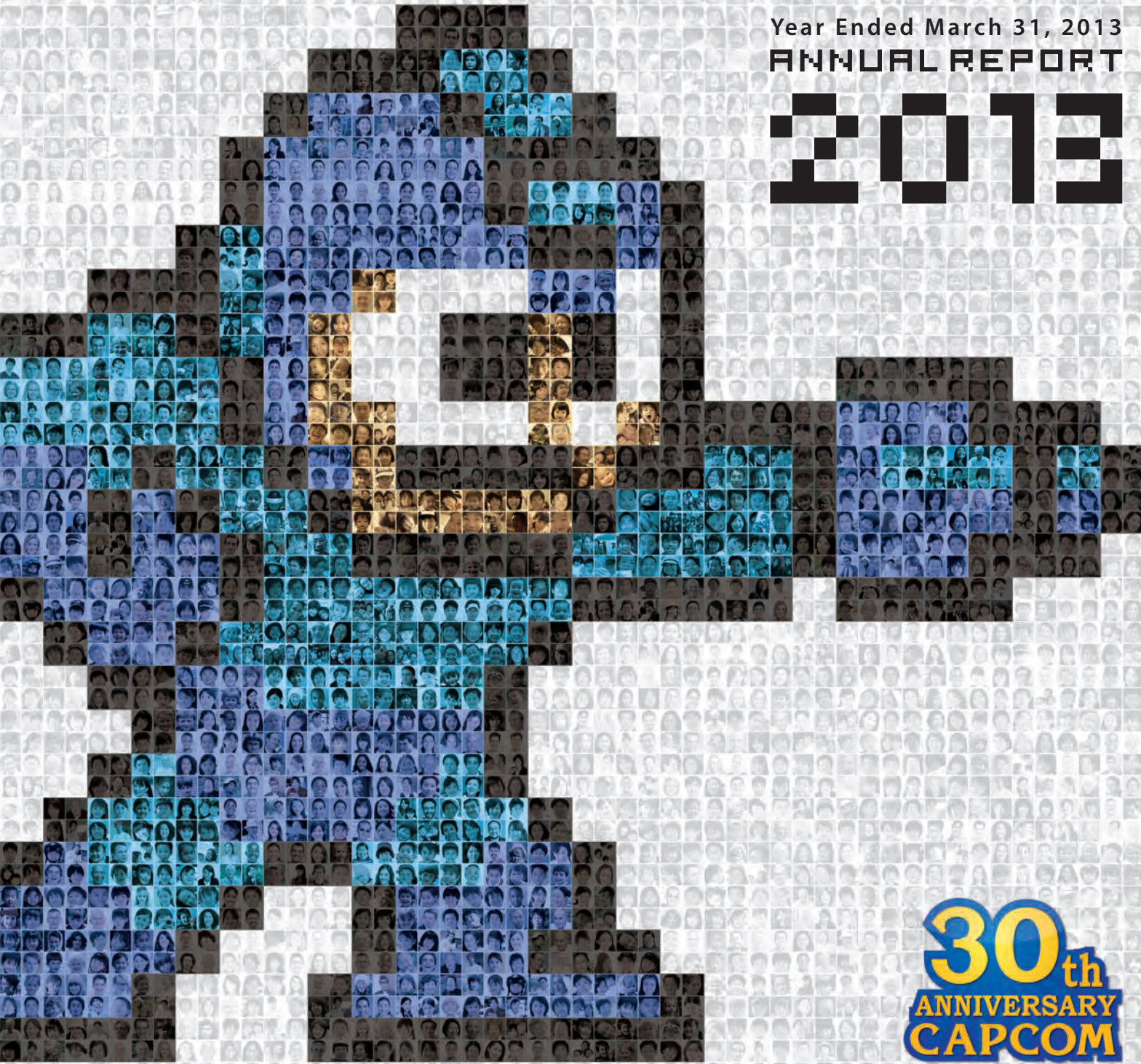




Code Number: 9697

Year Ended March 31, 2013  
ANNUAL REPORT

2013



FEELING YOUR POWER.  
POWERING YOUR FEELING.



# “Capcom: Creator of Entertainment Culture that Stimulates Your Senses”

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.

Since Capcom’s establishment in 1983, we have developed numerous products around the world using our world-class development capabilities to create original content. This year we commemorate 30 years since our founding.

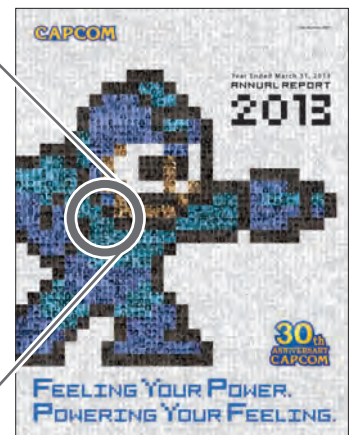
Today, young and old, men and women enjoy a gaming experience all over the world. It is now common to see people easily enjoying mobile content (games for cell phones) on streets or enjoying an exchange through an online game with someone far away. Moreover, game content is an artistic media product that fascinates people, consisting of highly creative, multi-faceted elements such as characters, storyline, a worldview and music. It has also evolved to be used in a wide range of areas of media such as Hollywood movies, TV animation programs and books.

As the ever-expanding entertainment industry becomes pervasive in our everyday lives, Capcom will continue to strive to be a unique company recognized for its world-class development capabilities by continuously creating content brimming with creativity.



## Front Cover Design Created with Our Fans

We incorporated photos submitted by our fans into the front cover design to express the image of Capcom’s business supported by fans around the world. We received many photos of fans enjoying Capcom games in everyday life submitted to our corporate website.



## Editorial Policy

This report was prepared for a wide range of readers, from individual shareholders to institutional investors, and is intended as a tool to aid in the understanding of Capcom management policies and business strategies.

We strive to go beyond simply presenting company earnings and provide insight into game and entertainment market trends; we have also compiled a game industry glossary included at the end of this report. Furthermore, in response to investor concerns, we have enhanced financial analysis, governance and other information.

To the extent possible, we attempt to make data and content understood visually by making full use of photographs, graphics and other design elements.

The information presented in this publication is also available online.

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PP3-6, PP11-14, PP33-44

To find out more about the business performance

PP7-10, PP17-19(Q1, Q2, Q3), PP33-44, PP63-68

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P12, PP15-16, PP17-19(Q1, Q2, Q3), PP23-24, PP33-44

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P20(Q4)

To find out more about our business strategy

PP15-16, PP19-22, PP23-32

To find out more about our R&D Capabilities

PP3-4, PP23-32,

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The Latest Development Report 2013

To find out more about the game industry glossary

P93



### "Mega Man" Series

This was the first title sold for the Super NES in 1987. Tough gameplay that ran counter to the looks of the character made this game popular, producing products across a diverse range of media after initial sales launch. This flagship Capcom title is popular with people of all ages.



### Capcom's 30th Anniversary Commemorated on June 11, 2013

In addition to setting up an anniversary website, each of our Group companies is engaged in commemorative business activities.  
<http://www.capcom.co.jp/ir/30th/>



## 3 Capcom's Strength

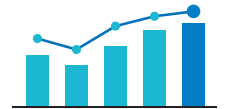


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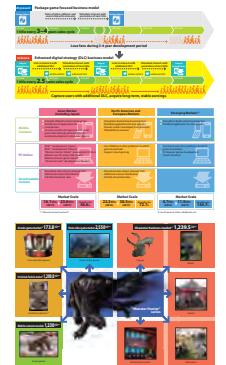
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IT'S NOT A GAME UNTIL YOU PLAY IT.





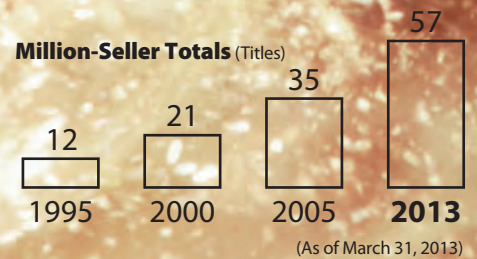


**Strength 1**

# Three Million-Seller Titles This Year Brings Total to 57

## One of the World's Leading Creative Groups Generating Original Content

Since our founding in 1983, Capcom has generated one creative game genre after another, from "Street Fighter" to "Resident Evil" and "Monster Hunter". In this the 30th year since our establishment, we are moving forward with the development of new title "deep down" for next-generation consoles, representing the culmination of Capcom technology and our next leap forward.





### Next Generation Console Development Engine "Panta Rhei"

Development engines support daily game development and can be thought of as the core element of game manufacturers. In addition to the "MT Framework" integrated development environment we have employed since 2006, we are moving forward with the development of "Panta Rhei", a new efficient development environment for the upcoming highly functional next-generation of game consoles. Together, these two engines will enable the creation of even more creative titles.







**Strength 2**

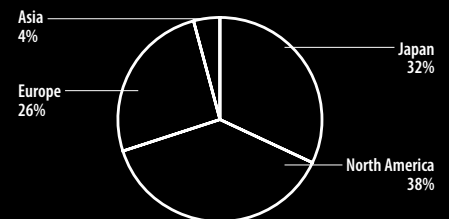
**Annual Sales of 14,000,000 Units\***

**Passionate Support from Fans Sparks Major Movement**

Appealing titles go beyond nationality, region and race to capture fans' hearts. Capcom has a number of series with passionate fans all over the world. In 2013, a global fad called "hadoukening" arose where fans shared pictures of themselves on SNS in which they imitate "hadouken", a deadly fighting technique made famous by a character from the "Street Fighter" series.

