

1. Operating Results

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Overview of the fiscal year ended March 31, 2010

The Japanese economy during this fiscal year ended March 2010 was on a recovery trend with some fluctuations despite high unemployment rate and deflationary pressure such as wage control. Favorable factors contributing to the economic recovery were increase in exports and consumer spending and capital investment that ceased to decline.

As for the video game industry, the home video game market grew during the year-end/new-year sales season thanks to the price reduction of game consoles. However, the video game market leveled-off due to the prolonged recession with declining customer confidence and decreasing demand.

In arcade operations, the entire industry was committed to a full-scale effort to revitalize the market. Implementing customer appreciation days and holding special events such as “Game Day” (November 23rd) across Japan were just two examples of such efforts. Despite these undertakings, this business segment remained in a downtrend due to the lack of appealing products and the adverse effect of the new influenza or “swine flu”.

Nonetheless, we started to see new movements in market revitalization through public-private cooperation. Under this trend, The Agency for Cultural Affairs held “Japan Media Arts Festival” featuring games, “ANIME” animation and “MANGA” cartoons, while METI (The Ministry of Economy, Trade and Industry) launched the “Study Committee on the Growth Strategy of Contents Industry”.

In the overseas market, while overall sales remained weak due to the lack of flagship software titles and the diversification of entertainment demands, products of unique Japanese content have gained popularity. Such an achievement was evident in successful expos and conferences, namely “Japan Expo” (France) and “Comic-Con International 2009” (USA), that introduced Japanese pop culture including games, “ANIME” animation, and “MANGA” cartoons. The fan base for Japanese pop culture is also expanding throughout Asia.

Under these circumstances, Capcom engaged in various activities to conform to a changing business environment: developing software that precisely satisfies market needs; strengthening sales; promoting business cooperation; leading nationwide sales promotion campaigns; restructuring unprofitable divisions; implementing the business strategy of “Single Contents Multiple Usage” for our popular software titles.

However, we had no choice but to postpone the release of our flagship software titles, “Lost Planet 2” (for PlayStation 3, Xbox 360) and “Super Street Fighter IV” (for PlayStation 3, Xbox 360), in order to respond to the sudden market change in a timely manner.

The resulting net sales decreased to 66,837 million yen (down 27.3 % from the previous year).

As for profits, operating income decreased to 5,587 million yen (down 61.8 % from the previous year), and ordinary income decreased to 5,530 million yen (down 59.9 % from the previous year). Extraordinary loss increased due to the business restructuring expense incurred for revising the arcade game development system.

The net income for this fiscal year decreased to 2,167 million yen (down 73.1 % from the previous year) after recording the corporate tax refund for prior fiscal years based on the agreement between US and Japanese tax authorities concerning the revision on transfer pricing taxation.

Status of Each Operational Department

Home Video Games

In this business segment, our flagship title “Monster Hunter Tri” (for Wii) achieved healthy growth, while “Ace Attorney Investigations: Miles Edgeworth” (for Nintendo DS) and “Resident Evil 5: Alternative Edition” (for PlayStation 3, Xbox 360) also performed satisfactorily.

“Monster Hunter Freedom Unite” (for PlayStation Portable), along with its lower-priced versions, showed strong sales growth supported by its established brand strength. “Resident Evil 5” (for PlayStation 3, Xbox 360), one of the most successful titles in the previous year, continued to grow backed by its popularity.

“Sengoku Basara Battle Heroes” (for PlayStation Portable), which is the latest addition of the Sengoku Basara series, also grew on a steady basis. This software started the so-called “Rekijo” (Japanese term for female history “Otaku”) boom in Japan and generated much public interest in Japan’s “Warring States” (Sengoku) era. In addition, the software gained public attention outside of the game industry when its characters appeared in the official election notice posters by the Miyagi Prefecture municipal government for the election of the governor of Miyagi.

However, the three software titles that were released in the overseas markets, namely “Bionic Commando” (for PlayStation 3, Xbox 360), “Resident Evil: The Darkside Chronicles” (for Wii), and “Dark Void” (for PlayStation 3, Xbox 360), underperformed their sales and remained weak.

