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## 1. Operating results

### (1) Qualitative information and consolidated financial statements

#### Operating results of the fiscal year ended March 31, 2012

During the fiscal year ended March 31, 2012, the Japanese economy, despite showing signs of recovery on the heels of a depreciating yen and a rise in stock prices toward the fiscal year-end, could not dispel the uncertainty towards the future, as the export environment continued to deteriorate from the sharp rise in the value of the yen and a temporary lull prevailed over the economy due to falling stock prices, in addition to the concerns over power shortages and the European debt crisis.

The video game industry enjoyed a lively year-end holiday shopping season as the market showed increased activity, owing to the release of popular software in addition to the launch of new mobile game consoles and the price reduction of some hardware.

Meanwhile, the trend of structural change washed over the video game industry, as new types of platforms gained momentum in conjunction with the rapid growth of affordable and easily accessible social games attributable to the rise of mobile phones and “smartphones (high-function mobile phones)”.

Under these circumstances, Capcom integrated the development departments for home video games, PCs and mobile phones in order to promote efficient and agile game development in the Consumer Online Games and Mobile Contents, which comprised our core business segments. At the same time, we endeavored to enhance our online business by making a head start on the development and distribution of social games as a new source of revenue.

Moreover, we made efforts to further cultivate existing customers and to gain new users through various events and nationwide sales promotion campaigns including “BASARA Festival 2011 – the Summer Campaign” and “Monster Hunter Festa ’11”. Additionally, Capcom pushed forward with collaboration based on major contents, such movies as “Sengoku BASARA the Movie – The Last Party” and “Phoenix Wright: Ace Attorney”, as well as the launch of beverages based on popular characters, in order to leverage highly popular software to achieve increased visibility, expand fan base and other synergistic effects.

Furthermore, we endeavored to operate our business in line with changes in the market environment, taking in a social game company, which had been an affiliate of our U.S. subsidiary, as our direct subsidiary, in order to achieve group agility, as well as focusing our business resources on boosting the Mobile Contents business.

In terms of revenue, net sales decreased to 82,065 million yen (down 16.0% from the previous year), due in part to a decrease in sales in reaction to the surge during same term previous year caused by the mass release of major consumer online game titles as well as the delay in the release of major titles which had been scheduled for the current fiscal year. As for profits, operating income decreased to 12,318 million yen (down 13.8% from the previous year), ordinary income decreased to 11,819 million yen (down 8.1% from the previous year) and net income was 6,723 million yen (down 13.2% from the previous year).

Capcom, which has always been focused on its IR activities, has been recognized for its efforts, as its Annual Report 2011 was awarded the “Award for Excellence” at the Nikkei Annual Report Awards sponsored by Nikkei Inc.

Status of each operational department

① Consumer Online Games

In this business segment, in addition to “Monster Hunter 3 (Tri) G”, a feature title for Nintendo 3DS selling over 1.6 million copies, “Resident Evil: Operation Raccoon City” (for PlayStation 3 and Xbox 360), other flagship title released at the end of the fiscal year, also performed steadily, while sales of “Street Fighter X Tekken” (for PlayStation 3 and Xbox 360) lagged.

Nevertheless, as all three titles sold over a million units, they were able to achieve the distinction of million sellers.

Additionally, Capcom released an array of elaborate titles including “Asura’s Wrath” (for PlayStation 3 and Xbox 360), “Resident Evil: Revelations” (for Nintendo 3DS) and “Ultimate Marvel vs. Capcom 3” (for PlayStation 3, Xbox 360 and PlayStation Vita) as well as a number of distribution titles, as part of its multilateral product development..

Moreover, the online exclusive “Monster Hunter Frontier Online” series (for PC and Xbox 360) showed steady growth supported by its stable popularity.

The resulting net sales were 53,501 million yen (down 23.9% from the previous year) and operating income was 10,502 million yen (down 16.0% from the previous year), due in part to the reaction to the release of multiple major titles in the previous year and to the delayed release of the major software, “Dragon’s Dogma” (for PlayStation 3 and Xbox 360).

