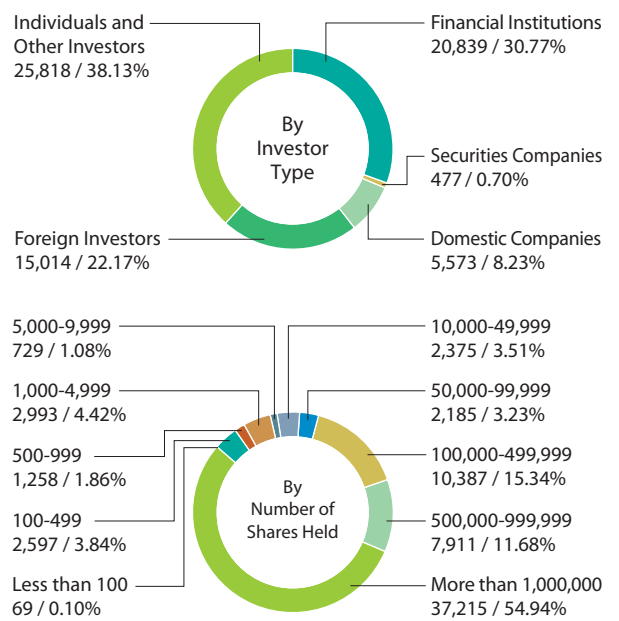
Number of Shares Authorized — 150,000,000 shares
 Number of Shares Issued — 67,723,244 shares
 Number of Shareholders — 20,783 shareholders

Major Shareholders

Major Shareholders	Number of Shares Held (in thousands)	Investment Ratio (%)
The Master Trust Bank of Japan, Ltd. (Trust Account)	6,689	11.32
Crossroad Limited	5,276	8.93
Japan Trustee Services Bank, Ltd. (Trust Account)	5,149	8.71
Misako Tsujimoto	2,391	4.05
Kenzo Tsujimoto	2,007	3.40
Yoshiyuki Tsujimoto	1,669	2.83
Haruhiro Tsujimoto	1,547	2.62
Ryozo Tsujimoto	1,545	2.62
Japan Trustee Services Bank, Ltd. (Trust Account 9)	1,243	2.10
NOMURA BANK (LUXEMBOURG) S.A. S/A NOMURA MULTI CURRENCY JP STOCK LEADERS FD	1,058	1.79

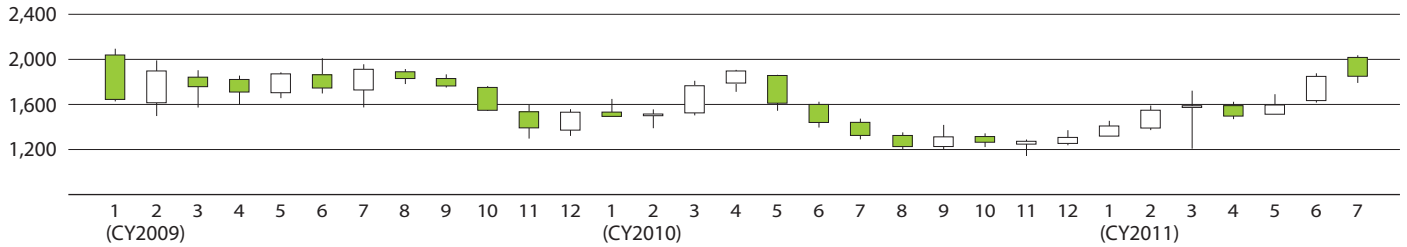
* Capcom owns 8,637 thousand stocks as treasury stocks.
 The stocks owned by the company are excluded from the above list.

Shareholders' Breakdown



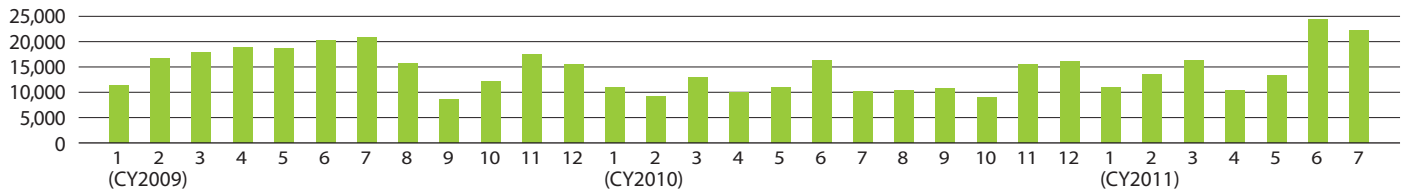
Stock Price Range

Stock Price (Yen)



Trading Volume

Trading Volume (thousand shares)



11 Year Trend of Stock Price and Trading Volume

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Stock Price	3,580	3,470	1,033	1,032	1,047	1,209	1,692	3,400	1,746	1,766	1,590
High	4,360 (5,100)	4,460	3,860	1,685	1,246	1,450	2,445	3,490	3,640	2,010	1,907
Low	2,935 (2,975)	2,400	999	857	884	1,000	1,110	1,660	1,475	1,297	1,145
Trading Volume	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	149,613,900

* Stock prices in brackets are those quoted on the Osaka Securities Exchange Co., Ltd.