Additionally, the releases of “Lost Planet 2” (for PlayStation 3, Xbox 360) and “Super Street Fighter IV” (for PlayStation 3, Xbox 360) were postponed to the next fiscal year. Lacking these sales-inducing software titles also depressed sales in overseas markets.

The resulting net sales decreased to 44,015 million yen (down 30.0 % from the previous year), and the operating income decreased to 7,846 million yen (down 52.1 % from the previous year).

Arcade Operations

One of our main focuses in this business segment was to increase demand in this slowly recovering market. As part of such efforts, we held a variety of events, offered special discount days, and created a comfortable environment for customers to attract more women and families, while continuing to hold on to our core users. However, customer traffic did not improve despite our efforts, and sales were restrained due to declining consumer spending and to the trend in which consumers looked for alternative “at-home entertainment”.

We worked on profitability improvement through streamlining business structure including reduction of operation costs. Closing down 2 unprofitable arcades is another example of our operational strategy for increasing profits and adopting to changes in the market environment. The number of our arcades total 38 after these activities as of the end of this fiscal year.

The resulting net sales decreased to 11,985 million yen (down 11.3 % from the previous year), whereas the operating income increased to 590 million yen (up 162.9 % from the previous year) thanks to the success of our profitability improvement strategy.

Arcade Games Sales

Within this stagnating market, Capcom released the coin-operated game machine, “Mario Party Fushigino Korokoro Catcher”, with the aim of reaching a new user base as well as holding onto existing customers. We concentrated our efforts in sales expansion to make a breakthrough in the current market. As part of such activities, we went into partnership with Namco Bandai Games. Despite all of our best efforts, we still struggled with this business segment, and thus the restructuring of the operational system became inevitable.

The resulting net sales decreased to 2,280 million yen (down 71.6 % from the previous year), and the operating loss was 203 million yen (the operating income of the previous year was 1,758 million yen).

Contents Expansion

Overall, this segment achieved its projectioned sales. In the area of content distribution for mobile phones, “Apollo Justice: Ace Attorney” showed healthy growth, and the iPhone/iPod touch version of “Resident Evil: Degeneration” also expanded its user base.

The segment of the Pachislo machine business, on the other hand, continued to suffer lacking a sales-inducing product in the severe business environment. “Viewtiful Joe”, which was released in the 4th quarter of this fiscal

year, showed solid sales, and “Shin Onimusha: Dawn of Dreams” as a part of cooperation expansion also began to show signs to perform favorably supported by its established brand power.

The resulting net sales increased to 5,819 million yen (up 25.7 % from the previous year), and the operating income was 509 million yen (the operating loss of the previous year was 230 million yen).

Other Business

The net sales from other businesses, mainly character-related licensing royalties, decreased to 2,736 million yen (down 3.1 % from the previous year), and the operating income increased to 1,097 million yen (up 4.1 % from the previous year).

Overview of Business Performance in Each region

Japan

In the segment of home video games, our flagship title “Monster Hunter Tri” (for Wii) achieved healthy growth supported by its established popularity, while both “Ace Attorney Investigations: Miles Edgeworth” (for Nintendo DS) and “Sengoku Basara Battle Heroes” (for PlayStation Portable) also performed favorably. In addition, “Monster Hunter Freedom Unite” (for PlayStation Portable), along with its lower-priced versions, showed steady sales increase backed by its brand strength.

“Resident Evil 5” (for PlayStation 3, Xbox 360), one of the most successful titles in the previous year, continued to grow contributing to the overall profit improvement.

Arcade operations saw sluggish growth affected by the weakening demand. However, profits for this segment increased through the successful earning recovery strategies such as fixed cost reduction.

The arcade games sales remained lackluster due to the stagnating market and the lack of appealing products.

In the segment of contents expansion, the business of content distribution for mobile phones achieved projected sales, whereas the Pachislo machine related business struggled without sales-inducing content and products, however, began to show signs of recovery.

The resulting net sales decreased to 53,960 million yen (down 14.9 % from the previous year), and the operating income decreased to 11,775 million yen (down 10.8 % from the previous year).