\* Package software global unit sales

**Package Software Global Sales**



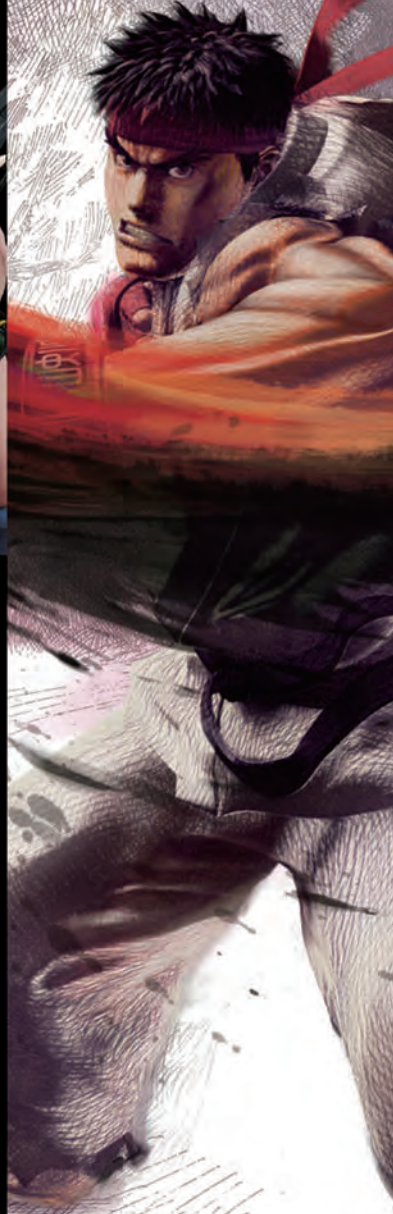




BIOHAZARD®  
REVELATIONS  
UNVEILED EDITION



Capcom's  
Strength



Strength 3

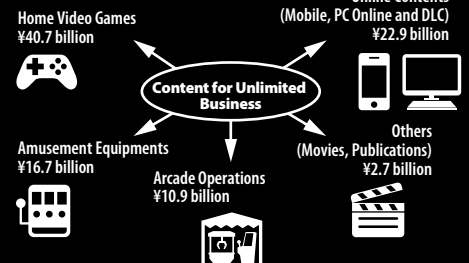
# 7 Hollywood Films Bring in 1 Billion Dollars\* at Box Office

## Possessing an Abundance of Powerful Content for Unlimited Business Expansion

Capcom titles with high potential are not limited to the game arena. They extend to the development of movies, stage productions, printed materials, merchandise and a wide range of other genres that make the daily lives of users vibrant and enjoyable. Going forward, we will continue to promote our Single Content Multiple Usage strategy in an attempt to maximize earnings.

\* Total box office proceeds from Hollywood films based on Capcom games.

### Single Content Multiple Usage Achievements (Fiscal 2012 Net Sales)





# 11-Year Summary of Consolidated Business Performance Indicators

## Financial Index

		2003	2004	2005	2006	2007
<b>For the Year:</b>						
Millions of yen						
Net sales	▶ Next page 1	¥ 62,036	¥ 52,668	¥ 65,895	¥ 70,253	¥ 74,542
Operating income	▶ Next page 2	6,680	1,402	7,752	6,580	9,602
Net income (loss)	▶ Next page 4	(19,598)	(9,158)	3,622	6,941	5,852
Depreciation & amortization		2,202	2,081	2,101	1,936	2,774
Capital expenditures		2,289	4,678	1,665	1,600	4,495
R&D expenses		1,151	1,124	1,323	1,864	1,828

		Millions of yen				
<b>At Year-End:</b>						
Total assets		¥ 106,648	¥ 93,096	¥ 106,361	¥ 98,457	¥ 91,478
Net assets		42,888	31,854	32,491	39,464	45,144
Net cash		(14,894)	(16,957)	(12,948)	(678)	9,200

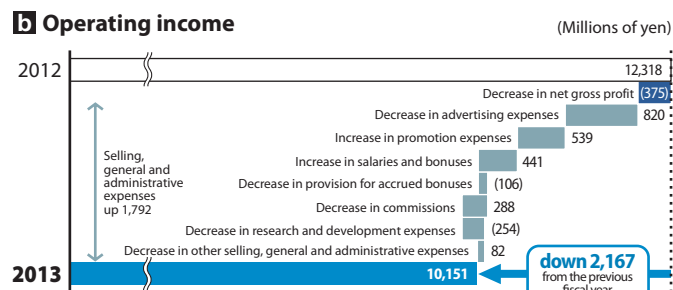
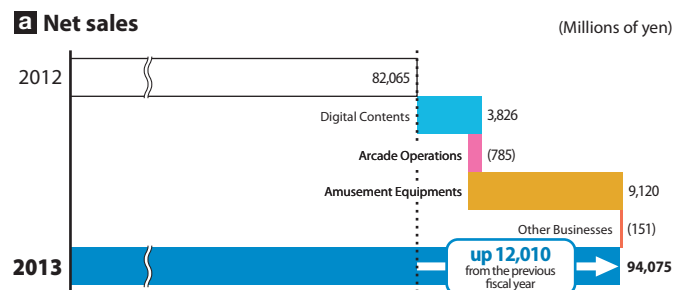
		Millions of yen				
<b>Cash Flows:</b>						
Cash flows from operating activities		¥ 3,635	¥ 5,577	¥ 7,977	¥ 13,921	¥ 16,063
Cash flows from investing activities		(2,329)	(5,011)	(1,099)	(1,779)	(6,715)
Cash flows from financing activities		(2,000)	(395)	6,251	(18,259)	(15,206)
Cash and cash equivalents at end of year		33,444	32,131	45,538	40,652	35,020

		Yen				
<b>Per Share Data:</b>						
Net income (loss) per share	▶ Next page 5	¥ (338.01)	¥ (160.91)	¥ 63.37	¥ 125.19	¥ 107.52
Cash dividends applicable to the year per share	▶ Next page 6	20.00	20.00	20.00	20.00	30.00
Net assets per share		753.47	559.66	589.99	716.91	799.35

		%				
<b>Financial Index:</b>						
Operating margin	▶ Next page 3	10.8	2.7	11.7	9.4	12.9
ROE	▶ Next page 8	—	—	11.3	19.3	13.8
ROA		—	—	3.6	6.8	6.2
Net worth ratio		40.2	34.2	30.5	40.1	49.3
Debt-equity ratio		148.8	192.4	227.9	149.4	102.8
Foreign investors		16.85	16.59	14.79	23.35	32.60

		Billions of yen				
<b>Consumer Business Net Sales:</b>						
Consumer Online Games business	▶ Next page 7	¥ 48.0	¥ 33.9	¥ 39.9	¥ 42.7	¥ 43.8

		Thousands								
<b>Number of Home Video Games Sold:</b>										
Total number of units		16,300	11,600	13,500	13,400	12,200				
Sales of major titles	Devil May Cry 2	1,400	Mega Man Battle Network 4	950	Resident Evil 4 (GC)	1,230	Resident Evil 4 (PS2)	1,810	Lost Planet Extreme Condition	1,370
	Resident Evil 0	1,130	Onimusha 3	630	Devil May Cry 3	1,100	Onimusha DAWN of DREAMS	640	Dead Rising	1,220
	Mega Man Battle Network 3	850	Resident Evil Outbreak	430	Resident Evil Outbreak	820	Monster Hunter Freedom	610	Monster Hunter Freedom 2	1,220



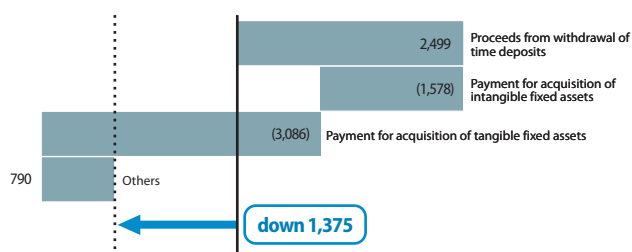


CAPCOM CO., LTD. AND ITS CONSOLIDATED SUBSIDIARIES. YEARS ENDED MARCH 31

2008	2009	2010	2011	2012	2013	2013
Millions of yen						Thousands of U.S. dollars
¥ 83,097	¥ 91,878	¥ 66,837	¥ 97,716	¥ 82,065	<b>¥ 94,075</b>	<b>\$ 1,000,709</b>
13,121	14,618	5,587	14,295	12,318	<b>10,151</b>	<b>107,993</b>
7,807	8,063	2,167	7,750	6,723	<b>2,973</b>	<b>31,632</b>
3,393	4,143	3,368	3,315	3,123	<b>3,406</b>	<b>36,235</b>
4,503	2,906	2,205	2,758	4,153	<b>8,724</b>	<b>92,811</b>
2,972	2,329	2,125	2,924	2,236	<b>1,982</b>	<b>21,086</b>
Millions of yen						Thousands of U.S. dollars
¥ 93,606	¥ 106,210	¥ 86,621	¥ 90,408	¥ 98,247	<b>¥ 104,365</b>	<b>\$ 1,110,266</b>
53,660	59,349	53,956	58,007	59,352	<b>62,828</b>	<b>668,386</b>
13,061	7,378	12,299	27,655	11,348	<b>14,327</b>	<b>152,415</b>
Millions of yen						Thousands of U.S. dollars
¥ 7,452	¥ (551)	¥ 14,320	¥ 22,392	¥ (7,672)	<b>¥ 6,647</b>	<b>\$ 70,714</b>
(3,374)	(2,715)	(1,618)	(2,046)	(4,794)	<b>(1,375)</b>	<b>(14,628)</b>
(2,448)	(342)	(10,747)	(12,919)	587	<b>1,162</b>	<b>12,366</b>
32,763	28,611	29,815	35,011	22,287	<b>31,522</b>	<b>335,345</b>
Yen						U.S. dollars
¥ 132.90	¥ 130.98	¥ 35.71	¥ 131.18	¥ 116.10	<b>¥ 51.64</b>	<b>\$ 0.55</b>
30.00	35.00	35.00	40.00	40.00	<b>40.00</b>	<b>0.43</b>
881.31	961.38	913.18	981.76	1,030.70	<b>1,091.08</b>	<b>11.61</b>
%						
15.8	15.9	8.4	14.6	15.0	<b>10.8</b>	
15.8	14.3	3.8	13.8	11.5	<b>4.9</b>	
8.4	8.1	2.3	8.8	7.1	<b>2.9</b>	
57.3	55.9	62.3	64.2	60.4	<b>60.2</b>	
74.4	79.0	60.5	55.9	65.5	<b>66.1</b>	
27.72	33.73	24.22	22.17	27.05	<b>32.37</b>	
Billions of yen						
¥ 51.6	¥ 60.2	¥ 38.7	¥ 63.9	¥ 46.9	<b>¥ 45.9</b>	
Thousands						
15,600	17,300	12,500	20,500	15,700	<b>14,000</b>	
Devil May Cry 4	Resident Evil 5	Monster Hunter Freedom Unite (Best Price included)	Monster Hunter Freedom 3	Resident Evil: Operation Raccoon City	Resident Evil 6	
2,320	4,400	1,350	4,600	1,700	<b>4,900</b>	
Resident Evil 4 Wii edition	Street Fighter IV	Monster Hunter Tri	Dead Rising 2	Monster Hunter 3 (Tri) G	Dragon's Dogma	<b>1,300</b>
1,300	2,500	1,150	2,200	1,600	<b>1,150</b>	
Resident Evil: The Umbrella Chronicles	Monster Hunter Freedom Unite (Best Price included)	Resident Evil 5	MARVEL VS. CAPCOM 3 Fate of Two Worlds	Street Fighter X Tekken	DmC Devil May Cry	
1,060	2,200	950	2,000	1,400	<b>1,150</b>	