(YEARS ENDED MARCH 31)

History

CAPCOM of Japan has transformed itself into CAPCOM of the world.

Products History

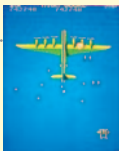
Jul. 1983

Released our first originally developed coin-op "Little League".



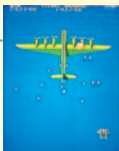
May 1984

Released our first arcade video game "Vulgus".



Dec. 1985

Released our first home video game "1942" for Nintendo Entertainment System (NES).



Dec. 1987

Released "Mega Man" for NES.



Mar. 1991

Released the arcade video game "Street Fighter II" and it triggered the "Street Fighter II" boom.



Jul. 1993

Opened "CapcoCircus Nigata East", the largest arcade in Nigata.



Dec. 1994

Premiere of the Hollywood movie "Street Fighter".

Mar. 1996

Released "Resident Evil" for PlayStation, a long selling title which had record breaking sales, and established the genre of survival horror.

Aug. 2001

Released "Devil May Cry" for PlayStation 2, and it was a mega-hit.

Oct. 2001

Released "Phoenix Wright" for Game Boy Advance, and it drew public attention as a courtroom battle title

Jul. 2005

Released "Sengoku BASARA" for PlayStation 2, which enjoyed popularity especially among young gamers for its innovative worldview.

Aug. 2006

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. 2006

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.



Oct. 2009

"Sengoku BASARA" character Date Masamune used for PR activities in support of the Miyagi Prefecture gubernatorial elections.



Nov. 2010

Distribution of social game "Smurfs' Village" for iPhone began. It became the top download in 62 countries around the world.

Dec. 2010

Released "Monster Hunter Freedom 3" for the PSP. It sold four million units faster than any other PSP game in history.



Corporate History

May 1979

Established I.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.

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.

Oct. 1990

Stocks registered as OTC securities with the Japan Securities Dealers Association.

Oct. 1993

Stock was listed on the second section of the Osaka Stock Exchange.

Jul. 1994

Constructed head office, which was relocated to Uchihirano-machi, Chuo-ku, Osaka.

Sep. 1999

Stock changed listing to the First Section of the Osaka Securities Exchange.

Oct. 2000

Stock was listed on the First Section of the Tokyo Stock Exchange.

separate volume

The Latest Development Report 2011

Work Hard, Play Harder

P1



Development Management

Maximize Achievements to Be Global Top in Quality and Profitability

Katsuhiko Ichii

Director and Executive Corporate Officer
In charge of Consumer Games Business

P3



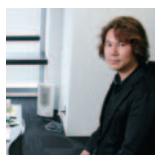
Consumer Online Games

Pioneering the Future of Fighting Games Through Innovative Collaborations with Popular Games by Other Companies

Yoshinori Ono

Deputy Head of Consumer Games Development

P5



Consumer Online Games

Aiming to Create the World's Greatest Fantasy Action Game

Hiroyuki Kobayashi

Deputy Head of Consumer Games Business Division

P7



Consumer Online Games

"Resident Evil", the First Horror Game to Make the Whole World Shiver, Moves to a New Stage

Masachika Kawata

Producer, Development Strategy and Support Consumer Games Development

P9



Consumer Online Games

Taking on the Challenge of Creating a Development Environment that Brings the Future into View by Endowing Our "MT Framework" with Cutting-Edge Technology

Masaru Ijuin

Deputy General Manager of Technology Research and Development Consumer Games Development

P11



Mobile Contents

Aiming to Become a Leading Company in the Global Mobile Content Market

Takeshi Tezuka

Consumer Games R&D,
Osaka Production Division

Manabu Seko

President
Beeline Interactive Japan, Inc.

P13



Amusement Equipments

Creating Successive Hit Machines Using Development Capabilities to Capture User Hearts

Yoichi Egawa

Managing 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 right 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 print of this catalog uses
environment-friendly vegetable oil ink.

Work Hard, Play Harder



Unification of Development and Marketing Will Drive the Strengthening of Title Development

“To continually challenge” is not only in Capcom’s DNA, it is our biggest weapon. Two of the reforms initiated by Capcom actually served to accelerate the pace of these challenges.

The first reform that helped to accelerate the pace of challenges was the fusion of the formerly disparate development and marketing departments into one integrated organization. The very first thing he did was to have a discussion with key members on the development side. Their talented combination of outstanding manufacturing abilities and business sensibilities was immediately obvious. Knowing that this was going to work, he put the two together, and when decisions have to be made, both sides listen to one another’s opinions and discuss the game title development and sales strategy from various perspectives. Of course, upon listening to this discussion, it is ultimately the person responsible whose mission it is to make the decisions that will maximize achievements.

Development Structure Innovations Anticipated by Future Market Movements

The second reform that helped to accelerate the pace of challenges was the creation of a unified development organization fusing the heretofore unrelated home video game console, PC online and mobile phone and enabling the start of true multi-platform development. Rapid growth was clearly apparent in the mobile and online game markets, while the era of individually developed hardware had come to an end. Capcom believed that it is now more important than ever to think outside the box in terms of platforms, to recruit the best people, and remain flexible to respond rapidly to changing users.