North America

In North America, sales remained weak due partially to the fact that the main activity in this region was the sales of existing products such as “Resident Evil 5” (for PlayStation 3, Xbox 360), and that the majority of products sold were lower-priced.

Highly expected software “Dark Void” (for PlayStation 3, Xbox 360) and “Bionic Commando” (for PlayStation 3, Xbox 360) both grew at a slow pace. In addition, the release of flagship titles, “Lost Planet 2” (for PlayStation 3, Xbox 360) and “Super Street Fighter IV” (for PlayStation 3, Xbox 360), was postponed to the next fiscal year, depressing overall sales.

The resulting net sales decreased to 12,543 million yen (down 49.6 % from the previous year), and the operating loss was 2,072 million yen (the operating income of 4,054 million yen was recorded in the previous year).

Europe

In Europe, sales were restrained due partially to the fact that the main activity in this region was the sales of small-scale titles and existing products such as “Resident Evil 5” (for PlayStation 3, Xbox 360). Both “Dark Void” (for PlayStation 3, Xbox 360) and “Bionic Commando” (for PlayStation 3, Xbox 360) grew at a sluggish

pace, and the release of the highly expected “Lost Planet 2” (for PlayStation 3, Xbox 360) was postponed to the next fiscal year.

The resulting net sales decreased to 7,933 million yen (down 44.0 % from the previous year), and the operating income decreased to 136 million yen (down 91.2 % from the previous year).

Other Regions

In Asian markets, we struggled to market lower-priced titles, and those titles developed under the partnership with other companies. The release of “Monster Hunter Tri” (for Wii) and “Resident Evil: The Darkside Chronicles” (for Wii) did not achieve projected sales as well.

The resulting net sales decreased to 982 million yen (down 42.2 % from the previous year), and the operating income decreased to 153 million yen (down 57.9 % from the previous year).

Prospects for the Next Fiscal Year

As the domestic market is reaching its maturation in Japan, the competition for market share will intensify, and we may see a clear distinction of “winners” and “losers”.

In addition, the re-structuring of the game industry is expected to accelerate with the rise of new trends and technologies: home video game consoles with multiple features and functions; high-performance mobile phones; cloud computing. The diffusion of cloud computing will promote game downloads and popularize online social games, resulting in new forms of software distribution. Under such a revitalized market, game software manufacturers are expected to introduce a new business model, different from traditional packaged software sales, in order to ensure a new income source.

Acknowledging these circumstances, Capcom is determined to work on an active operation deployment that promptly conforms to industry changes through strengthening marketing activities and grasping market trends timely and appropriately. Such a decision was made based on the lessons learned from past experiences regarding our slow response to the sudden changes in the overseas market of home video game software sales.

We will concentrate our management resources on the development of home video game software, the core competence of Capcom. Corresponding to the growing network game market, the business segments of online games and contents distribution to cellular phones will be emphasized through the introduction of software products that match diversified preferences of both domestic and international users. Capcom is determined to win in this severe market with these strategies that will bring improved customer satisfaction and a competitive edge.

Another area on which we will be focusing is the development of new business opportunities. One example of such efforts is to enhance the game character-related businesses utilizing the synergy from our high-profile contents.

We will be working on the revitalization of the company through group-wide organizational reform. Expediting decision making and clarifying the chain of command and responsibility are just a few examples of this reform. Additionally, we will be trimming down our operational structure by reorganizing unprofitable businesses and building an optimum business portfolio. Our ultimate goal is to streamline overall management and to acquire a healthy and robust corporate quality with improved operational efficiency and reduced costs.

We are also upgrading our inter-business network, including video conference systems and intranet, in order to streamline the business process and information sharing among all the affiliated companies of Capcom, both domestic and international. Such network improvements will boost the unifying force of the entire Capcom group by enhancing managerial functions under a consolidated control system. We will also implement “Hybrid Management” to ensure steady profit and to adapt to changes in the business environment.

Since the video game industry is shrinking in Japan, we must focus on overseas operations where the market size is larger in order to realize our projected sales growth.