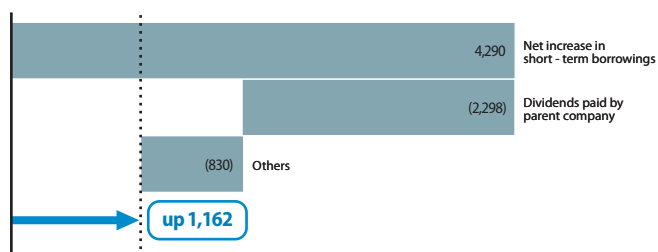
**c** Cash Flows from Investing Activities

(Millions of yen)



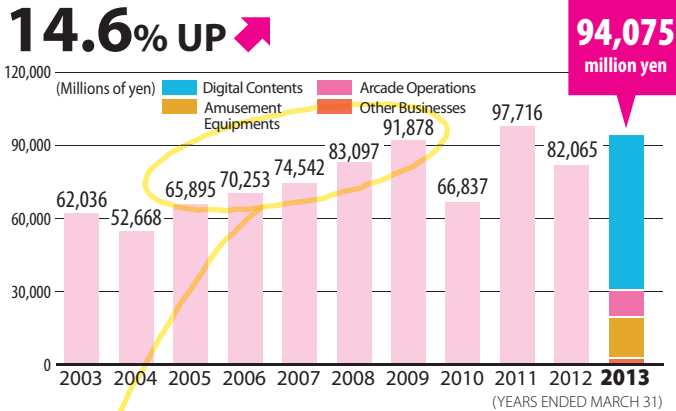
**d** Cash Flows from Financing Activities

(Millions of yen)



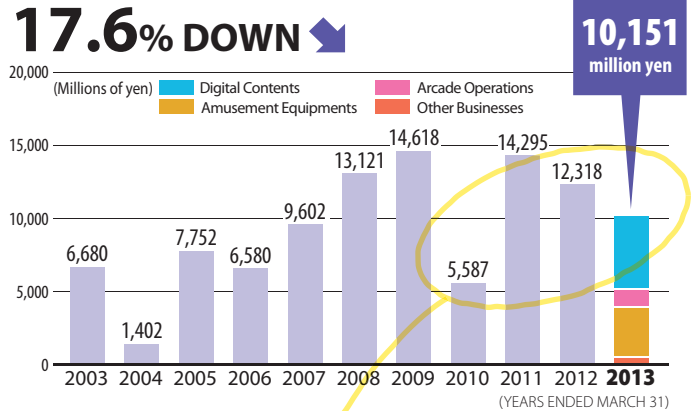


## 1 Net sales



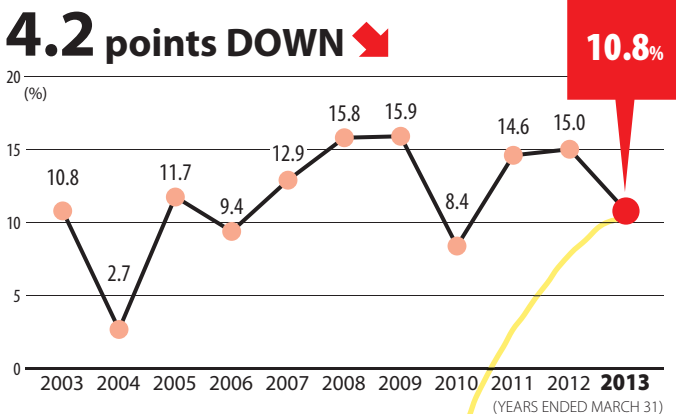
Structural reforms enacted in the fiscal years that ended in March 2003 and 2004 set the stage for **stable growth in sales starting in the fiscal year ended March 2005**. This was mainly due to the creation of an efficient development structure able to launch popular, highly profitable home video games each year. In the fiscal year ended March 2013, strong sales of Pachislo machines developed in-house for the Amusement Equipments business and growth of mobile and other content in the online business resulted in a 14.6% increase in net sales from the previous year.

## 2 Operating income



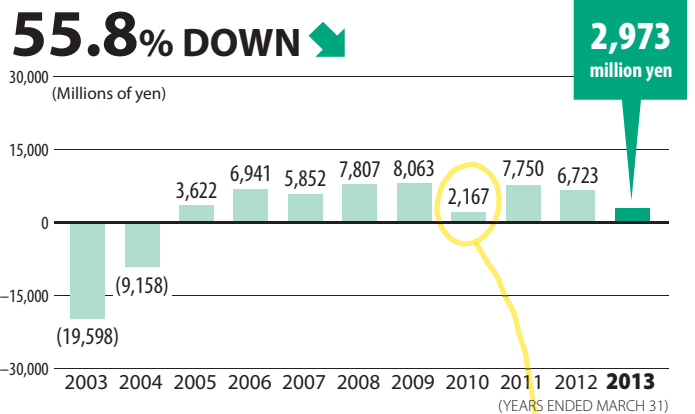
Structural reforms have enabled Capcom to sustain consistent growth in operating income. Moreover, the contribution to net sales occurred two years later in the fiscal year ended March 2007 because it took two years to put together a highly profitable lineup after restructuring. However, **in recent years, rapid changes in the market, including the expansion of mobile content and DLC, as well as the impact of the transitional period before the sales of next-generation game consoles has increased the volatility of our earnings**. In the fiscal year under review, operating income decreased 17.6% as a result of major titles failing to achieve their sales targets or being postponed.

## 3 Operating margin



Operating margin depends primarily on profitability of the Digital Contents business, which accounts for about 70% of net sales. There was steady increase in operating margin as well as operating income from the fiscal year ended March 2007 thanks to the establishment of the efficient developmental organization. However, **in the fiscal year ended March 2013, despite increased sales, major titles failing to achieve their sales targets or being postponed in the Digital Contents business resulted in a higher cost to sales ratio and increased selling, general and administrative expenses, narrowing the operating margin to 10.8%**.

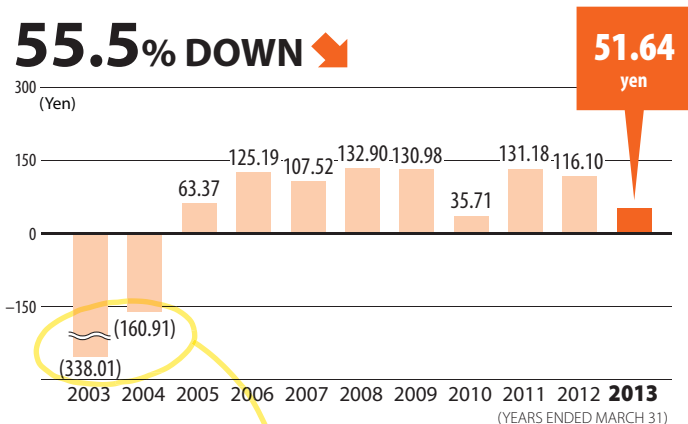
## 4 Net income (loss)



In the fiscal years that ended March 2003 and 2004, Capcom posted large net losses because of special losses. One cause was valuation losses on land, buildings and structures and losses from the termination of game development projects, both associated with structural reforms. **In the fiscal year ended March 2010, we recorded a loss on restructuring in accordance with a drastic review of poorly performing businesses as a secondary structural reform to adequately respond to market volatility, resulting in a significant decrease in net income**. This fiscal year in the Digital Contents business, expenses related to structural improvements, such as revisions to our development structure, resulted in a significant 55.8% decline in net income from the previous year.



### 5 Net income (loss) per share



For the fiscal years ended March 2003 to 2004, net income (loss) was in the red due to special losses on valuation actually stemming from structural reform, resulting in a significant decline in net income (loss) per share.

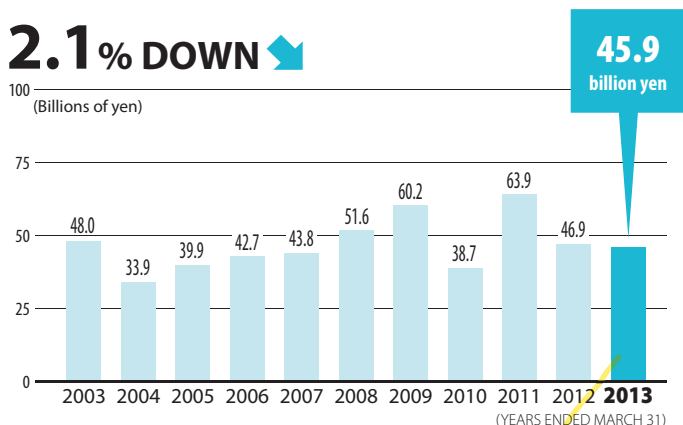
Since the fiscal year ended March 2005, this has generally been linked to the rise and fall of net income, but there has been a slight impact from exercising conversion rights on convertible bonds and executing share buybacks. Furthermore, in the fiscal year under review, the recognition of special losses caused net income to decrease, resulting in a significant decline in net income per share.