To this end, our Technology Research and Development is indispensable. This team’s mission was to create the “MT Framework” integrated development environment to increase the efficiency of every title developed. Furthermore, a high percentage of the new technology created from the development of one title is transmitted and shared with other development teams. The Technology Research and Development holds the key to Capcom’s future.

KATSUHIKO

Maximize Achievements to Be Global Top in Quality and

The time has come to complete the second stage of the development organization structural reforms that began in 2009. With the strength to prevail in global markets, Capcom has already struck out on a path of new growth.

Katsuhiko Ichii

Director and Executive Corporate Officer in charge of Consumer Games Business

After integrating marketing, appointed as Managing Corporate Officer in 2006. Next, focused efforts on global development after overall unification of consumer business. At present, directs general development and marketing strategy as Director and Executive Corporate Officer.



Sharing information with managers worldwide

Capcom is strengthening its global development and marketing structure. For Mr. Ichii, communicating with managers in each country is an important job. In addition to more than 20 overseas business trips each year, matters regarding sales and development are discussed and decided in real-time using video conferencing. While gathering information from each country, new policies can be determined through these discussions. Speed is the deciding factor of global competition in the game industry.

Making “Hit Games” According to Next-Generation Leaders

The biggest aim of these reformations has been to maximize organizational development capabilities, focused mainly on Capcom's next-generation leaders, and speedily provide global markets with “hit games”. These next-generation leaders are not only creative, but they also take a management perspective while ensuring smooth communication among all members to make the organization a little brighter, better place. It is this kind of atmosphere that encourages employees to do their best and results in the creation of titles overflowing with originality.

To increase motivation, all development staff was invited to strategy meetings, where there are two stated objectives: “To be No. 1 in quality among content manufacturers”, and “To be the world's most profitable company”. Users say “Capcom games are always fresh and interesting”, so the Company must build on this success for the next hit title.

Based on this new structure, Capcom will continue to take on challenges daily to create that positive spiral.

ICHII

Profitability

Development Management





Involving a Rival to Combine Two Popular Games

With the news that Capcom and NAMCO BANDAI Games were collaborating on a development project to create a new game combining the two wildly popular fighting games “Street Fighter” and “TEKKEN”, fighting game fans around the world were extremely excited.

Released in 1987, “Street Fighter” was Capcom’s seminal fighting game. The 1992 release of “Street Fighter II” for Super NES was a mega-hit, selling 6.3 million units worldwide. At present the series has sold a total of 31 million units, a landmark achievement among fight game titles. “TEKKEN”, by NAMCO BANDAI Games, is another enormously popular fighting game, boasting sales of over 4 million units.

This collaboration includes the name of a rival in the title, and the game itself involves taking on characters from another company’s game. Versions of this crossover game will be released separately by each company, first by Capcom as “Street Fighter X Tekken”.

YOSH

Pioneering the Future of Fighting Games

Consumer Online Games



©CAPCOM U.S.A., INC. ALL RIGHTS RESERVED.
© NAMCO BANDAI Games Inc.

“Street Fighter X Tekken” will be sold for the PS3, Xbox 360 and PlayStation Vita. Users already refer to it by the nickname “Sutokuro”.

To Continually Stimulate the Interest of Fighting Game Fans

This collaboration project began in 2009. At that time, Capcom had just released “Street Fighter IV” and NAMCO BANDAI Games has just released “TEKKEN 6”, and the market was receiving the flagship fighting games of both companies very favorably.

However, both companies, aware that there were millions of passionate fighting game fans around the world, wondered what they could do to maintain—and even expand—this fan base. While the fighting game genre is one where enthusiastic fans will always purchase new games, unlike other genres, it is not one which typically sees an explosive increase in users. The idea the two companies came up with was a collaboration project “reminiscent of a festival” that would heighten the fans’ sense of expectation. More important than which game outsells the other is whether or not this project is able to create and sustain interest in the genre. This is intended to lay a foundation in the fighting game market for the next 5-10 years.

Focused on Cultivating North American, European, Japanese and Emerging Markets

Promotional activities ahead of title releases proceeded on schedule, focused primarily in North America, Europe and Japan during fiscal 2011. Capcom will participate in “EVO 2011”, held in Las Vegas in July, the world’s largest fighting game event, and in August, at the Leipzig “Gamescom”. Also, preparations are underway for “the Tokyo Game Show 2011” in September. Not just large events, Capcom also aggressively approaches loyal fans as well. At present, the majority of sales take place in North America, where the Company is focused on strengthening connections and conducting essential follow-ups with fans by holding regular events such as “Capcom Fight Club” game tournaments.

In recent years, the penetration and adoption of home video game consoles in Asian countries has been on the rise, with the potential to stimulate expansion in the fighting game market. Already, Capcom is making use of the advantageous “Street Fighter” name recognition for arcade games, and plan to continue to move aggressively in this direction going forward.

INORI ONO

Through Innovative Collaborations with Popular Games by Other Companies

Capcom and NAMCO BANDAI Games Inc. collaborated for the first time developing a new game based on their respective flagship fighting games, resulting in “Street Fighter X Tekken”.