② Mobile Contents

The Mobile Contents business displayed its underlying strength, through the strong performance of “Snoopy’s Street Fair” in Japan and Asia and the steady increase in membership for “Monhan Tankenki Maboroshi no Shima” which was released to GREE as a part of the “Monster Hunter” series and for “Minna to Monhan Card Master” which was distributed through Mobage, resulting in memberships of over one million for each game.

Additionally, “Smurfs’ Village”, distributed jointly with Facebook, the world’s largest SNS, continued to enjoy success, and Capcom’s strategic brand “Beeline” titles recorded domestic and overseas downloads totaling more than 56 million, both of which contributed greatly to improving our earning capacity.

The resulting net sales were 6,308 million yen (up 56.6% from the previous year) and the operating income was 2,385 million yen (up 74.6% from the previous year).

### ③ Arcade Operations

Although we saw a slowdown in customer traffic due to the effects of the mood of voluntary restraint in the wake of the Great East Japan Earthquake, which occurred last March, and diversification in entertainment preferences and spending patterns of the public; arcades have been regaining ground as they are re-evaluated as readily accessible entertainment that is “inexpensive, nearby and short-duration” and supported by budget minded consumer.

Under these circumstances Capcom promoted customer-oriented community-based arcades through various efforts including the cultivation of new customers by offering special discount days, as well as implementing various revitalization measures, such as renovation of arcades.

In spite of a slowdown in customer traffic and intensification of competition with other game consoles including smartphones, with which there is an overlap of the customer base, sales per customer increased as a result of these measures, along with the contribution mainly of proprietary coin-operated games. In the absence of closing or opening of arcades during the current period, the total number of arcades remained the same as the end of the previous fiscal period at 37.

The resulting net sales were 11,729 million yen (up 0.9% from the previous year) and the operating income was 1,787 million yen (up 58.0% from the previous year).

### ④ Amusement Equipments

With regards to arcade games, coin-operated games, “Monster Hunter: Medal Hunting” and “Monhan Nikki Sugoroku Airu Mura” were released.

As for the Pachislo machines, “Street Fighter IV” showed steady performance, while we also engaged in contracted developments.

The resulting net sales were 7,663 million yen (down 3.0% from the previous year) and the operating income was 890 million yen (down 66.2% from the previous year).

### ⑤ Other Businesses

The net sales from Other Businesses, mainly character-related licensing royalties, were 2,862 million yen (down 26.5% from the previous year) and the operating income was 877 million yen (down 20.1% from the previous year).

### Prospects for the next fiscal year

As for future prospects, the industry expects the home video game market, which had been contracting for some time, to get back on a recovery trends, following the launch of the new console “Wii U” scheduled for this year and the release of major titles, in addition to the succession of new mobile game consoles launched in the previous year.

Meanwhile, as the existing markets continue to languish, the sharp rise in social games, which have been increasing users exponentially by offering a wealth of contents and rapidly expanding their user base, are expected to intensify the competition for users with platforms that are not game consoles and may change the competitive landscape.

While these changes in the market environment fuel the fierce battle for control over various platforms, we expect further diversification of the business domains, including sales of additional contents and charging for items that utilize the Internet, in an effort to expand the business model beyond the current model of selling “sell-out” packages.

As the industry enters a major transitional period, we will leverage these changes in the environment and in order to respond to various customer needs both here in Japan and abroad, we will step up our multi-platform strategy of providing software for each type of platform, including home video game machines, PCs, smartphones and mobile phones.

Additionally, we will focus our business resources toward the expansion of the Mobile Contents business, where genres still exist with potential for growth while at the same time advance our growth strategies through business operations that are in line with market trends through such means as improving product line-up by tapping new genres and expanding tie-up software.

We will also reinforce our contents business by pursuing synergies with game music and popular game characters.

Furthermore, in the wake of the Great East Japan Earthquake, Capcom, in order to be able to respond quickly and appropriately to contingencies such as disasters, intends to reinforce its risk management under the slogan of “Forewarned is forearmed”, through such means as stocking up on emergency supplies and implementing safety confirmation systems, as well as stockpiling “Health Kits” for flu, and make an effort to build a system of risk management that is capable of business continuation even in the event of unexpected phenomena.

