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1. Operating results

(1) Qualitative information and consolidated financial statements

Operating results of the fiscal year ended March 31, 2013

During the fiscal year ended March 31, 2013, the Japanese economy began to show signs of a rebound and entered a period of gradual recovery. The recovery is attributed to the acceleration of yen's depreciation and a rise in stock prices that started this year, as well as strengthening of the US economy in spite of growing concerns over electrical power shortages and the Eurozone crisis.

In this industry, the domestic market of home video games expanded for the first time in five years due to the release of the new "Wii U" game console. However, in the overseas markets, the overall softening trend continued as well, in spite of the space of major titles that were released in time for the Christmas shopping season.

In the meantime, despite some negative factors such as voluntary restrictions on usage limits following an issue concerning a sales method known as "complete gacha" (method of awarding valuable virtual items where players are allowed to make faster progress in games by purchasing or otherwise obtaining a "complete" set of virtual items), the social games steadily increased its market share.

As the business environment entered into a new phase, the total game market size grew thanks to the synergy between home video game consoles and rapidly-grown platforms including smartphones.

Under these circumstances, Capcom pressed forward with multi-platform strategy of providing software for each type of platform, including home video game machines, PCs and smartphones in order to respond to various customer demands. In addition, Capcom endeavored to increase demands by launching pachislo machines equipped with our flagship titles so as to construct a new profit base.

The Company has also pressed forward with multi-faceted business development, including the construction of a value chain with the Single Content Multiple Usage strategy under which popular titles are used in multiple media, including movies, TV, animations, publications, theaters and toys, as well as foods and beverages.

Furthermore, Capcom aimed to expand its business in the Asian markets, where there should be rooms for further growth, so as to accelerate its global expansion. The Company has steadily taken steps to develop overseas markets, including the opening of the region's first development base in Taiwan, and the establishment of a locally incorporated entity in Thailand through our subsidiary.

Net sales grew to 94,075 million yen (up 14.6 % from the previous year), even though the facts that sales of some major titles were below our estimates and that launch of promising titles were delayed.

However, operating income amounted to 10,151 million yen (down 17.6 % from the previous year), due to increased cost of sales and higher selling, general and administrative expenses. Likewise, ordinary income was 10,944 million yen (down 7.4 % from the previous year) in spite of foreign exchange gains.

Net income decreased to 2,973 million yen (down 55.8 % from the previous year), due to special loss relating to the cost of business restructure that was necessitated by the overhaul of the development system.

Status of each operational department

① Digital Contents business

In the Digital Contents business, which constitutes our core competence, the flagship title “Resident Evil 6” (for PlayStation 3 and Xbox 360) sold at a brisk pace initially when it was launched. Its sales, however, subsequently plateaued. As a result, it did not meet with our projection and thus was not able to play a role in leading the segment’s sales growth. In contrast, “Dragon’s Dogma” (for PlayStation 3 and Xbox 360) became a greater-than-expected hit product in the domestic market, which has high profitability, and became an unprecedented million seller in the recent years as an original title. In addition, “DmC Devil May Cry” (for PlayStation 3 and Xbox 360) enjoyed stable popularity in overseas markets and posted solid sales. Furthermore, “Monster Hunter 3 (Tri) G HD Ver.”, which was our first title for the new home video console “Wii U” that was launched in December 2012, also became a smash hit. However, its package sales were generally soft.

In the meantime, “Minna to Monhan Card Master”, which the Company began to distribute via Mobage in the previous fiscal year, continued to post growth, thanks to the increasingly widespread of smartphones. At the same time, “Resident Evil: Outbreak Survive” for GREE steadily gained new users. As a consequence, both titles enjoyed membership exceeding two million each.

Additionally, the “Monster Hunter Frontier Online” series has remained a perennial favorite and continued to bring in stable income. Strong results being achieved by the contents segment is leading the Company’s profit structure to undergo a transformation.

Furthermore, “Smurf’s Village” under the “Beeline” brand has securely built stable sales over a long range.