“TEKKEN” characters enter the “Street Fighter” world to engage in heated battle.



The popular “Street Fighter” series has sold a total of 31 million units, expanding to multi-development projects for arcade games and the iPhone.

Yoshinori Ono

Deputy Head of
Consumer Games Development

In charge of sound on the “Street Fighter” series, went on to become producer of “Monster Hunter Frontier Online” and “Street Fighter IV” series.



Completely New Fantasy World Action Game

In April 2011, when the Company announced the original title “Dragon’s Dogma” for the PlayStation 3 and Xbox 360 at the Capcom private show “Captivate 2011”, the European and American media was surprised by the “brilliant fantasy challenge Capcom had taken up”.

This title is Capcom’s first open world* action game. The story focuses on a main character that embarks on a quest to kill the dragon that stole his heart.

Users can select and customize the main character’s gender and appearance according to their personal preferences. Party members called “PAWN” accompany and fight alongside the main character. Enjoying a wonderful fantasy as the main character is this game’s greatest charm.

★ An open world game design is a concept where players can freely roam a virtual world and change any factor at will. Even when scenes change, there are no loading screens.

Strong Technological Capabilities Underpin Capcom’s Bold Challenges

In “Dragon’s Dogma”, party members called “PAWN” accompany the main character. These are non-playable characters (NPCs) controlled by artificial intelligence (AI) that help the main character. Although this is a single-player game, it can be enjoyed as pseudo-cooperative game play. Also, in addition to the “PAWN” already available with the game, additional user-created “PAWN” can be obtained via an Internet connection.

Capcom’s ability to successfully develop an open world game with a customizable main character and so many other new elements is due in large part to our technical expertise. Capcom’s original integrated development environment “MT Framework” development team cooperated with the “Dragon’s Dogma” team by encouraging each other daily to improve and take on various challenges to create a truly interesting game.

HIROYUKI KOBAYASHI

Aiming to Create the World’s Greatest Fantasy Action Game

“Dragon’s Dogma” is an action game where the player can roam freely in a world of fantasy to advance the story. This is a completely original title by Capcom and our first open world game design.

Hiroyuki Kobayashi

Deputy Head of
Consumer Games Business Division

Producer of popular series “Sengoku BASARA”, “Devil May Cry” and “Resident Evil”. In addition to games, also active in a variety of aspects related to the “Resident Evil” movie series and “Sengoku BASARA” animation.



First, users choose from one of three character jobs, each with its own fighting style.



Your reliable friends, the “PAWN”. Depending on the situation, teaming up with them at certain points is a good way to advance in the game.

Creating New Games That Exceed User Expectations

“Dragon’s Dogma” represents Capcom’s ongoing pursuit of new challenges, a trait born from our corporate DNA. Not simply contented with hits “Monster Hunter” and “Resident Evil”, the Company was pursuing new challenges to create the next pillar of growth. The director of this title based the project on a concept he has carried with him since childhood. As a producer, he has many project meetings with senior management and cleared a number of hurdles to move the development of this title forward. Capcom established a foundation of support from senior management and required the culmination of the various skills of the development staff to make this new project a success.

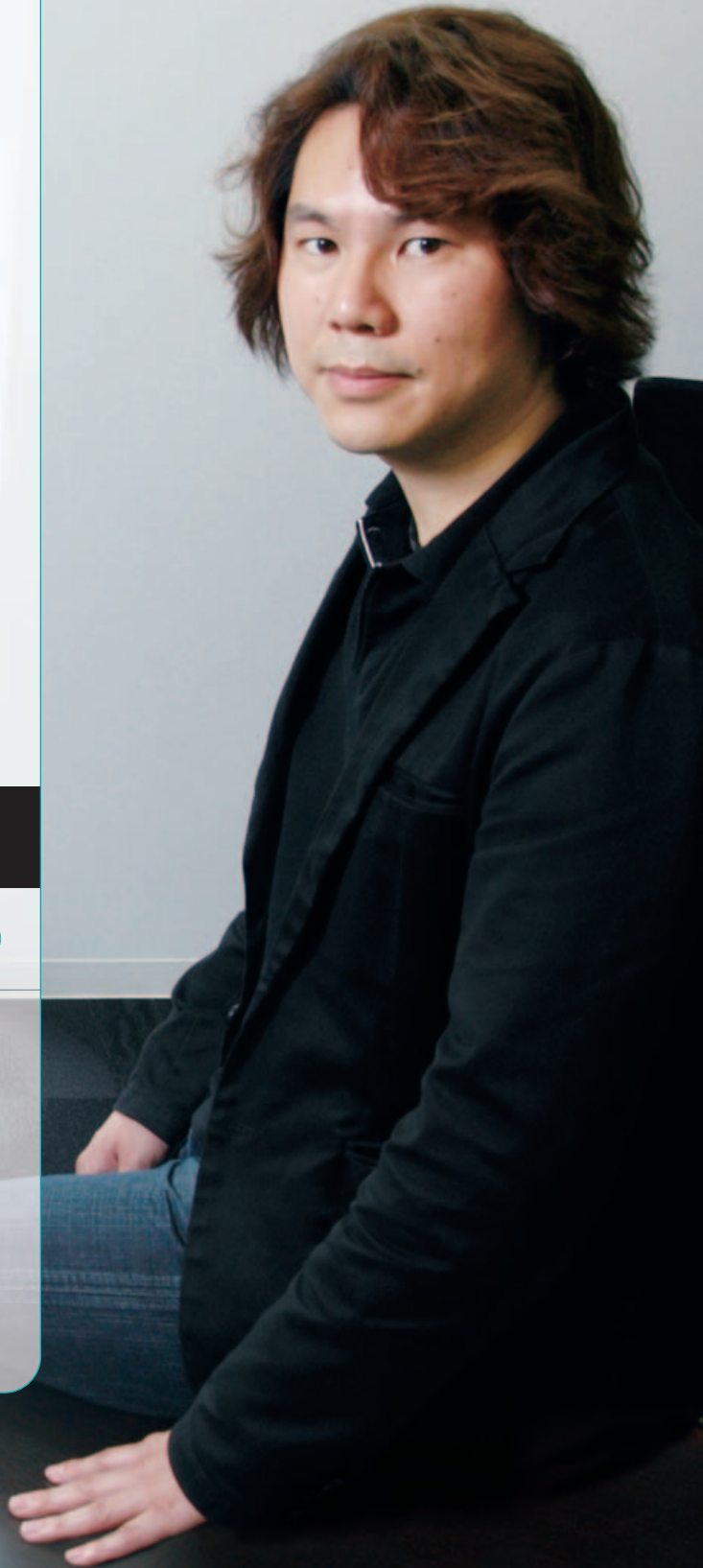
The Company is on track with development to meet scheduled sales launches at the beginning of 2012—just a little while longer until new games certain to exceed user expectations are available to the world.

