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1. Qualitative information regarding the consolidated business

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

The Japanese economy during the 6 months period ended September 30, 2011, entered into a temporary lull due mainly to the deterioration of the export environment caused by the slumping stock prices and accelerated appreciation of the yen. Together with concerns over power shortage, as well as Eurozone crisis, it contributed to a heightened sense of uncertainty about the future.

The trend of structural change is washing over the video game industry with new platforms gaining greater presence, as exemplified by the rapid growth of a variety of affordable social and downloadable games owing to the increasing dominance of mobile phones and smartphones, while the home video game market continued to contract.

In order to address changes in the market environment under these circumstances, Capcom promoted efficient and agile game development by integrating the development departments for home video game machines, PCs and mobile phones with respect both consumer online games and mobile contents, which comprise 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.

Meanwhile, we made efforts to promote our business proactively through various events and sales promotion campaigns, including the "Monster Hunter Festa '11" events held nationwide and "Monster Hunter the Real" held at the Universal Studios Japan (Osaka City) to promote the flagship title "Monster Hunter" series, as well as the "BASARA Festival 2011 - the Summer Campaign".

Additionally, Capcom pushed forward with the mixed media strategy based on major contents, such as the showing of "Sengoku BASARA the Movie - The Last Party" in June 2011 and the decision to make "Phoenix Wright: Ace Attorney" and "Devil May Cry" into movies, in order to leverage highly popular software to achieve increased visibility, expanded fan base and other synergistic effects.

As a result, net sales for the 6 months period were 29,252 million yen (down 28.1% from the same term last year), operating income was 2,782 million yen (down 29.4% from the same term last year), ordinary income was 1,907 million yen (down 33.8% from the same term last year), and net income was 906 million yen (down 49.2% from the same term last year), due in part to a decrease in sales in reaction to the surge during the same term last year caused by the mass release of major consumer online game titles. However, both sales and income exceeded the projected figures.

Status of each operational department

Consumer Online Games

In this business segment, "Resident Evil: The Mercenaries 3D" (for Nintendo 3DS) and "Monster Hunter Freedom 3 HD Ver." (for PlayStation 3) performed solidly. Further, in addition to "Super Street Fighter IV: Arcade Edition" (for PlayStation 3 and Xbox 360) and "Sengoku BASARA: Chronicle Heroes" (for PlayStation Portable) basically achieving projected sales, "MONHAN NIKKI MOBILE AIRU MURA G" (for PlayStation Portable) and numerous other distribution titles were released.

Moreover, the online exclusive title "Monster Hunter Frontier Online Forward. 1" (for PC and Xbox 360) fully leveraged its characteristics to enjoy success.

Although the resulting net sales were 18,113 million yen (down 41.1% from the same term last year) and the operating income was 2,251 million yen (down 50.3% from the same term last year), due in part to the reaction to the release of multiple feature titles during the same term last year, both sales and income exceeded the projected figures.

Mobile Contents

As the social game market has been expanding rapidly, "The Smurfs' Village", which was launched jointly with Facebook, the world's largest SNS, continued to enjoy success and served as the driving force in increasing Capcom's financial results. Furthermore, it contributed greatly to improving Capcom's earning capacity, with the number of downloads, together with those of "Zombie Cafe" and "Lil' Pirates" which were also released, totaling more than 20 million.

In addition to "Monster Hunter: Dynamic Hunting" for iPhone / iPod touch faring well, "Resident Evil: Outbreak Survive" was also distributed for "GREE", one of the most popular SNS in Japan.

The resulting net sales were 2,581 million yen (up 89.0% from the same term last year), and the operating income was 903 million yen (up 201.0% from the same term last year).

Arcade Operations

Although ten of Capcom's arcades were seriously affected by the Great East Japan Earthquake in March 2011 and were forced to shut down temporarily, all ten arcades were able to reopen for business in April.

Capcom made efforts to attract customers by sponsoring events and offering special discount days to thank arcade fans, as well as by implementing various revitalization measures, such as renovation of arcades.

Meanwhile, arcades are regaining ground as they are re-evaluated as readily accessible entertainment that is "inexpensive, nearby and short-duration" owing to the waning of excessive self-restraint evident immediately after the earthquake, helped further by the tail wind of inclination to economize.

In the absence of closing or opening of arcades during the period under review, the total number of arcades remains the same as the end of the previous fiscal period at 37.

The resulting net sales were 6,054 million yen (up 2.3% from the same term last year), and the operating income was 1,223 million yen (up 67.1% from the same term last year).

Amusement Equipments

As regards arcade game machines, sales remained sluggish due to the effect of the lack of new products, in spite of the release of "New Super Mario Brothers: Wii Coin World".

As for the Pachislo machines, overall sales remained stagnant with the product supply cycle entering a slow period, as business consisting mainly of contracted development work.

The resulting net sales were 1,136 million yen (down 19.2% from the same term last year), and the operating loss was 216 million yen (operating profit for the same term last year was 19 million yen).

Other Businesses

The net sales from other businesses, mainly character-related licensing royalties, were 1,366 million yen (up 9.9% from the same term last year), and the operating income was 530 million yen (up 133.0% from the same term last year).

(2) Qualitative information regarding the consolidated financial position

Total assets as of the end of second quarter decreased by 4,193 million yen from the end of previous fiscal year to 86,215 million yen. The primary increase were 7,993 million yen in work-in progress for game software and 778 million yen in raw materials and supplies. The primary decreases were 7,610 million yen cash on hand and in banks and 6,218 million yen in notes and accounts receivable, trade.

Liabilities as of the end of second quarter increased by 534 million yen from the end of the previous fiscal year to 32,935 million yen. The primary increase was 5,000 million yen in short-term borrowings. The primary decreases were 2,199 million yen in accrued income taxes and 2,274 million yen in accrued bonuses.

Net assets as of the end of second quarter decreased by 4,727 million yen from the end of the previous fiscal year to 53,280 million yen. The primary increase was 906 million yen in net income for the 6 months period. The primary decreases were 2,703 million yen in treasury stock, 1,477 million yen in cash dividends and 1,431 million yen in cumulative translation adjustments.

(3) Qualitative information regarding the consolidated business forecasts

The forecast for the consolidated business results 6 months ending September 30, 2011 announced on May 6, 2011 were revised on September 14, 2011. For details, please refer to the press release "Notice of Revision of Earnings Forecast" (September 14, 2011).

The forecast for the consolidated business results for the current fiscal year ending March 31, 2012 remain the same as what was projected at the financial results announcement on May 6, 2011.

2. Other information

(1) Transfer of major subsidiaries

There were no applicable subsidiary transfers.

(2) Use of special accounting methods for the quarterly consolidated financial statements

Calculation of tax expense

Tax expense for consolidated subsidiaries is calculated by determining a reasonable estimate of the effective tax rate after the application of tax-effect accounting for income before income taxes in the fiscal year, including the second quarter, and multiplying income before income taxes by this estimated effective tax rate.

(3) Changes in the principle, procedures, and retrospective restatement

Not applicable

(4) Additional Information

Changes in accounting policies resulting from amendment of the accounting standard

Capcom started applying Accounting Standard for Accounting Changes and Error Corrections (ASBJ Statement No.24, December 4, 2009) and Guidance on Accounting Standard for Accounting Changes and Error Corrections (ASBJ Guidance No.24 December 4, 2009) for accounting changes and the past error corrections since the beginning of this quarter.