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## 1. Qualitative information regarding the consolidated business

(1) The progress of the consolidated business results including related qualitative information

Although the Japanese economy during the second quarter, ended September 30, 2010, saw solid consumer spending and exports, it is now entering a temporary lull because of the stagnant employment situation and concern about a slowdown in the U.S. economy, in addition to the prolonged appreciation of the yen and low stock prices.

As for the video game industry, the business environment remained sluggish due in part to the lack of high-performing home video games, as well as to the declining birth rate, aging population, and diversification of entertainment. At the same time, a new trend has emerged in the industry with the rapid growth of social games that allow users to interact as they enjoy games using devices other than game consoles, such as smartphones and multi-functional information terminals.

Under these circumstances, Capcom shifted its strategy to releasing flagship titles on a quarterly basis, taking market conditions into account, in order to equalize home video game sales that had tended to concentrate during the second half of the fiscal year.

We also focused on the development of games for overseas markets and online games.

Further, in an attempt to diversify revenue streams, Capcom began distributing games to Mobage-town operated by DeNA Co., Ltd., is planning to develop the vast overseas market by distributing social game software for iPhone/iPod Touch through Facebook (United States) with its 500 million subscribers worldwide, and opened a store in “Rakuten Ichiba”, a virtual shopping mall operated by Rakuten, Inc., to expand sales channels for video game-related products, such as books and toys.

Meanwhile, the worldwide release this autumn of “Resident Evil: AfterLife 3D”, a Hollywood film based on our flagship title “Resident Evil”, resulted in increased publicity, enhanced brand value, and other secondary effects. However, overall sales remained stagnant due in part to the delay in the release of major title “Dead Rising 2” (for PlayStation 3 and Xbox 360), in addition to the sharp appreciation of the yen and the substantial underperformance of “Lost Planet 2” (for PlayStation 3 and Xbox 360) relative to projections.

The resulting net sales for the second quarter was 40,706 million yen (up 4.7 % from the same term last year). As for profits, operating income decreased to 3,942 million yen (down 29.3 % from the same term last year) due to the sluggish performance of home video game sales as well as the appreciation of the yen, ordinary income decreased to 2,880 million yen (down 47.4 % from the same term last year) due in part to loss on foreign exchange, and net income for the current period decreased to 1,784 million yen (down 39.9 % from the same term last year).

## Status of each operational department

### ① Consumer Online Games

In this business segment, the flagship title “Dead Rising 2” (for PlayStation 3 and Xbox 360) was released in September.

In addition to “Super Street Fighter IV” (for PlayStation 3 and Xbox 360) and “Sengoku BASARA: Samurai Heroes” (for PlayStation 3 and Wii), the online exclusive title “Monster Hunter Frontier Online” (for PC and Xbox 360) also showed steady growth. “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.

However, overall sales remained stagnant due to the substantial underperformance of feature title “Lost Planet 2” (for PlayStation 3 and Xbox 360) relative to projections, coupled with the delay in the release of “Dead Rising 2” (for PlayStation 3 and Xbox 360).

The resulting net sales was 30,773 million yen, and the operating income was 4,530 million yen partially due to an increase in the development expenses for the release of flagship software products.

### ② Mobile Contents

As social games that are highly compatible with mobile phones underwent rapid growth, the business segment saw an increase the number of downloads of “Resident Evil 4 iPad Edition”, which we started distributing in order to expand our business. Furthermore, we were able to reach diverse new users, with members exceeding 500,000 people for “MONHAN NIKKI MOBILE AIRU MURA” distributed exclusively through the mobile phone networking website “Mobage-town”. In addition, “Ghosts 'n Goblins Gold Knights II” was released this term for iPhone/iPod Touch, and those other games released in the previous term, namely “Street Fighter IV” and “Phoenix Wright: Ace Attorney”, also achieved their projected sales.

The resulting net sales was 1,365 million yen, and the operating income was 300 million yen.