Our sales strategy for the coming fiscal year will consist mainly of releasing major titles oriented toward the overseas market, including “Resident Evil 6” (for PlayStation 3, Xbox 360 and PCs) and “Dragon’s Dogma” (for PlayStation 3 and Xbox 360), to the end of realizing our growth scenario through global expansion.

## (2) Analysis of the consolidated financial position

### ① Analysis of assets, liabilities and net assets

#### (Assets)

Total assets as of the end of the current fiscal year increased by 7,838 million yen from the previous fiscal year to 98,247 million yen. The primary increases were 11,930 million yen in work-in-progress for game software, 5,585 million yen in notes and accounts receivable, trade, and 943 million yen in merchandise and finished goods. The primary decrease was 10,258 million yen in cash on hand and in banks.

(Liabilities)

Liabilities as of the end of the current fiscal year increased by 6,494 million yen from the previous fiscal year to 38,895 million yen. The primary increases were 3,548 million yen in short-term borrowings, 2,500 million yen in long-term borrowings and 1,592 million yen in notes and accounts payable, trade. The primary decreases were 466 million yen in accrued income taxes and 367 million yen in accrued bonuses.

(Net assets)

Net assets as of the end of the current fiscal year increased by 1,344 million yen from the previous fiscal year to 59,352 million yen. The primary increase was 6,723 million yen in net income for the as of the end of the current fiscal year, and the primary decreases were 2,703 million yen in treasury stock, 2,340 million yen in cash dividends and 344 million yen in cumulative translation adjustments which related to foreign exchange translation of the net assets of foreign consolidated subsidiaries.

② Analysis of cash flow

Cash and cash equivalents as of the end of the current fiscal year decreased by 12,724 million yen from the previous fiscal year to 22,287 million yen. Cash flow positions of each activity and their factors are described below.

(Cash flows from operating activities)

Net cash used in operating activities was 7,672 million yen (22,392 million yen provided in the previous year). The increase was mainly attributable to 11,425 million yen in net income before income taxes (10,807 million yen in the previous year), 3,123 million yen in depreciation and amortization (3,315 million yen in the previous year) and 1,720 million yen in accounts payable, trade (2,264 million yen in the previous year). The decrease was mainly attributable to the followings: 11,899 million yen increase in work-in-progress for game software (decrease of 3,246 million yen in the previous year); 5,550 million yen increase in accounts receivable, trade (5,531 million yen in the previous year); 4,195 million yen in income taxes paid (774 million yen in the previous year).

(Cash flows from investing activities)

Net cash used in investing activities was 4,794 million yen (2,046 million yen in the previous year). Some of the main items were the following: 2,465 million yen in purchase of time deposits with original maturities of over 3 months (no purchase in the previous year); 2,153 million yen (1,734 million yen in the previous year) in payment for acquisitions of tangible fixed assets.

(Cash flows from financing activities)

Net cash provided by financing activities was 587 million yen (12,919 million yen used in the previous year). This increase was mainly attributable to 6,760 million yen in net increase in short-term borrowings (net decrease of 12,500 million yen in the previous year) and 3,000 million yen in proceeds from long-term borrowings (3,000 million yen in the previous year). The decrease was attributable mainly to 3,711 million yen in repayment of long-term borrowings (711 million yen in the previous year), 2,703 million yen in payment for repurchase of treasury stock (2 million yen in the previous year) and 2,339 million yen in dividend paid (2,064 million yen in the previous year).

(Reference) Trends of Cash Flow Indicators

	Year ended March 2008	Year ended March 2009	Year ended March 2010	Year ended March 2011	Year ended March 2012
Shareholders' equity ratio to total assets	57.3	55.9	62.3	64.2	60.4
Shareholders' equity ratio to total assets based on fair market value	221.2	101.5	120.5	103.9	110.8
Debt amortization ratio to cash flows	46.8	-	122.7	32.8	-
Interest coverage ratio	103.7	-	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 and ended  
March 2012, we have omitted debt amortization ratio to cash flows from operating activities and  
interest coverage ratio.