AYASHI

Consumer Online Games



Time in this vast open world flows through beautiful spaces in real time. Even the sunrises and sunsets are accurately depicted.





Expanding the Possibilities of “Resident Evil” in the 15th Year Since its Launch

The only escape from the terror of an unrelenting zombie attack in the darkness is to fight on...this is “Resident Evil”, a survival horror game released by Capcom in 1996. The depiction of horror, the overwhelming sense of tension as the game progresses and the well-developed story hooked many users, resulting in cumulative global series sales of 45 million units. It has grown to become one of Capcom’s flagship titles.

2011 is the 15th year since the first release of “Resident Evil”. As a next step, the Company plans to release several titles that will surely meet fan expectations. Following on the June 2011 launch of “Resident Evil: The Mercenaries 3D” for the Nintendo 3DS, Capcom plans on launching “Resident Evil Revelations”. Furthermore, with “Resident Evil: Operation Raccoon City” for the PS3 and Xbox 360, the Company will take the “Resident Evil” concept in a fresh new direction while continue promoting the development of games that widen the possibilities for entire series.

MASAC

“Resident Evil”, the First Horror

Consumer Online Games



“Resident Evil”, the first title in this series released in 1996, is a survival horror game set in a fictional city where a tragedy caused by a biological weapon unfolds.

Games That Always Provide Users with Fresh Wonder

The biggest difference in “Resident Evil: Operation Raccoon City” compared to other games in the series is that the user plays the “bad guy”. Users will be given the mission of taking down popular character “Leon”. The fresh feel of playing the game from the opposite perspective, and the realistic fight scenes, are just two of the game’s major attractions.

In terms of development, for the first time since the series began, Capcom worked with an overseas developer on the production of this game as a third-person shooter (TPS) game, which are popular in North America. The partner chosen to help develop this title, Slant Six Games of Canada, has been developing high quality military action TPS games for some time. Capcom has successfully developed TPS games in-house previously, most notably the “Lost Planet” series, however, the Company decided on the partnership because it wanted to incorporate North American expertise into this product and provide Capcom development staff with positive stimulation. At first, it seemed that it might be difficult to just come together and work without some difficulties, but this led to new ideas that I am confident created an even more attractive product.

Using “Resident Evil” to Promote Capcom Around the World

In 2010, the fourth “Resident Evil” Hollywood movie was released, making it a title known even by people who don’t play games, as well as a vehicle to promote Capcom’s creativity across the globe. As the home video game market approaches a period of revolutionary change, this is a title that can be expected to continue growing.

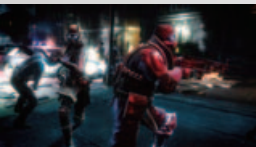
In honor of the 15th anniversary, Capcom will launch initiatives aimed at strengthening connections with existing users to further cement the popularity of “Resident Evil”. In Japan, Capcom launched “Club96”, an official fan club, and in North America and Europe, Capcom will focus on following up with the user community through various events. Furthermore, Capcom distribute “Resident Evil Mercenaries VS.” for the iPhone and “Resident Evil: Outbreak Survive” on GREE, Japan’s largest SNS game platform. The Company is making use of its multiuse strategy to create special 15th anniversary merchandise, including CDs, figurines, apparel and books.

Capcom’s strength is developing a strong title, and then strategically expanding its possibilities through our marketing capabilities. Capcom will continue to create distinctive titles for the global market that exceed expectations.