### 6 Cash dividends applicable to the year per share



Capcom has its fundamental dividend policy of providing a continued and stable dividend to the shareholders. In accordance with its policy, an annual dividend of 20 yen per share was paid from the fiscal year ended March 1998 to that ended March 2006. Cash dividend per share for the fiscal years ended March 2007 to 2008 was raised to 30 yen thanks to its stable revenue base brought by its structural reform. Moreover, we continued to incrementally increase dividend payments in line with earnings based on our policy of providing stable dividends; from the fiscal year ended March 2009, the annual dividend was increased to 35 yen and again up to 40 yen in the fiscal year ended March 2011.

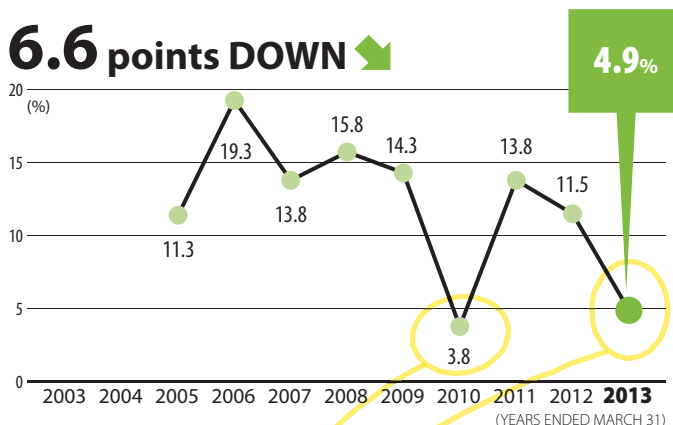
### 7 Consumer Business net sales



Capcom recognizes earnings from the sale of home video games within Digital Contents, Capcom's flagship business representing the core of our sales. The introduction of a two-step approval system and a shared development engine through structural reforms enabled us to realize a more efficient development process and improve profitability that, in turn, has led to the stable creation of million-seller hits and continued growth. In recent years, DLC sales, including the digital sales of full titles and additional contents, has been expanding rapidly. In the fiscal year ended March 2013, although some major titles failed to achieve their sales targets or were postponed, the growth of DLC enabled us to generally maintain the same level of sales as the previous year.

\* Net sales in the fiscal year ended March 2008 include a portion of PC online business earnings. However, the impact on the sales ratio was negligible.

### 8 Return on equity (ROE)

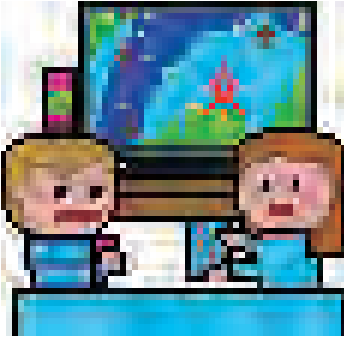


Net loss was run for the fiscal years ended March 2003 and 2004 due to the implementation of structural reform. ROE has been stable around 14% since the fiscal year ended March 2005 (except for 2010), even though net assets increased due to increases in retained earnings and common stock, etc. by the exercise of conversion rights of the convertible bonds. Moreover, in the fiscal year ended March 2010 and 2013, net income decreased due to recognition of special losses, including losses on restructuring and business structure improvement expenses, causing a temporary downturn in numerical values.



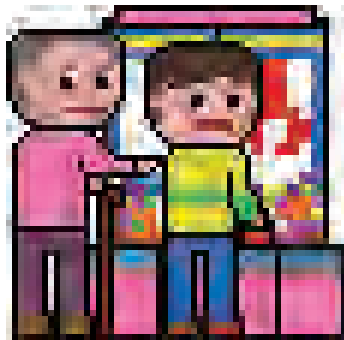
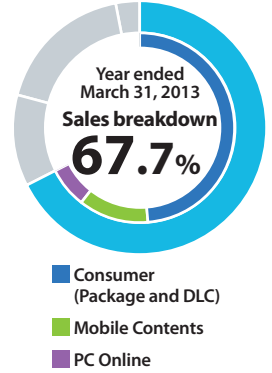
**B**usiness Profile

## Digital Contents



This business engages in the development and sales of package games for consumer consoles and digitally distributed content (DLC), as well as the development and operation of mobile content and PC online games. As this is our core business representing approximately 70% of company sales, we concentrate management resources on these activities to meet diverse user needs.

Capcom creates many million-seller titles for consumer consoles that are overflowing with creativity, mainly in the action and adventure game genres. These include proprietary content and licensed titles utilized flexibly for smartphones and tablet devices, which continue to expand globally, as well as PC online games. We aim to expand earnings through worldwide distribution.



## Arcade Operations

We operate "Plaza Capcom" amusement facilities in Japan. These arcades are predominantly in large commercial complexes and host various events designed to attract families and female customers. We have diligently followed a scrap-and-build policy to maximize our efficiency in arcade operations.



## Amusement Equipments

We are engaged in two other businesses based on the content used for our home video games. The Pachinko & Pachislo (P&S) business is involved in the development, manufacture and sales of frames and LCD devices for gaming machines as well as software. The Arcade Games Sales business develops, produces and distributes arcade games for amusement facilities, creating synergy between businesses.



## Other Businesses

Based on a Single Content Multiple Usage strategy of developing game content for various media, we will pursue a variety of copyright-related business opportunities including publishing (walkthrough and strategy guides as well as game settings collections) and licensing (music CDs and licensed merchandise). Furthermore, we are concentrating on developing game content into movie and TV animation programs.





## Market Trends

## Capcom's Strength and Strategy

### Consumer (Package and DLC)

- The home video game (package) market contracted for the fourth year in a row due to a decline in annual unit sales of game consoles caused by deferred purchases ahead of the introduction of next-generation game consoles and a drop in the average unit price of game software.
- DLC is undergoing rapid growth through online networks.

### Mobile Contents

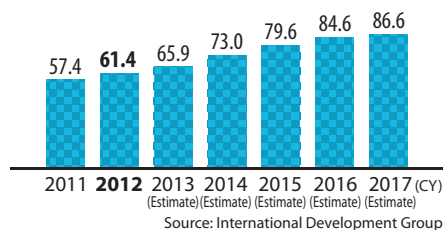
- The market is expanding quickly due to the global adoption of smartphones and tablet devices.
- The advent of app stores and other global distribution systems are enabling the cultivation of game users in new regions such as the Middle East and Asia.
- The new light game user segment is growing as a result of the popularity of freemium-style social games.

### PC Online

- Growth, primarily in the Asian region, is on track and forecast to expand to a scale equal to the home video game market in the future.

### Consumer (Package and DLC), Mobile Contents and PC Online Markets

(Billions of dollars)



### Consumer (Package and DLC)

- We own numerous "intellectual properties with universal market appeal".
- We maintain an advanced ability to develop original game content. We also possess a high level of technology, assisted by an integrated development environment built to provide common software development tools for a variety of devices.

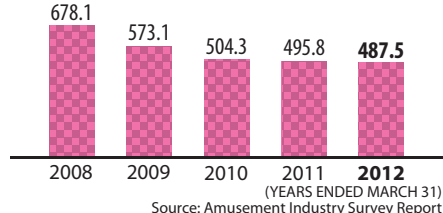
### Mobile Contents PC Online

- The Mobile Contents/PC Online segment makes efficient use of original content created for consumer games.
- The Beeline brand distributes social games for smartphones around the world in an attempt to capture the light user segment (women, families, etc.) rather than the traditional Capcom user.
- We will continue to develop popular series for mobile phones by making effective use of the content and expertise accumulated over years of consumer game development with the Capcom brand.

- From the previous year, both the scale of the market and the number of arcades declined slightly.
- Although the latest round of unprofitable arcade closures has increased the appetite for arcade investment, the unavoidable repercussions of heightened demand after the Great East Japan Earthquake have weakened the market.
- We forecast new investment in the form of continued aggressive capital expenditure on new arcade openings and the renovation of existing arcades, resulting in a stabilizing trend in the market.

### Amusement Arcade Market

(Billions of yen)

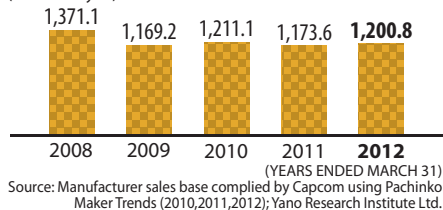


- We specialize in opening mall-based large-scale facilities which secure a long-term, stable number of customers.
- We have built an organizational structure to design and operate sales venues supported by customers.
- We also maintain relatively higher profitability than the competition by either selling or closing unprofitable facilities in an attempt to secure a better return on investment.

- In the major gaming machines market, despite lower sales of Pachinko machines, increased unit sales caused by a swing back to Pachislo machines have put the market on a recovery track.
- In line with the return of capital expenditure incentives for arcade operators in the arcade game market, the aggressive introduction of new products has brought stability to the market.
- A gentle recovery is forecast for this market resulting from ongoing capital expenditure and the addition of network game machines.

### Major Gaming Machines Market (Pachinko and Pachislo machines)

(Billions of yen)

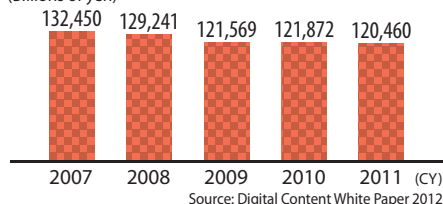


- We establish new revenue streams using our rich in-house content.
- The P&S business division uses capabilities developed creating the Home Video Games business to develop machines from our proprietary and other content.
- Using content developed from home video games, the Arcade Game Sales business released coin-operated game machines with popular content, which are in high demand.

- The global contents market was worth 130 trillion yen. The Japanese contents market was worth 12 trillion yen, second to only the United States.
- Stable domestic contents industry despite lower birth rates
- The key to future growth is multifaceted development overseas

### Japanese Content Market Trends

(Billions of yen)



- We create a strong synergy with our Digital Contents business by making multidimensional use of our wealth of intellectual properties Single Content Multiple Usage.
- Particularly in the movie-related business, the brand value has been elevated by the high exposure provided by the media. This leads to greater sales expansion in video game software, completing an ideal sales cycle.