As part of the sales strategy for next year, we will offer a powerful product lineup that specifically targets overseas markets. Software titles to be released to complete this lineup are as follows: “Super Street Fighter IV” (for PlayStation 3, Xbox 360), “Dead Rising 2” (for PlayStation 3, Xbox 360), “Lost Planet 2” (for PlayStation 3, Xbox 360) which is a popular series in US and Europe, and “Monster Hunter Tri” (for Wii) which boasted solid sales in Japan.

(2) Analysis of the Consolidated Financial Position

Analysis of assets, liabilities and net assets

Assets

Total assets decreased by 19,588 million yen from the previous fiscal year to 86,621 million yen. The primary increase is 3,901 million yen in work-in-progress for game software, and the primary decrease is 21,605 million yen in notes and accounts receivable, trade and 896 million yen in merchandise and finished goods.

Liabilities

Liabilities decreased by 14,195 million yen from the previous fiscal year to 32,665 million yen. The decrease is mainly attributable to the following: 6,205 million yen in notes and accounts payable, 2,555 million yen in short-term borrowings, 1,259 million yen in accrued income taxes.

Net assets

Net assets decreased by 5,392 million yen from the previous fiscal year to 53,956 million yen. The primary increase is 2,167 million yen in net income for the current fiscal year, and the decrease is attributable to 5,125 million yen in the repurchase of treasury stock and 1,831 million yen in payment of cash dividends from retained earnings.

Analysis of cash flow

Cash and cash equivalents (hereafter referred to as “Cash”) as of the end of the current fiscal year increased by 1,203 million yen from the previous fiscal year to 29,815 million yen. Cash flow positions of each activity and their factors are described below.

Cash flows from operating activities

Net cash gained from operating activities increased by 14,871 million yen from the previous fiscal year to 14,320 million yen. Some of the main contributors to the increase are the following: 20,897 million yen in decrease in accounts receivable, trade; 3,368 million yen in depreciation and amortization; 1,124 million yen in net income before income taxes. The decrease is attributable mainly to 5,952 million yen in decrease in accounts payable, trade and 5,545 million yen in increase work-in-progress for game software.

Cash flows from investing activities

Net cash spent for investing activities decreased by 1,096 million yen from the previous fiscal year to 1,618 million yen. The decrease is mainly attributed to the payment of 1,693 million yen for payment for acquisitions of tangible fixed assets.

Cash flows from financing activities

Net cash spent for financing activities increased by 10,404 million yen from the previous fiscal year to 10,747 million yen. This increase is mainly attributable to the following: 5,125 million yen in payment for repurchase of treasury stock; 2,555 million yen in repayments of short-term borrowings; 1,829 million yen in dividends paid by parent company.

(Reference) Trends of Cash Flow Indicators

	Year ended March 2006	Year ended March 2007	Year ended March 2008	Year ended March 2009	Year ended March 2010
Shareholders' equity ratio to total assets	40.1	49.3	57.3	55.9	62.3
Shareholders' equity ratio to total assets based on fair market value	67.5	104.4	221.2	101.5	120.5
Debt amortization ratio to cash flows	37.9	28.6	46.8	-	122.7
Interest coverage ratio	82.6	237.3	103.7	-	86.9