(3) Basic policy for profit distribution and dividend for the current and next fiscal year

Capcom considers returning profits to the shareholders be one of the most important management issues. Its  
fundamental dividend policy is to provide a stable and continued dividend to the shareholders, taking into account  
the future business development and changes in operating circumstances.

Our surplus dividend is basically paid twice a year, that is, at the end of mid-term and fiscal year.

Dividend payment amount is decided by a competent corporate body, which is the board of directors for the  
mid-term, and during the shareholders meeting for the fiscal year.

Regarding internal reserves, Capcom will enhance its corporate value through investment for development of  
game software, Arcade Operations and growing business.

Capcom plans to pay a year-end dividend for the current fiscal year be 25 yen per share. The annual dividend for  
the current fiscal year under review is 40 yen per share, since the Company paid an ordinary dividend 15 yen per  
share as an interim dividend.

We set regulations up to be able to pay interim dividend.

## 2. Business policy

### (1) Management principle

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. Our management objectives are also on strengthening relationships with shareholders, clients and our employees to satisfy demands and to bring about prosperous benefits.

### (2) Business targets

We believe “Cash-Flow Management” (real management that generates cash) has become an important factor - more important than to make up financial statements utilizing changes in accounting standards. We do not set actual target figures on specific fields because we understand “Cash-Flow Management” as a very important factor for business status.

### (3) Medium and long term business strategy

In addition to the sharp rise in development costs and increasing competition by emergence of social game, the video game industry is facing external challenges as well. International competitions are getting fiercer struggling for survival being resulting in an increase in mergers, acquisitions and business integrations as corporate restructuring becomes more intense.

Under this severe situation, we believe that establishing a management system capable of adapting to changes in the business environment is one of our most important managerial goals. In order for us to grow further, we will work to enhance corporate values by pursuing strategies described below.

- ① Focusing on our core business-developing and marketing creative home video game software by concentrating our resources.
- ② Strengthening and exploring multi-platform strategy for home video game software based on market demands.
- ③ Expanding Arcade Operations business by cultivating of new users and capturing existing users in order to continuously secure stable revenues.
- ④ Strengthen the Online Games business and Mobile Contents business with the improvement of the telecommunication infrastructure and the changing market environment.
- ⑤ Expanding sales overseas by aggressive global deployment, including establishing overseas offices.
- ⑥ Pioneer business opportunities by leveraging our rich contents to create new markets and expanding our share in existing markets. Exploit new business opportunities with focus on the provision of peripheral devices for game machines and entry of operating social game.
- ⑦ Promoting and strengthening the Capcom brand to create added value and synergy by making effective use of our contents.
- ⑧ Realizing a stable cash flow for each fiscal term by streamlining financial aspects.

(4) Issues to be addressed

Major issues to be addressed taking in consideration surrounding business environments and future market trends:

① Consolidation of the critical strategic divisions

We will concentrate our management resources in the home video game software segment, which is our core business, especially in its development and marketing divisions in order to strengthen the competitive edge.

② Focus on the overseas operations

Making strong efforts in developing overseas markets is the key to the future business growth as the Japanese domestic market matures. We are determined to execute the strategic overseas operation deployment through the group-wide global business restructuring. One such effort will be to conduct corporate reforms of overseas subsidiaries including Capcom U.S.A., Inc., one of our crucial subsidiaries.

③ Selection and concentration of business

We are focused on setting a clear vision for the future by harnessing our corporate strength through the effective use of our research and development resources. In addition, we are pushing through a strategy that concentrates management resources on selected business to make the most of the collective power of the entire Capcom group, thus increasing our corporate value. Investment in growth field and the decision to close down unprofitable businesses are examples of such activities.

④ Expansion of the business field

We will focus on growing the content-related business to expand our business fields in response to changes in the managerial environments, through the distribution of games to other platform that are not game consoles including mobile phones and smartphones and entry of social game.

⑤ Enhancement of the corporate quality

We are trying to realize flexible business operations and to improve our operation efficiency through the management innovation. At the same time we are building a framework that enhances our revenue base. As part of such efforts to enhance our business foundation, we are pursuing the strategic group operation and financial structure reformation by reinforcing the management system of both domestic and foreign subsidiaries.