## Operating Results for This Fiscal Year

### Digital Contents



#### Consumer (Package and DLC)

- Although "Resident Evil 6" for the PlayStation 3 and Xbox 360 has sold 4.9 million units, sales are sluggish and falling short of projections.
- As a new original title in several years, "Dragon's Dogma" achieved an extraordinary 1.3 million units sold, successfully establishing this as a standalone brand.
- DLC sales have expanded significantly due to an increase in additional content associated with major titles.

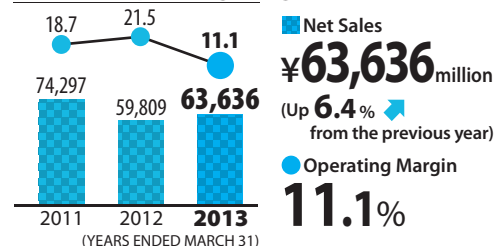
#### Mobile Contents

- "Smurf's Village" under the Beeline brand is providing a steady contribution to earnings.
- Cumulative downloads of Beeline brand titles have surpassed the 100 million mark.
- "Minna to Monhan Card Master" and "Resident Evil: Outbreak Survive" under the Capcom brand have amassed over two million members each.

#### PC Online

- Sales of both the PC and Xbox 360 versions of the online game "Monster Hunter Frontier Online" are on track.

#### Net Sales/Operating Margin

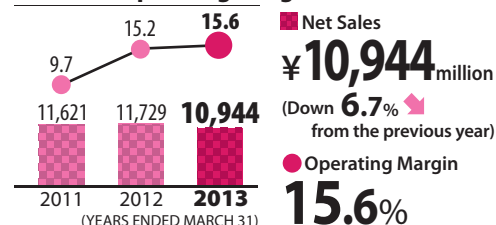


### Arcade Operations



- Capcom promoted customer-oriented community-based arcades by holding events and renovating existing arcades to expand women, family and other customer segments.
- Attempted to expand our customer base to include seniors through measures including an arcade experience tour targeting people 50 years or older.
- Three unprofitable arcades were closed.
- Existing arcade sales declined slightly by 5% in the previous year.

#### Net Sales/Operating Margin

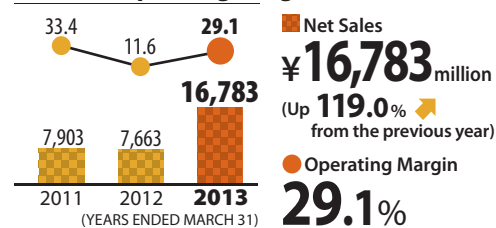


### Amusement Equipments



- In the P&S business, our proprietary Pachislo machine "Resident Evil 5" made a strong contribution to earnings with sales of nearly 48,000 units, a significant increase in revenue.
- As the product supply cycle entered a transitional phase, arcade game sales, including coin-operated "Mario Party Kurukuru! Carnival", held steady while repeat sales of existing products were brisk.

#### Net Sales/Operating Margin

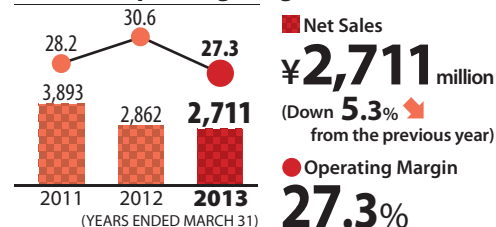


### Other Businesses



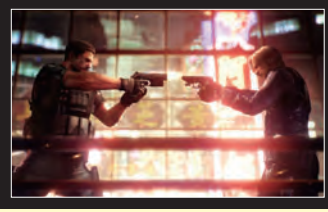
- Maximize earnings and strengthen brand power of proprietary content through execution of lateral development of integrated sales of consumer games based on the Single Content Multiple Usage strategy.
- In the Digital Contents business, Hollywood film "Resident Evil: Retribution" and CG animation "Resident Evil: Damnation" were released in conjunction with the launch of core game software "Resident Evil 6". The Hollywood film earned 0.24 billion dollars at the box office globally.

#### Net Sales/Operating Margin

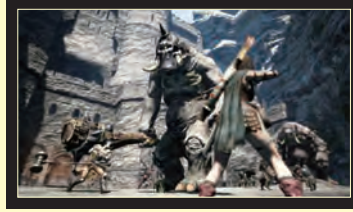




**P**roducts Introduced This Year



**“Resident Evil 6”**  
 The latest addition to this series is appealing on several levels, offering a totally new kind of action that features advanced graphics, a dramatic storyline and network play among other online functions. Initial shipments of this title achieved a record-setting 4.5 million units.



**“Dragon's Dogma”**  
 Set in the world of fantasy, this totally new action role-playing game offers adventure in a vast open-world. This newly created brand recorded the highest first week unit sales of any domestic title over the past 10 years and has shipped 1.3 million units worldwide, successfully establishing the brand as new Capcom franchise.



**“Smurfs' Village”**  
 The high degree of freedom, lovable characters and ability to link to and communicate through Facebook enabled this title to become the top-grossing app on Apple's App Store in 80 countries.

© Peyo - 2010 - Licensed through Lafiq Belgium - www.smurf.com. All game code © 2011 Beeline Interactive, Inc.



**“Minna to Monhan Card Master”**  
 This title's accessibility, communication-rich social elements and effective promotional campaign have helped to attract both fans of the “Monster Hunter” series and new users.

©CAPCOM developed by gloops



**Plaza Capcom Kochi**  
 This venue contributed to earnings through various events aimed at enhancing our ability to attract customers while retaining core users through the creation of a pleasant store atmosphere.



**Plaza Capcom Chiba New Town**  
 We invested seniors over 50 to event offering an opportunity to play coin-operated and prize games for free in an attempt to increase awareness of arcades, promote future growth among the senior segment and expand earnings.



**Pachislo Machine “Resident Evil 5”**  
 Capcom's strong brand power, image engineering capabilities and a production value that mesmerizes users were successful in recording healthy unit sales. The expertise accumulated since entering the in-house case business is now bearing fruit.



**Coin-Operated Game “Mario Party Kurukuru! Carnival”**  
 The latest installment was successful in using the series brand power to appeal to both home video game users as well as existing arcade customers.

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**“Resident Evil: Retribution”**  
 The global release of this film in September 2012 was timed to coincide with the sales launch of home video game “Resident Evil 6”. This fifth film in this series earned a record 0.24 billion dollars at the box office.

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**“Resident Evil Universal Studios Japan (USJ) Event”**  
 Capcom held an event in collaboration with USJ in September 2012 with the aim of cultivating the user community and increasing recognition. “Resident Evil 6” also went on sale at this time and this event had a major impact on sales promotion activities.



CAPCOM



辻本 憲三

**Kenzo Tsujimoto**

Chairman and  
Chief Executive Officer (CEO)



辻本 春弘




**Haruhiro Tsujimoto**

President and  
Chief Operating Officer (COO)

### CEO's Discussion of Performance Summary and New Medium-Term Business Goals

- P17** Performance and Commitment
- P20** New Medium-Term Business Goals
- P21** Our Views on M&A and Business Partnerships
- P21** R&D Investment and Fund Procurement
- P22** Shareholder's Return

### From COO Our Strategy for Growth

- P25**  Improving the Consumer Business
- P27**  Strengthening the High-Growth Online Business
- P29**  Expanding Single Content Multiple Usage Development

# Focusing Efforts on the Online and Home Video Game Console Markets, Aiming to Be Number One in the Global Game Market

## The Game Market Expanded to 61.4 Billion Dollars in 2012

In 2012, despite concerns over the European debt crisis and economic slowdown in developing countries including China, global monetary easing mainly in developed countries such as the United States resulted in signs of some stability after having bottomed out. Going into 2013, the Japanese economy benefited from the turnaround in the United States with a rapidly depreciating yen and rising share prices that placed the economy on a gentle road to recovery.

In our industry, software purchases were deferred due to a focus on the full-scale introduction of next-generation game consoles, which weakened the home video game market. At the same time, the scale of the social games market expanded steadily. With the business environment entering a transitional stage, the synergy effect created by the rapid growth of online platforms, including smartphones, and home video game consoles, resulted in overall expansion in the 2012 game market to 61.4 billion dollars (up 7.0% from the previous year). Core users of home video games are predominately located in Japan, North American and Europe, while mobile content is centered on casual users in over 100 different countries across the globe. We think there is little cannibalization among both types of games, which coexist as platforms and are growing.

Regarding investor concerns over declining profitability due to escalating home video game development costs, the acceleration of digital sales such as digitally distributed and other content, as well as reduced manufacturing costs and middlemen cuts, will enable us to sufficiently maintain and even improve margins.

Accordingly, to increase market share in the global game market, Capcom will (1) increase the number of online business titles with high growth potential, (2) allocate management resources (development staff) to home video games, the largest share of the market, despite sluggish growth rates and (3) above all, create an extensive collection of popular content to capture a wide user segment around the world and develop a variety of platforms.

## Focused Allocation of Management Resources to Ongoing Growth Strategy

Given these conditions, to meet our medium-term business goals, we are promoting three strategies: improving the consumer business, strengthening the high-growth online business and expanding Single Content Multiple Usage. In the online business in particular, we are engaged in a multi-platform strategy for social games, strengthening the overseas development of online business and augmenting our development staff.