HIKA KAWATA

Game to Make the Whole World Shiver, Moves to a New Stage

Popular “Resident Evil” is one of Capcom’s flagship games. This is the 15th year since its initial release, and Capcom plans to release three new games in succession that will surely meet the expectations of the fans of the world.



In “Resident Evil: Operation Raccoon City”, users take the role of an officer of the Umbrella Security Service (USS). Playing the “bad guy” is just one of the exciting aspects of this new game.



Raccoon City has zombies. In this game, by using zombies effectively, you can enjoy a battle more intense than any simple gun fight.

Masachika Kawata

Producer, Development Strategy and Support Consumer Games Development

Producer who led the creation of a number of different titles in the “Resident Evil” series, including “Resident Evil: The Umbrella Chronicles” and “Resident Evil 5”.



Engaged in Leading and Effective Game Development

In September 2004, amid apprehensions over the increasing complexity of the development process and increased workloads resulting from successive releases of next-generation home video game consoles, Capcom made an important decision. "The only way to raise development efficiency is with our own game development tool, for without one—the Company has no future!" This was the rallying cry that launched Capcom's proprietary integrated development environment "MT Framework" development project.

Aiming to improve development efficiency, the first console Capcom focused on was the Xbox 360, which at the time was nearing its sales launch. The Company came up with a way to efficiently develop games that utilized the full performance of this high-functioning hardware. The Company improved program base portions for smooth motion even when handling large amounts of data. Capcom enabled the control of a large number of objects by making use of the hardware multi-core CPU* feature. Also, by improving graphic expressiveness, Capcom was able to display beautiful video in real time. Furthermore, to simplify the production process, the Company conducted development using tools that used programmers' hands to express on the screen images that designers had imagined. This new approach was successful at efficiently reducing development

time while raising game quality. Using this new technology, Capcom developed "Dead Rising" and "Lost Planet", both of which surpassed sales projections. The Company next proceeded to expand technology for the PS3.

* Multi-core CPU: A single computing component with multiple processors or "cores" that can execute a great number program instructions simultaneously.

Advancing the "MT Framework" to Optimize Capcom Game Creation

In the initial stages, the Company realized that the Xbox 360 specs were comparatively similar to the latest computers at that time, and Capcom imagined that, in the future, the number of users who played games on their computers would grow. So, the Company developed the "MT Framework" to be compatible for computers. Capcom predicted the present prosperity of the PC online game market back then, and proceeded with our preparations.

This is how, in 2007, the "MT Framework" integrated development environment, common to the Xbox 360, PS3 and PC platforms, was born. At present, it is upgraded with each new title developed, and continues to evolve. Capcom is also proceeding with optimization for game console special features, including "MT Framework Lite" for Nintendo Wii and "MT Framework Mobile" for Nintendo 3DS. The advantage of our tool is that it can be customized for the special characteristics of any game being developed.

M A S A R U I

Taking on the Challenge of Creating a Development Environment that Brings the Future into View by Endowing Our "MT Framework" with Cutting-Edge

The "MT Framework" proprietary integrated development environment is a tool common to the software development environments of the Xbox 360, PS3 and PC platforms. This enables development efficiencies that significantly reduce costs and shorten time required for development.

Masaru Ijuin

Deputy General Manager of Technology Research and Development Consumer Games Development

After working as the main programmer on the "Mega Man Legends" series and "Onimusha 2: Samurai's Destiny", became a member of the "MT Framework" development team. Since then, has contributed to improving Capcom's technical capabilities as the leading authority on the "MT Framework".



Efficient Development Using the "MT Framework"

Integrated development environment "MT Framework" is a groundbreaking game development tool that simplifies development by sharing programs and tools across platforms such as the Xbox 360, PS3 and PC. The "MT" stands for "Multi-Thread", "Meta Tools" and "Multi-Target".

Taking on the Challenge of Endless Technological Innovation

In addition to the “MT Framework”, the Technology Research and Development is conducting technological research for the future of Capcom. This team consists of the Research Office, which conducts research on the “MT Framework” and hardware, and the Promotion Office, which provides support related to development tools for creators. The Promotion Office staff explains the latest technology created by the Research Office to the creators, who in turn solicit feedback from their staff. This information is used in the next technological development phase. Furthermore, with this year’s organizational reforms, the Technology Promotion Office also provides support for Mobile Contents and Arcade Games, and smartphones are now also within range. Capcom plans to develop the “MT Framework” for this new hardware, as well.

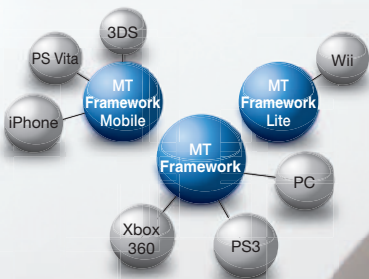
At present, it has been five years since the launch of home video game consoles such as the PS3 and Xbox 360, and they are nearing maturity. Going forward, one wonders if or when hardware manufacturers will announce new consoles. In the event that heretofore unseen specs were suddenly to appear, The company is surely ready to develop new games exciting in that way that only Capcom games can be. Too distant is the day when the Company is able to provide users with a new experience, a game replete with Capcom technology.



