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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 9 months period, ended December 31, 2010, saw solid consumer spending, it remained in a temporary lull, despite some fluctuation, as a result of the slowing down of exports attributable to the prolonged appreciation of the yen and the stagnant employment situation.

As for the video game industry, the business environment remained sluggish due in part to the lack of high performing video games, as well as to declining birthrate, 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 enjoyed the strong performance of “Monster Hunter Freedom 3” (for PlayStation Portable), a year-end sales campaign favorite, which took off with a bang owing to the overwhelming support of users who had long-awaited its release. In addition, “Dead Rising 2” (for PlayStation 3 and Xbox 360), which has been doing well in overseas markets, continued to perform solidly.

With the rapid rise of smartphones and other changes in the environment, Capcom focused on the development of online and mobile games including those for overseas markets, while rebuilding the development departments comprising our core competence, in an effort to operate business in line with market shifts.

Further, in an attempt to diversify revenue streams, Capcom began distributing games through “Mobage-town” a Japanese SNS operated by DeNA Co., Ltd., and also began distributing social game software for iPhone/iPod Touch that is linked to Facebook (United States), with its 500 million members worldwide, in order to develop the vast overseas market.

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.

The result was a significant increase in both sales and profit for 9 months period, with net sales of 70,773 million yen (up 41.6 % from the same term last year), operating income of 12,769 million yen (up 165.1 % from the same term last year), ordinary income of 11,303 million yen (up 135.7 % from the same term last year) and net income for the current period of 6,836 million yen (up 294.8 % from the same term last year).

Status of each operational department

① Consumer Online Games

In this business segment, the feature title “Monster Hunter Freedom 3” (for PlayStation Portable), which was released on December 1, 2010 to long lines of customers nationwide, took the center stage in the year-end sales campaign with a total shipment of more than 4 million units. Furthermore, “Dead Rising 2” (for PlayStation 3 and Xbox 360), a major title targeted at overseas markets, also became a big hit with a shipment of more than 2 million units.

Additionally, 1.6 million units of “Super Street Fighter IV” (for PlayStation 3 and Xbox 360) were shipped mainly to Europe and the United States, while “Sengoku BASARA: Samurai Heroes” (for PlayStation 3 and Wii), the latest in the series that gained stable popularity, also enjoyed steady growth in sales. “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. In this 9 months period, Capcom achieved to market four “million-seller titles”, thanks to “Lost Planet 2” (for PlayStation 3 and Xbox 360), the flagship title for overseas markets which recorded steady sales of 1.5 million units, though the figure was less than projected shipment.

Meanwhile, the online exclusive title “Monster Hunter Frontier Online” (for PC, Xbox 360) also fared well and showed solid performance.

The resulting net sales was 54,057 million yen, and the operating income was 12,941 million yen.

② Mobile Contents

As social games that are highly compatible with mobile phones and smartphones underwent rapid growth, Capcom has been successfully reaching diverse new users, with players exceeding one million people for “MONHAN NIKKI MOBILE AIRU MURA” distributed exclusively through the “Mobage-town” a mobile SNS. An increase in the number of downloads were recorded for “Resident Evil 4: iPad Edition”. In addition, “Ghost Trick”, “Ghosts'n Goblins Gold Knights II” and various other contents were 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.

Meanwhile, there have been positive surprises as well, such as the member of players of “The Smurfs’ Village”, distributed through Facebook, United States, exceeding our projection by far.

The resulting net sales was 2,383 million yen, and the operating income was 472 million yen.

③ Arcade Operations

With the entire industry focusing on energizing the market through such means as the organization of a “Game Day” (November 23 each year) to thank arcade fans, customer-oriented efforts were made in this business segment to attract customers. Sponsoring a variety of events, renovating arcades, and offering special discount days are just a few examples of such efforts.

Further, Capcom also worked to increase female and family customers, while endeavoring to improve the earning capacity by controlling investments, reducing costs, and operating arcades in line with current market conditions. As part of such efforts, we closed one unprofitable arcade; therefore, the total number of our arcades became 37 as of the end of this fiscal period.

The resulting net sales was 8,727 million yen, and the operating income was 938 million yen.

④ Amusement Equipments

While the market conditions remained weak for arcade game machines, this business segment saw the video game machine “Super Street Fighter IV Arcade Edition” perform as planned. However, the impact of the lack of new products was inevitable, as it forced the focus of sales activities on repeat products.

Meanwhile, profitability improved, thanks to cost reduction and other business-wide streamlining efforts.

As for the Pachislo machine business, “Onimusha: Dawn of Dreams” launched during the previous fiscal year quarter remained a long-seller, contributing to improved profit.

The resulting net sales was 2,849 million yen, and the operating income was 444 million yen.

⑤ Other Businesses

The net sales from other businesses, mainly character-related licensing royalties, was 2,756 million yen, and the operating income was 906 million yen.

(2) Qualitative information regarding the consolidated financial position

Total assets as of the end of third quarter increased by 4,522 million yen from the end of previous fiscal year to 91,144 million yen. The primary increase was 9,803 million yen in notes and accounts receivable, trade. The primary decreases were 3,037 million yen in cash on hand and in banks and 2,116 million yen in work-in-progress for game software.

Liabilities as of the end of third quarter increased by 1,796 million yen from the end of the previous fiscal year to 34,461 million yen. The primary increases were 4,330 million yen in accrued income taxes, 2,536 million yen in long-term borrowings, and 1,427 million yen in notes and accounts payable, trade. The primary decrease was 8,499 million yen in short-term borrowings.

Net assets as of the end of third quarter increased by 2,726 million yen from the end of the previous fiscal year to 56,683 million yen. The primary increase was 6,836 million yen in net income for 9 months period. The primary decreases were 2,068 million yen in cash dividends and 2,029 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 25 million yen, and net loss before income tax decreased by 229 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.

③Application of Accounting Standard for Business Combinations et.al

Capcom is applying the Accounting Standard for Business Combinations (ASBJ Statement No.21, December 26, 2008), Accounting Standard for Consolidated Financial Statements (ASBJ Statement No.22, December 26, 2008), Partial Amendment to Accounting Standard for Research and Development Costs (ASBJ Statement No.23, December 26, 2008), Revised Accounting Standard for Business Divestitures(ASBJ Statement No.7, December 26, 2008), Revised Accounting Standard for Equity Method of Accounting for Investments (ASBJ Statement No.16, December 2008), and Revised Guidance on Accounting Standards for Business Combinations and Accounting Standard for Business Divestitures(ASBJ Guidance No.10) since this Quarter.