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

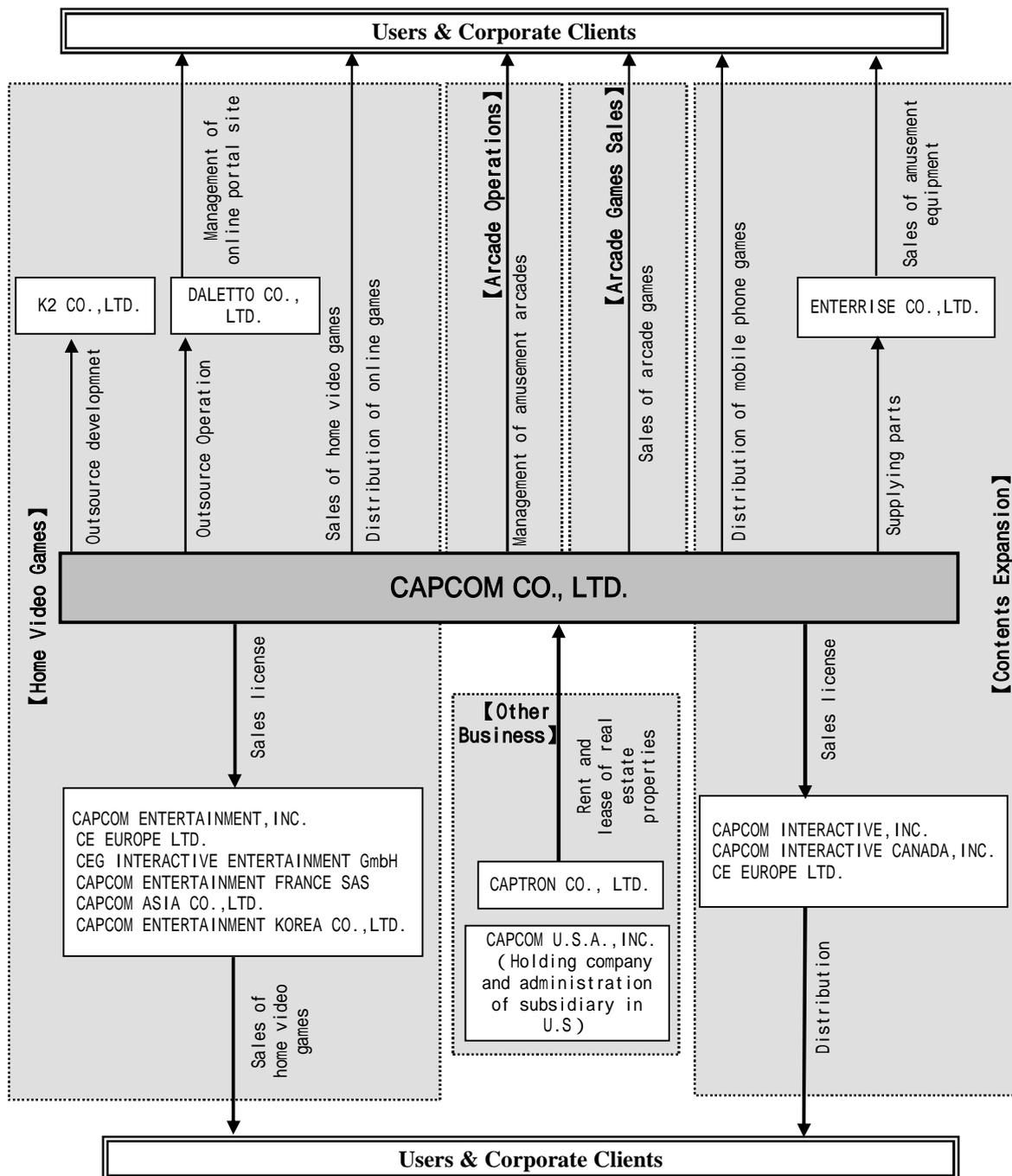
(3) Principles of profit share and dividends for the current and next fiscal year

One of our management priorities is paying stable and continuous dividends to all shareholders, taking into account our future business strategies as well as our management environment.

The year-end dividends for the current fiscal year are expected to be 20 yen per share. The interim dividend paid for the current fiscal year was 15 yen per share of the ordinary dividend. Therefore, the annual dividend is expected to be 35 yen per share.

Based on our business prospects, we are planning to pay 35 yen per share (of which the interim dividend is 15 yen) during the next fiscal year.

2. Status of Capcom Corporate Group



*All companies other than Capcom Co., LTD are consolidated subsidiaries.

3. Business Policy

There is no significant change in business policy from the Mid-Term Financial Results ended September 30, 2008 disclosed on November 8, 2007. Therefore it is omitted to describe this item.

It is available through following URL:

Capcom Corporate Web

http://www.capcom.co.jp/ir/english/data/result_2008.html

Tokyo Stock Exchange

<http://www.tse.or.jp/listing/ocompanysearch/index.html> (Japanese)