The resulting net sales were 63,636 million yen (up 6.4 % from the previous year) and operating income was 7,062 million yen (down 45.2 % from the previous year).

② Arcade Operations business

In the Arcade Operations business, Capcom focused its attention on securely capturing core users by holding various events and providing pleasant facilities in an effort to attract a greater number of customers in the increasingly sluggish market. In addition, the Company concentrated its efforts on building a broad customer base so as to find new customers. In line with this strategy, the Company conducted promotional tours to let middle-aged and older people try their hands at game machines free of charge, and installed machines that parents and their children can play together. Nonetheless, the segment results were soft, partly because of the dispersion of entertainment, resulting from overlapping of arcade game players with smartphone users. The other issues to the weak results were a shortage of sales-driving products and the Company’s inability to avoid the recoiling from an increase in demand in the months following the Great East Japan Earthquake.

During this fiscal year, new arcade openings were postponed in consideration of the market environment. As three unprofitable arcades were closed down, the total number of arcades became 34 as of the end of the current period.

The resulting net sales were 10,944 million yen (down 6.7 % from the previous year) and operating income was 1,709 million yen (down 4.4 % from the previous year).

③ Amusement Equipments business

In the Pachinko & Pachislo division, the business scale steadily expanded. This was due in part to the flagship title “Resident Evil 5”, whose sales significantly exceeded expectations in a synergy with home video game software and buoyed profits. The expanding contracted product development business was another factor contributing to the segment growth.

In the Arcade Games Sales business, “Mario Party Kurukuru! Carnival”, which is a coin-operated game machine, posted solid sales against the backdrop of a gap in the new product supply cycle. Repeat sales of existing products were also sound.

The resulting net sales were 16,783 million yen (up 119.0 % from the previous year) and operating income was 4,892 million yen (up 449.3 % from the previous year).

④ Other Businesses

Publication of game guidebooks and sales of character-related goods constitute the main component of sales in other businesses. Net sales of the segment were 2,711 million yen (down 5.3% from the previous year) and operating income was 740 million yen (down 15.6 % from the previous year).

Capcom has regrouped its business segments from the fiscal year, and the comparison and analysis has been made based on new segments.

Prospects for the next fiscal year

As for future prospects, the industry is expected to find an increasingly mature market of home video games, which is our core business segment. Even though a full lineup of new home video game consoles will eventually be released, the industry is likely to be in a period of scant new product releases over the near future, awaiting the full-scale launch of the next generation machines. In the meantime, development costs are projected to soar as advanced and multiple functions are added to hardware. Business alliances and consolidations may therefore occur in increasing numbers.

The emergence of smartphones has lent momentum to platforms other than game-only machines. Amid this development, the social game market is projected to be on a growing. Competition is thus expected to become extremely intense among companies.

Faced with this sudden and significant changes in the operating environment, Capcom intends to direct its development resources to the home video game software, which is our core business segment, and the development of online games, which is a growing area, based on its medium-term strategic map. In addition, the Company will strive to expand the Pachinko & Pachislo business and the contents business by capitalizing on its high quality software assets in an effort to diversify its sources of income. Through marketing strategies and promotion activities that respond to diverse user needs, the Company will also firmly establish its competitive advantages so as to win the race for survival.

Furthermore, development of overseas markets is essential because of their scale in order for the Company to press forward with its growth strategies. Capcom will therefore accelerate its global expansion by concentrating its efforts on the expansion of its contents distribution business in Southeast Asia, where rapid growth is projected, backed by communications infrastructure improvement, including fast-paced spread of smartphones.

In order to lower development costs and shorten time frame for development, Capcom will restructure its development organizations, which are the core parts of the Company's business, increasing ratio of in-house developments by focusing on the overhaul of overseas development companies. Streamlining measures will also be taken over the entire business operations as part of efforts to strengthen the management system. Such measures will include further improvements in transparency, efficiency, cost reductions and financial structure. Capcom will endeavor to create a corporate constitution that enables its group as a whole to respond flexibly to a changing environment.