J U I N

Technology

Consumer Online Games



Providing New Ways of Having Fun Unique to Mobile Devices

As smartphones, tablets and other mobile devices are rapidly adopted, it is the role of our domestic mobile team to strategically develop and distribute game content to these devices making use of the Capcom brand.

The key to development lies not in the simple transplanting of home video games, but rather, in providing a new way of having fun by making use of the play conditions, lifestyle environment and other unique characteristics of mobile devices. For example, to the question "How would you play "Monster Hunter" to pass idle free time while outside the home?" Capcom responded in June 2011 with the release of "Monster Hunter Dynamic Hunting" for iPhone, in which the player uses a finger on the touch screen to hunt monsters in a race against time. With a style of play that is totally different from that of the DS or PSP, fans can enjoy a "new Monster Hunter", and at the same time, this also opens the door for the acquisition of a new segment of non-game users.

Turning Adult Heads Once Again with Mesmerizing Mobile Games

Mobile games enable casual play without the need for purchasing a home video game console. This also provides us with an opportunity to attract women and seniors who have heretofore been uninterested in games, as well as adults who have drifted away, back to the world of games. The distribution of

freemium* social games is particularly effective at cultivating this segment of new users. At Capcom, our mission is to stimulate interest in games through the creation of games using Capcom content.

Mobile handsets will surely continue to be adopted by people all over the world. Capcom is ready to provide those users with high-quality contents. The Company will establish its position as a leading company by continuously developing and distributing mobile content that users around the world can enjoy, and by further raising the value of the Capcom brand in global markets.

* Freemium games are downloaded for free, but a premium is charged for access to additional items and other game content the user may require.

Aiming to Become a Leading

Capcom is focused on growth areas. In addition to aggressively a diverse portfolio of social games for smartphones under goal is to reach a much larger audience.



"Monster Hunter Dynamic Hunting"

Released for the iPhone in June 2011. Garnered much attention in the market as the first iPhone app for the hugely popular "Monster Hunter" series.

TAKESHI TEZUKA

Takeshi Tezuka

Consumer Games R&D,
Osaka Production Division

Developed content for mobile phones since 1999. At present, involved in development of nearly all titles distributed by Capcom as head of development while aggressively promoting Mobile Business strategy.

Manabu Seko

President
Beeline Interactive Japan, Inc.

Oversaw and managed mobile game development at Capcom Interactive Canada as well as the mobile studio in Europe. Appointed President of Beeline Interactive Japan, Inc. in April of 2011 with the establishment of the company.

MANABU SEKO

Company in the Global Mobile Marketplace

developing mobile games based on existing Capcom IP, the Company develops the new “Beeline” second label. With this two-pronged approach, the Company’s

Mobile Contents

Social Game for iPhone a Major Hit

2010 turned out to be a year of change for Capcom Interactive, Inc. Standard mobile handsets, the mainstay of mobile communications in North America, have lost significant ground to smartphones over the past few years. This abrupt shift to smartphones required a sudden and complete conversion to smartphone content production. With development and sales working together as one, the Company developed “Smurfs’ Village”, a social game for the iPhone, which began distribution in November 2010. The game was a major hit on the App Store with more than 10 million downloads in just four months and ranking as the number one top-grossing app in 62 countries.

“Beeline” Aims to Widen the Customer Base

Casual games on smartphones appeal to a large cross-section of players. In order to widen the worldwide audience of potential customers, the Company established “Beeline”, a second brand separate from Capcom, in April 2011. In lieu of using Capcom IP, Beeline will acquire licenses from other companies and develop original content to reach a

diverse audience of players from around the world.

In this category, quality and speed-to-market are vital. Under Beeline’s tripartite (Japan/U.S./Europe) structure, new games are created in short development cycles of less than six months. Additionally, the Company aggressively develops promotions using Facebook, social media and other viral methods to claim top market share in key regions.



©Peyo - 2010 - Licensed through Lafig Belgium - www.smurf.com. All game code ©2011 Beeline Interactive, Inc.

“Smurfs’ Village”

The game features Belgian’s beloved Smurfs characters.

“Onimusha: Dawn of Dreams”, Developed Through Outsourcing, Changed the Pachislo Market

The “Sengoku BASARA 2” Pachislo machine, developed in-house and released in February 2011, was immediately popular and units sold have continued to grow, achieving sales targets 1.5 times over and surpassing sales of 15,000 units to become a major hit. In terms of outsourced development, Capcom collaborated on video production for the market in 2010 with RODEO Co., Ltd., and “Onimusha: Dawn of Dreams” continued the string of hits in this popular series.

Among the reasons behind this success is recovery in the Pachislo market. Last year, the number of Pachislo machines both sold and installed increased, indicating a return to growth. “Onimusha: Dawn of Dreams”, which utilizes Capcom contents, was one of the main contributors to this turnaround. As grabbing balls are the key within ART mode in Pachislo, “Onimusha: Dawn of Dreams” attracts users with its sense of speed and exhilaration, as well as its skilful ability to convey destructive force, through a stunning combination of continuous video performance and game play action. As a result, in 2010, the “Onimusha:

Dawn of Dreams” Pachislo machine won several awards in each game machine category, a true testament to the reputation of this popular machine.