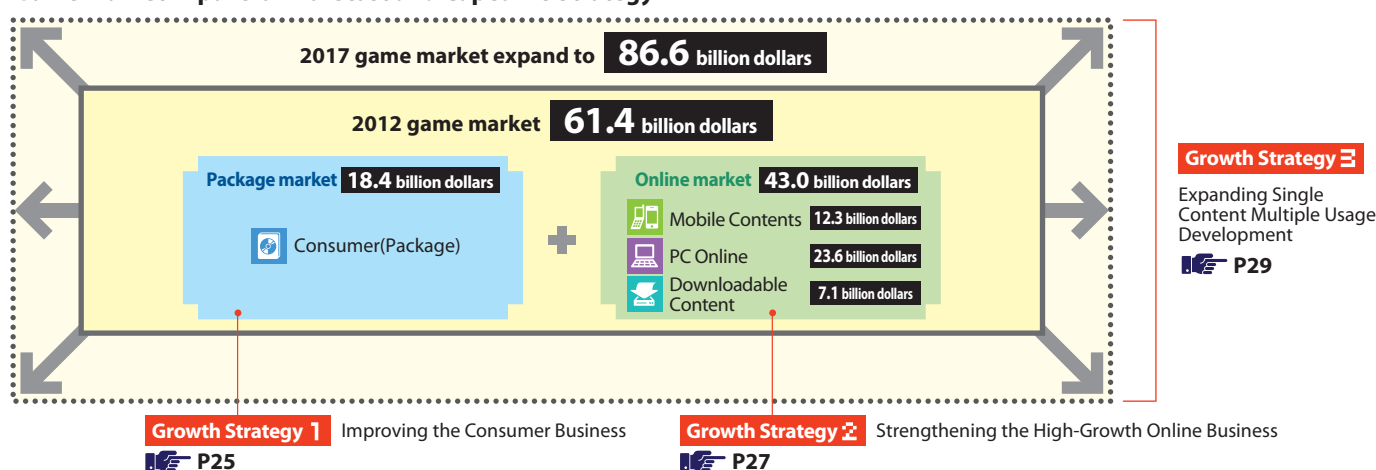
Also, in terms of organization, we will move forward with a new multiple platform development structure to support not only home video games, but also PC online, smartphone and all hardware, by strengthening the global link between next-generation console development and marketing, as well as attempting to integrate mobile content development functions in Tokyo and Osaka. Additionally, we have also made efforts to promote sales of digitally distributed content of the titles well-known around the world, such as "Resident Evil" and "Devil May Cry".

As a result, online content sales this year amounted to 22,900 million yen (up 45.9% from the previous year). Next fiscal year, we forecast sales of 28,000 million yen and growth of 22.3%, surpassing the anticipated market growth rate.

Continuing the focused allocation of management resources to these growth strategies, we will achieve our new medium-term management goals of (1) operating income of 75–80 billion yen for the cumulative five-year period between March 31, 2014 and March 31, 2018, and (2) operating margins around 20% in the fiscal 2018.

On the following pages, we provide details useful for analysis by shareholders and investors. CEO Kenzo Tsujimoto will explain management policy, and COO Haruhiro Tsujimoto will explain business strategy.

Game Market Expansion Forecast and Capcom's Strategy





# This Fiscal Year Sales Increased But Profits Declined. In Light of These Results, New Medium-Term Business Goals Have Been Established to Improve Earnings.



**Kenzo Tsujimoto**  
Chairman and  
Chief Executive Officer (CEO)

In this section, I'd like to respond to investor concerns that came up in meetings during the past year, namely, performance during this fiscal year (ended March 31, 2013), medium-term business goals and strategies, the progress of structural reforms and financial and dividend policies. These issues will be addressed on the following pages in a Q&A format.

This section is only an overview. For more detailed information, please see pages referenced in text.

## Performance and Commitment

**Q** What caused the rise in sales and decline in profits in the fiscal year ended March 31, 2013? Was the decline in profits affected by escalating consumer console development costs?

**A** The decline in profits this year was due to major title sales that fell short of their targets or were postponed, as well as the recognition of restructuring expenses. Escalating development costs are mitigated through strict profit management for each title.

### 1. The Market Environment Surrounding Video Games

The rapidly changing market environment surrounding Capcom at present has four major components: package games for consumer consoles up to now, digitally distributed content (DLC) for consumer consoles, mobile content and PC online game content (these last three all represent online content).

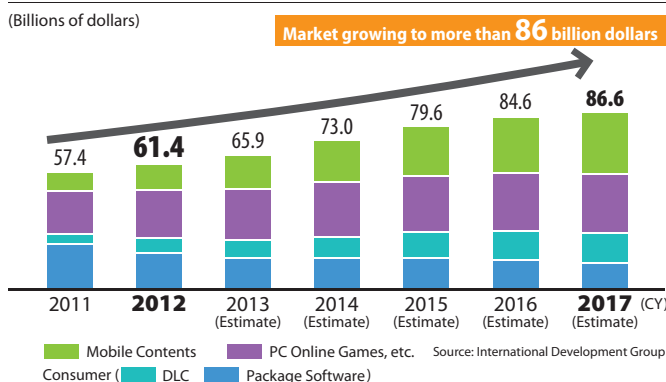
Together, these four components drove expansion in the 2012 game market to 61.4 billion dollars (up 7.0% from the previous year).

**Diagram 1** This can be attributed to (1) delayed purchases in the package game market ahead of the release of next-generation consoles (transitional period), resulting in declining unit sales and lower average unit sales prices; despite contraction (2) growing sales of DLC and (3) a jump in the mobile and PC online markets driven by the global adoption of digital devices.

#### ✓ Rising Development Costs

With each new type of game, as high-resolution graphics, online compatibility and other capacities increase, man-month production costs (= development expenses) also increase. In general, average development costs for major titles have gone from 500 million yen for the first generation PlayStation, to 1 billion yen for the PlayStation 2, to 2 billion yen for the PlayStation 3.

**Diagram 1**  
**Consumer, PC Online and Mobile Markets**



## 2. Factors Influencing Performance Results and Missed Targets

As a result of these conditions, we were unable to achieve our initial targets. Net sales were 94,075 million yen (up 14.6% from the previous fiscal year), operating income was 10,151 million yen (down 17.6% from the previous fiscal year) and net income was 2,973 million yen (down 55.8% from the previous fiscal year). [Diagram 2 3 4](#)

Factors contributing to the increase in sales include strong sales of Capcom Pachislo machines driving significant growth in the Amusement Equipments business to 16,783 million yen (up 119.0% from the previous fiscal year) and expansion of the online business, an important part of our growth strategy, totaling 22.9 billion yen (up 45.9% from the previous fiscal year).

At the same time, rather than rising development costs associated with each title, the decline in operating income was due to **major titles whose sales fell short of their targets or were postponed**, resulting in sales of 14 million units (down 10.8% from the previous fiscal year), adversely affecting consumer (package and DLC) profitability.

Furthermore, in response to severe changes in the market environment, we overhauled our development structure to reflect changes in our development strategy in consideration of future business development (See Q2). In terms of titles under development, these actions led to the careful reexamining of our development process and potential for recovery in the future, resulting in the posting of special losses amounting to 6,949 million yen from loss on restructuring, causing net income this fiscal year to drop significantly.

For more detailed information, please see Growth Strategy on pages 23–30.

Although the development costs associated with each title are on the rise, we are responding by strictly controlling the earnings of each ongoing title, focusing on major titles with high profitability and further investment in DLC.

✓ Core Title Targets and Achievements (As of March 31, 2013) (Units)		
	Target	Achieved
1. Resident Evil 6	7 million	4.9 million
2. DMC Devil May Cry	2 million	1.15 million
3. Monster Hunter 4	2 million	release postponed

## 3. Fulfilling Our Commitment

At the beginning of the year, I promised to address **four issues**. Although consolidated performance failed to break previous records due to core title “Resident Evil 6” falling short of its sales target, it nevertheless sold 4.9

million units globally, making it our top-selling title. Also, the successful establishment of the Capcom brand transformed Mobile Contents into a highly profitable core business. Hit titles were also created in the P&S business.

### ✓ Achievement of This Fiscal Year's Commitments

1	Achieve record performance in all sales and profit categories.	×
2	Create global top-selling titles.	△
3	Grow Mobile Contents into a Capcom core businesses.	○
4	Gain traction in the P&S in-house case sales.	○

\* ○ Achieved △ Somewhat achieved × Not achieved

**Q2** Please analyze and explain the posting of special losses from macro (market environment) and micro (Capcom business strategy) perspectives.

**A2** From a macro perspective, I point to DLC market expansion and the market oligopoly of certain titles; from a micro perspective, late DLC response and the impact of quality issues related to titles outsourced overseas contributed to these special losses.

### 1. Macro Analysis (Market Environment)

#### (1) Rapid changes in the consumer market

Analyzing the consumer market by platform, we forecast severe contraction in the package market, which is expected to shrink by 5.3 billion dollars in 2017 (down 28.8% from 2012). At the same time, we forecast significant growth in the DLC market by 7.8 billion dollars (up 109.9%). Going forward, we will allocate management resources to DLC within the consumer market to ensure sufficient earnings.

#### (2) Oligopoly by overseas competitors

We analyzed unit sales between 2007 and 2012. In terms of trends, competitor AAA title (titles allocated a large portion of the overall budget) package sales alone are increasingly flat. In addition, although the number of titles selling 5 million or more units was the same in 2011 as in 2007 (11 titles), as a proportion of unit sales, they increased from 17% to 69%, clear evidence of AAA title sales oligopoly.

### 2. Micro Analysis (Capcom Business Strategy)

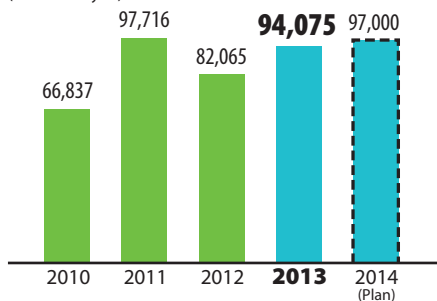
#### (1) Late DLC response in consumer segment

In 2012, DLC accounted for 27.8% of the consumer game market but

**Diagram 2**

### Net Sales

(Millions of yen)

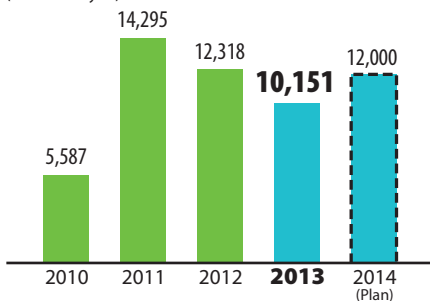


(YEARS ENDING MARCH 31)

**Diagram 3**

### Operating Income

(Millions of yen)

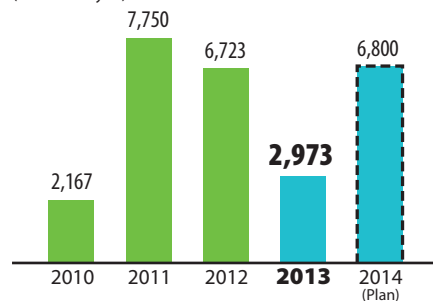


(YEARS ENDING MARCH 31)

**Diagram 4**

### Net Income

(Millions of yen)



(YEARS ENDING MARCH 31)



only 11.3% of Capcom sales, which were still heavily dependent on package sales, revealing the lateness of our response to the rise of DLC. This is due to the priority we placed on allocating management resources to our online business, specifically the Mobile Content and PC online businesses, in response to rapid expansion in the social market that began in 2009.