### ③ Arcade Operations

One of our main focuses in this business segment was to acquire female and family customers while retaining our existing customers by promoting community-based arcades that are greatly enjoyed by neighborhood residents. Organizing a variety of events, offering special discount days, and renovating arcades are just a few examples of such efforts. Improvement of earning capacity was another area we worked on by controlling investments, reducing costs, and operating arcades in line with current market conditions.

As part of such efforts, we closed 1 unprofitable arcade, therefore the total number of our arcades became 37 as of the end of this fiscal period.

The resulting net sales decreased to 5,916 million yen , whereas the operating income increased to 732 million yen thanks to the success of our profitability improvement strategy.

#### ④ Amusement Equipments

Under the circumstances in which the market remained sluggish due in part to arcade operators restricting their purchases, sales of arcade game machines remained slow in spite of efforts to stimulate demand and develop new customers. This unsatisfactory result is also attributable to a lack of new products.

As for the Pachislo machine business, “Onimusha: Dawn of Dreams” remained a long-seller.

The resulting net sales was 1,406 million yen, and the operating income was 19 million yen.

#### ⑤ Other Businesses

The net sales from other businesses, mainly character-related licensing royalties, was 1,244 million yen, and the operating income was 227 million yen.

### (2) Qualitative information regarding the consolidated financial position

Total assets as of the end of second quarter increased by 3,786 million yen from the end of previous fiscal year to 90,408 million yen. The primary increases were 3,588 million yen in Cash on hand and in banks, and 3,313 million yen in notes and accounts receivable, trade. The primary decrease was 2,278 million yen in work-in-progress for game software.

Liabilities as of the end of second quarter increased by 4,846 million yen from the end of the previous fiscal year to 37,511 million yen. The primary increases were 2,644 million yen in Long-term borrowings, 1,134 million yen in Notes and accounts payable, trade.

Net assets as of the end of second quarter decreased by 1,059 million yen from the end of the previous fiscal year to 52,897 million yen. The primary increase was 1,784 million yen in net income for the first half of the fiscal year. The primary decreases were 1,181 million yen in cash dividends, and 1,553 million yen in cumulative translation adjustments (for the foreign currency translation of the net assets of consolidated overseas subsidiaries).

### (3) Qualitative information regarding the consolidated business forecasts

The prospects for the consolidated business results for the current fiscal year ending March 31, 2011 were revised on October 4, 2010 from what was projected on May 7, 2010.

For details, please refer to the press release “Notice of Revision of Earnings Forecast” (October 4, 2010).

## 2. Other information

### (1) Transfer of major subsidiaries

There were no applicable subsidiary transfers.

### (2) The application of simplified accounting procedures and those procedures specific.

#### ① Computation method used for estimating bad debts in general receivables

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

#### ② Valuation of inventory

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

#### ③ Computation method for corporation taxes, deferred tax assets, and deferred tax liabilities

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

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

### (3) Changes in the principle, procedures, and presentation methods.

#### ① Application of Accounting Standard for Asset Retirement Obligations

Effective as of the first quarter of the current fiscal year, Capcom has applied Accounting Standard for Asset Retirement Obligations (Accounting Standard Board of Japan (ASBJ) Statement No. 18; March 31, 2008), and Guidance on Accounting Standard for Asset Retirement Obligations (ASBJ Guidance No. 21; March 31, 2008). As a result of these applications, both operating income and ordinary income decreased by 16 million yen, and net loss before income tax decreased by 220 million yen.

#### ② Application of Accounting Standard for Equity Method of Accounting for Investments and Practical Solution on Unification of Accounting Policies Applied to Associates Accounted for Using the Equity Method

Capcom is applying the Accounting Standard for Equity Method of Accounting for Investments (ASBJ Statement No.16, March 10, 2008) and the Practical Solution on Unification of Accounting Policies Applied to Associates Accounted for Using the Equity Method (ASBJ PITF No.24, March 10, 2008) from this fiscal year, based on which it revised consolidated results where required. The changes did not affect ordinary income or quarterly net income before income taxes and minority interests.