As for product strategies for the current fiscal year ending in March 31, 2014, the Company will take an aggressive stance focusing to promote large-scale titles with "Monster Hunter 4" (for Nintendo 3DS) and "Lost Planet 3" (for PlayStation 3 and Xbox 360) focused on the domestic and overseas markets respectively.

(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 6,117 million yen from the end of the previous fiscal year to 104,365 million yen. Primary increases were 6,769 million yen in cash on hand and in banks and 2,258 million yen in short term deferred tax assets. Primary decrease was 5,597 million yen in notes and accounts receivable, trade.

(Liabilities)

Total liabilities as of the end of the current fiscal year increased by 2,641 million yen from the end of the previous fiscal year to 41,536 million yen. Primary increase was 3,935 million yen in short-term borrowings. Primary decrease was 953 million yen in notes and accounts payable, trade.

(Net assets)

Net assets as of the end of the current fiscal year increased by 3,475 million yen from the previous fiscal year to 62,828 million yen. Primary increases were 2,973 million yen in net income for the as of the end of the current fiscal year and 2,669 million yen in cumulative translation adjustments which related to foreign exchange translation of the net assets of foreign consolidated subsidiaries. Primary decrease was 2,303 million yen in cash dividends.

② Analysis of cash flow.

Cash and cash equivalents as of the end of the current fiscal year increased by 9,235 million yen from the end of the previous fiscal year to 31,522 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 was 6,647 million yen (7,672 million yen used in the previous fiscal year).

Primary increases gained were 5,760 million yen decrease in notes and accounts receivable, trade (increase of 5,550 million yen in the previous fiscal year) and 3,719 million yen in net income before income taxes (11,425 million yen in the previous fiscal year). Main decreases were the followings: 3,610 million yen in income taxes paid (4,195 million in the previous fiscal year) and 2,837 million yen increase in work-in-progress for game software (11,899 million yen in the previous fiscal year).

(Cash flows from investing activities)

Net cash used in investing activities was 1,375 million yen (4,794 million yen in the previous fiscal year).

The primary increase used in were as follows: 3,086 million yen in payment for acquisitions of tangible fixed assets (2,153 million yen in the previous fiscal year); 1,578 million yen in payment for acquisitions of intangible fixed assets (527 million yen in the previous fiscal year). Primary decrease was 2,499 million yen in income from withdrawal of time deposit (no withdrawal in the previous fiscal year).

(Cash flows from financing activities)

Net cash provided by financing activities was 1,162 million yen (587 million yen provided by the previous fiscal year).

Primary increase gained was 4,290 million yen in net increase in short-term borrowings (6,760 million yen in the previous fiscal year). Primary decreases were the followings: 2,298 million yen in dividend paid (2,339 million yen in the previous fiscal year).

(Reference) Trends of cash flow indicators

	Year ended March 2009	Year ended March 2010	Year ended March 2011	Year ended March 2012	Year ended March 2013
Shareholders' equity ratio to total assets	55.9	62.3	64.2	60.4	60.2
Shareholders' equity ratio to total assets based on fair market value	101.5	120.5	103.9	110.8	81.4
Debt amortization ratio to cash flows	-	122.7	32.8	-	258.7
Interest coverage ratio	-	86.9	155.8	-	62.4

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) Percentage figures are calculated on a consolidated basis.

(Note 2) 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 3) Cash flows are used for cash flows from operating activities.

(Note 4) The interest-bearing debt refers to the debts posted in the consolidated balance sheets for which we are paying interests.

(Note 5) 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 Strengthen the Online Games business and Mobile Contents business with the improvement of the telecommunication infrastructure and the changing market environment.
- ④ Expanding sales overseas by aggressive global deployment, including establishing overseas offices.
- ⑤ Expanding Arcade Operations business by cultivating of new users and capturing existing users in order to continuously secure stable revenues.
- ⑥ Focusing effort on enhancement of the Pachinko & Pachislo business and the Arcade Games Sales business by leveraging our rich contents.
- 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 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.

③ 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.

④ 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.

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.