**(2) Quality issues related to titles outsourced overseas**

In 2009, we announced our intention to make use of overseas development companies. However, there was a notable trend towards polarization among overseas development companies in response to considerable technological innovations in the market. As a result, some companies, like Blue Castle Games acquired by Capcom, were able to develop hit titles, while others were plagued by quality issues and frequent schedule delays.

**3. Countermeasures**

In terms of countermeasures in response to the above analysis, we are focusing efforts on (1) a strict assessment of work-in-progress when restructuring business and (2) migrating DLC development in-house and increasing its proportion within the consumer segment. Migrating development in-house allows us to use our accumulated expertise to improve quality and strictly enforce schedules while creating a mechanism enabling development and marketing departments to respond to digital advances in an aim to increase the proportion of DLC and improve profitability.

For more detailed information, please see Q4: New Medium-Term Business Goal Establishment and Rationale, and Growth Strategy on pages 23-30.

**Q** What is the basis for the forecasted increase in sales and profits in the fiscal year ending March 31, 2014? And is the consumer market facing pressure from the social games market?

**A** Our forecast for a 3.1% increase in sales and an 18.2% increase in operating income is based on the release of major titles and online business growth. Furthermore, I think it is possible for the consumer and social games markets to coexist.

✓ **Consumer and Social Games Market**

The social games market continues to expand rapidly, while the consumer (package game) market is contracting year by year. Social games that can be played for free have become the norm amid indications that the high cost of game consoles is pricing some users out of consumer games. At the same time, some say this will enable user compartmentalization (casual users).

**1. Market Outlook**

We expect continued growth in the game market, which grew to 65.9 billion dollars (up 7.3% from the previous year) in 2013. This is based on (1) the continued shift to DLC despite this being a transitional period before the full-scale release of next-generation consoles to replace existing consoles and (2) network advances and user segment expansion indicating continued high growth in the mobile and PC online markets.

Furthermore, as touched upon in "To Our Shareholders" on page 15, consumer market user segments are relatively compartmentalized compared to social games, so the impact is negligible. We see the market maintaining stability at 25 billion dollars or more over the medium-term.

**2. Factors Contributing to Increases in Sales and Profits**

For next fiscal year (ending March 31, 2014), we are projecting net sales of 97 billion yen (up 3.1% from the previous fiscal year), operating income of 12 billion yen (up 18.2% from the previous fiscal year) and net income of 6.8 billion yen (up 128.7% from the previous fiscal year).

There are three main factors behind the anticipated increases in sales and profits. First, with regard to package games, we have our sights set on the highly profitable domestic market and have prepared a multiple major title lineup that includes "Monster Hunter 4" aimed at improving profitability. Second, we will enhance our mobile content and DLC title offerings in an effort to expand the online business to 28 billion yen (up 22.3% from the previous fiscal year). **Diagram 5** Third, in the P&S business, we anticipate increased sales from the release of two different cases created in-house.

✓ **Upcoming Package Games (Year ending March 31, 2014)**

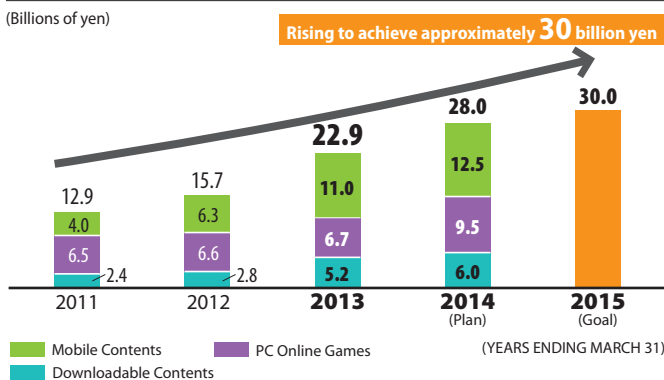
1. Monster Hunter 4	2.8 million units (forecast)
2. Resident Evil: Revelations	1.2 million units (forecast)
3. Lost Planet 3	1.2 million units (forecast)

**3. A New Year, A New Commitment**

There are four major issues we need to address in the fiscal year ending

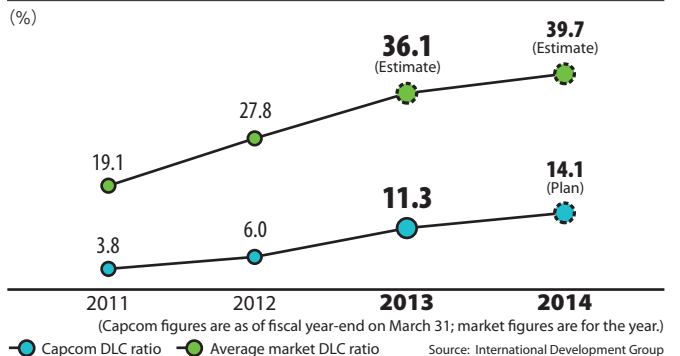
**Diagram 5**

**Capcom Online Contents Sales**



**Diagram 6**

**Ratio of DLC to consumer Sales**



**March 31, 2014.** These are (1) revising our development structure based on DLC strategy to increase the proportion of DLC sales [Diagram 6](#), (2) exceeding unit sales targets for feature titles such as “Monster Hunter 4” amid the continued failure of major titles to reach their targets and maximizing profits with our Single Content Multiple Usage strategy, (3) creating a hit title to follow “Smurf’s Village” under the Beeline brand for mobile content to get back on a growth trajectory and (4) establishing a revenue base with native apps created under the Capcom brand for mobile content.

To realize these goals, we will attempt to develop and manage titles for all platforms that conform to changes in the market by further realignment of our development structure and enhancement of our development staff.

✓ **Commitment**

1	Increase DLC sales ratio.
2	“Monster Hunter 4” success.
3	Create a hit title under the Beeline brand to follow “Smurf’s Village”.
4	Establish a revenue base with native apps under the Capcom brand.

## New Medium-Term Business Goals

**Q4** **Capcom has announced new medium-term business goals; can you discuss the reasons for revising existing goals and provide detail on new goals?**

**A4** **We changed our strategy in consideration of expansion in the digital (DLC) market and because we were late responding to this market. As a result, we are aiming for five-year cumulative operating income of 75–80 billion yen and operating margins of 20% in fiscal 2017.**

### 1. Corporate Philosophy and the Direction of Management

Our corporate philosophy is to create “entertainment culture” through the development of highly creative software contents that “excite” our customers and “stimulate” their senses. To make this a reality, as a company with the world’s leading development capabilities, we provide content overflowing with originality, including a number of titles that are popular around the world in the consumer area.

As our content is developed for a variety of entertainment areas, we

**Diagram 7**

### Former Medium-Term Business Goals Summary

- **Goals (cumulative totals for the period between March 31, 2011 and March 31, 2015)**
  - (1) Operating margin of **15%** or higher
  - (2) Net sales of **500 billion yen**, operating income of **75 billion yen**

■ **Progress**

	Planned (five-year cumulative total)	Achieved (three-year cumulative total)	Progress rate
Sales	<b>500 billion yen</b>	<b>273.8 billion yen</b>	<b>55%</b>
Operating income	<b>75 billion yen</b>	<b>36.7 billion yen</b>	<b>49%</b>
Operating margin	<b>15%</b>	<b>13.4%</b>	

**Insufficient progress toward Medium-Term Business Goals**

are able to provide enjoyment to a wide range of users while expanding our fan base in an aim to become a comprehensive entertainment company with a commanding presence in all business lines able to realize stable growth based on our **five-year management plan**.

✓ **Five-Year Management Plan**

We compare performance over five-year periods rather than on a single-year basis, allowing us to identify generational changes and growth trends.

### 2. Summary of Previous Medium-Term Management Goals

In terms of our medium-term management goals up to now, priority was given to realizing operating margins of 15% or higher by aiming for net sales of 500 billion yen and operating income of 75 billion yen for the five-year period ending March 31, 2015.

In the first three years of this plan, cumulative net sales were 273.8 billion yen (55% achievement), cumulative operating income was 36.7 billion yen (49% achievement) and operating margins were 13.4%. This insufficient progress [Diagram 7](#) is mainly due to our late response to expansion in the digital (DLC) market, as explained in the answer to Q2: 2-(1) “Late DLC response in consumer segment”.

### 3. New Medium-term Business Goals and Rationale

In accordance with the market analysis and shift in strategy explained in the answer to Q2, we have formulated new medium-term business goals and strategies starting in the fiscal year ending March 31, 2014. The new medium-term business goals call for (1) operating income between 75–80 billion yen for the cumulative five-year period between March 31, 2014 and March 31, 2018 and (2) operating margins around 20% in the fiscal 2018. [Diagram 8](#)

Due to expansion in the digital market, we have not established any external goals for net sales. Instead, we aim to increase corporate value by targeting operating income and operating margins through the strengthening of our online businesses, including DLC, mobile and PC online.

### 4. Medium- and Long-Term Strategies

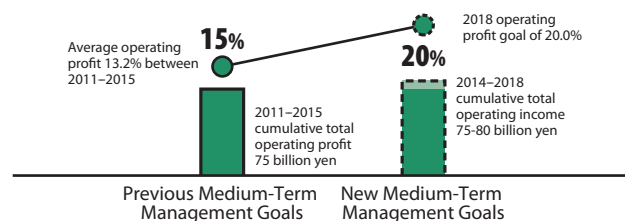
The key to achieving our new medium-term business goals lies in the promotion of our growth strategy, which focuses on consumer area improvements and online business enhancements.