A Perfect Balance Between System, Production and Game Elements Create Hits

Capcom updated the original design on the case of the in-house developed “Sengoku BASARA 2” machine with motifs taken from the home video game. Most Pachislo users tend to be younger, so the Company expects synergy with the segment of users who enjoy “Sengoku BASARA” at home. Capcom shares information with home video game development teams to generate attention-grabbing titles for Pachislo machines and high-quality CG animation that only a video game maker can create. Furthermore, the Company made an effort to satisfy Pachislo lovers with attention to production details, such as the timing of event switch-overs and sound effects.

Of course, Capcom has made many improvements to the game’s core systems, as well. The most specialized is the “Cherry Combo System”. Setting changes for small bonuses, depending on whether the player is in standard mode or ART mode, and is connected to a clever way in which players can let

YOICHI EGAWA

Creating Successive Hit Machines Using Development Capabilities

Bringing Pachislo equipment manufacturer Enterrise CO., Ltd., onboard as a wholly owned subsidiary in November 2008 marked our formal entry into the Pachislo market. Enterrise produced its first hit product coming off the success of the Pachinko & Pachislo Business structural reform initiatives in 2010.

Yoichi Egawa

**Managing Corporate Officer,
Head of P&S Business Division**

After joining Capcom, became involved in the development of software and templates for arcade games. Created and established the Pachinko & Pachislo Business in 1996 and the Mobile Contents Business in 1999.



“Sengoku BASARA 2”

Wildly popular military commanders wage a white hot battle linked to the system, attracting users. The “Cherry Combo System” is a popular feature.

loose their balls.

★ Small bonuses provide non-standard bonuses, such as bells and cherries.

Strengthening Development and Sales Structures Ahead of Investment in the Next Project

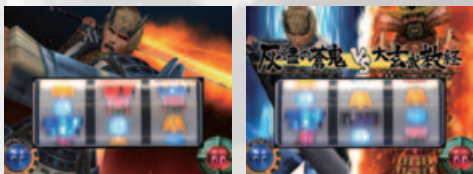
The success of “Sengoku BASARA 2” was due in large part to improved development capabilities resulting from the structural reforms began in 2010, as well as our successful partnership with FIELDS CORPORATION, Japan’s largest sales company. Not only did Capcom create hits by figuring out what kind of games users wanted to play, but Capcom also created sales channels to extend marketing efforts in all countries. Looking ahead, the Company will use this model to promote our proprietary machine case business, whose development structure will be created to have a new product ready for the market every quarter. At the same time, the Company will promote stability in our business through the use of outsourced development.

Reviews of the soon-to-be-released latest machines using popular Capcom titles are positive. Capcom hopes to ride this positive wave and generate new hit games.

AWA

to Capture User Hearts

Amusement Equipments



©CAPCOM CO., LTD. ALL RIGHTS RESERVED.
©Sammy ©RODEO

“Onimusha: Dawn of Dreams”

The extremely popular machine took the 2010 Pachislo market by storm, changing the tide for Pachislo machines altogether. At present, after more than a year and a half since sales began, fervid fans still can't get enough.



Corporate Profile

(As of March 31, 2011)

Name of Company	CAPCOM CO., LTD.
Date of Establishment	May 30, 1979
Date of Initiation	June 11, 1983
Business Segments	Planning, development, production and sales of home video game software, mobile contents and arcade games, as well as arcade operations management.
Paid-in Capital	¥ 33,239 million
End of Term	March 31
Number of Employees	2,089 (Including consolidated subsidiaries) 1,636 (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

- Mar. 1991** Released the arcade video game "Street Fighter II" and it triggered the "Street Fighter II" boom.
- Jun. 1992** Released "Street Fighter II" for Super NES, and it was a mega-hit.
- Jul. 1993** Opened "CapcoCircus Nigata East", the largest arcade in Nigata.
- Dec. 1994** Premiere of the Hollywood movie "Street Fighter".
- Mar. 1996** Released "Resident Evil" for PlayStation, a long selling title which had record breaking sales, and established the genre of survival horror.
- Aug. 2001** 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.
- Mar. 2002** Premiere of the Hollywood movie "Resident Evil" which recorded sales of 102 million dollars worldwide.
- Sep. 2004** Premiere of the Hollywood movie "Resident Evil: Apocalypse" and it grossed 100 million dollars worldwide.
- Jul. 2005** Released "Sengoku BASARA" for PlayStation 2, which enjoyed popularity especially among young gamers for its innovative worldview.
- Aug. 2006** 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.
- Mar. 2007** "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.
- Feb. 2009** Takarazuka Revue Company launches theatrical performance of "Ace Attorney: Truth Reborn".
- Apr.** Began broadcasting the TV animation program "Sengoku BASARA".
- 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.
- Nov. 2010** Distribution of social game "Smurfs' Village" for iPhone began. It became the top download in 62 countries around the world.
- Dec.** Released "Monster Hunter Freedom 3" for the PSP. It sold four million units faster than any other PSP game in history.

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/>

©CAPCOM CO., LTD. ALL RIGHTS RESERVED.



Please see the Annual Report 2011.