First, in terms of software development for traditional consumer consoles, we will increase popular content created via our Single Content

**Diagram 8**

### New Medium-Term Business Goals Summary (Versus Previous Medium-Term Business Goals)

- **Goals (cumulative totals for the period between March 31, 2014 and March 31, 2018)**
  - (1) Operating income of **75–80 billion yen** (five-year cumulative total)
  - (2) Aim for operating margin of **20%** in March 31, 2018





Multiple Usage development by lengthening the title lifecycle and revenue recovery period with an enhanced digital strategy (DLC), improving development efficiency and quality by migrating development in-house and shortening the series title sales cycle.

In addition, we will also continue strengthening the high-growth online business. Specifically, we will focus on the (1) development of social games for multiple platforms and (2) strengthening the overseas development of online games to promote development, particularly in Asia, regardless of mobile and PC online.

To this end, next fiscal year, we will increase Consumer, Mobile and PC online development staff by 100 people each. As a result, we will grow highly profitable online business sales from 22.9 billion yen in the fiscal year ended March 31, 2013 to 30 billion yen in the fiscal year ending March 31, 2015, while increasing the proportion of online business sales overall to improve the consolidated operating margin to 20% in the fiscal year ending March 31, 2018.

Furthermore, Capcom will make an effort to stabilize earnings by placing mature businesses on the periphery and investing approximately 20% of management resources into profit-maximizing Single Content Multiple Usage developments to seize diverse profit opportunities.

technology and expertise for the development of new business.

Above all, our aim is to augment our in-house development staff and create titles with appeal overseas. To this end, since 2009, we have been executing a strategy based on the proactive use of overseas development companies.

**2. Reasons for Rethinking Business Alliance Strategy Performance**

As indicated in the answer to Q2: 2(2) "Quality issues related to titles outsourced overseas," the reasons for rethinking business alliances had to do with planning changes in response to rapid growth in the digital (DLC) market, as well as several titles that fell behind schedule and failed to achieve sales targets because of the time required for both companies to make decisions and change contract terms, among other issues. At the same time, we had hits with titles created through alliances with domestic social game development and management companies, leading to expansion in Mobile Contents.

**3. Thoughts on Future Acquisitions and Alliances**

Our belief that acquisitions and alliances are one important strategy for increasing market share has not changed, but in the consumer area, where the market is in a period of upheaval, the shift to in-house development will enable us to respond flexibly to the changing market environment and accumulate the knowledge necessary for developing software for next-generation game consoles.

Next fiscal year, (ending March 31, 2014) in terms of PC online development in China, we will partner with major management company Tencent LLC for the beta testing of "Monster Hunter Online" among other efforts to acquire expertise and expand operations overseas.

**Our Views on M&A and Business Partnerships**

**Q5** Regarding your rethink on alliance strategies with overseas development companies, are you not pursuing M&A and business alliances because of global growth?

**A5** We are shifting to in-house development because of sudden changes in the consumer market and enhancing alliances to acquire online expertise in developing countries and new areas.

**1. Thoughts on Acquisitions and Alliances up to Now**

For Capcom to achieve stable growth, we must increase our share in the massive overseas consumer market (Diagram 9) and expand earnings in the high-growth online market. Acquisitions and alliances are one important strategy for expanding share in these markets, which we engage in with the goals of creating content for global use and acquiring

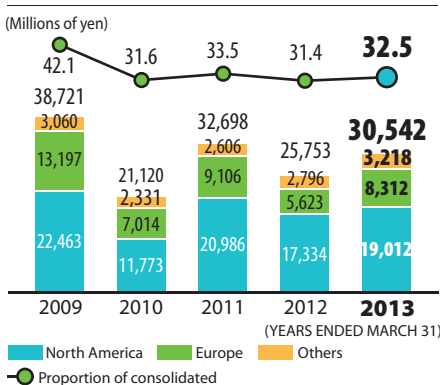
**R&D Investment and Fund Procurement**

**Q6** What investment strategies and means of fund procurement will you employ to achieve your medium-term business goals?

**A6** We will continue to focus investment on the Consumer and online businesses, at the core of our growth strategy, while procuring funds mainly through cash on hand and debt financing.

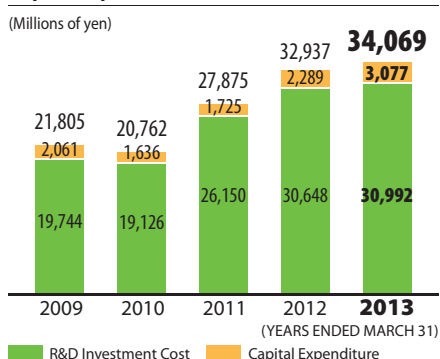
**Diagram 9**

**Overseas Sales**



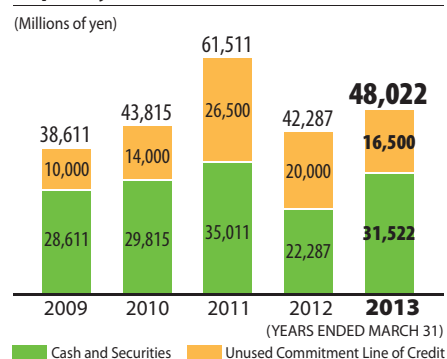
**Diagram 10**

**Capital Expenditure and R&D Investment Costs**



**Diagram 11**

**Liquidity in Hand**



## 1. Investment Size and Focus

Capcom is formulating and executing growth strategies in each business in the pursuit of stable medium- to long-term growth. We are cognizant that our top priority is to secure an amount sufficient to invest in high-growth online businesses such as Mobile Contents and PC online (see answer to Q4: 4 “Medium- to Long-Term Strategies”), as well as the most massive market of all, the Consumer business, representing the source of all original content. Furthermore, we must invest in the construction of new development bases and more developers to strengthen R&D in support of next-generation game consoles and increase our title lineup in the P&S business.

Accordingly, we will allocate about 80% of management resources (R&D investment costs and capital expenditure totaling 36.4 billion yen in the fiscal year ending March 31, 2014), amounting to an investment of 29.1 billion yen (up 0.3% from the previous fiscal year) into these growth businesses. [Diagram 10](#)

## 2. Fund Procurement

Consumer game software development costs are on the rise in response to the arrival of high performance and multifunctional next-generation game consoles. In addition to requiring two or more years to develop a major title and additional DLC, the investment payback period is lengthening. We must keep a certain amount of cash on hand to cover ongoing investments, including post-release upgrades to online games and network infrastructure maintenance. We recognize as a priority issue the need to understand the global economic situation, paying attention to the risk of not recovering receivables and the resultant need to ensure funding.

To address these funding procurement issues, we determine the level of cash and cash equivalents that needs to be maintained using reserves from the investment plan and risk management. This amount will then be supplemented with cash on hand (31.5 billion yen) as well as an unused 16.5 billion yen commitment line of credit (total contract value: 26.5 billion yen) to maintain an appropriate range. We will continue with our financial strategy to raise funds mainly through debt financing within the commitment line for a period of time, while paying close attention to changes in the financial markets. [Diagram 11](#)

## Shareholder's Return

**Q7** As profits were down, will you reduce the dividend amount?

**A7** In accordance with our basic policy, we will continue to provide an annual dividend of 40 yen.

### 1. Basic Policy Regarding Dividends

One of our management priorities is to share profits with all our shareholders. Our basic policy is to provide stable and continuous dividends that take into account our financial condition and future business strategies.

Also, in terms of our thinking on the allocation of business investment results (dividend and internal reserve ratios), as I indicated in item 1 of Q6, “Investment Size and Focus”, we believe that now is the time to invest in our future growth. To this end, free cash flows generated from this fiscal year’s business will be used as capital for business investment focused on future growth.

In terms of shareholder return, (1) Capcom will enhance its corporate value through investment and growth; (2) the Company will continue to provide shareholders with stable dividends in line with earnings and (3) we will raise earnings per share through share buybacks.

### 2. Dividends for This Fiscal Year and the Next

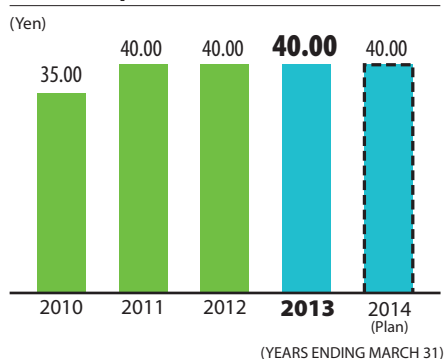
This fiscal year (ended March 31, 2013), although sales increased as a result of hit Pachislo machines in the Amusement Equipments business, in terms of profits, the inability of core games to achieve their sales targets in the Consumer business adversely affected profitability. However, in line with our basic policy of providing stable dividends, we continued to pay an annual dividend of 40 yen per share for this fiscal year. [Diagram 12](#) As a result, the dividend payout ratio increased to 77.5%. [Diagram 13](#)

The next fiscal year, we expect to maintain an annual dividend of 40 yen (payout ratio of 33.6%). Going forward, we will continue to strengthen shareholder return by securing investment capital, buying back shares and gradually raising the dividend in line with earnings. [Diagram 14](#)

I would like to express my gratitude to all our shareholders for your encouragement and guidance. We will continue striving to be worthy of your ongoing support.

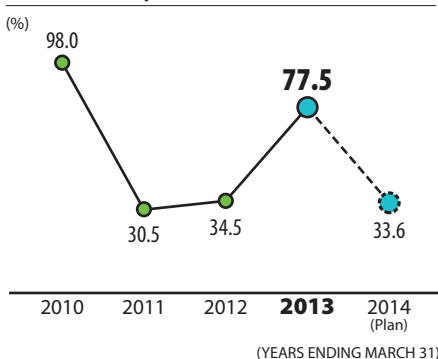
**Diagram 12**

### Dividend per share



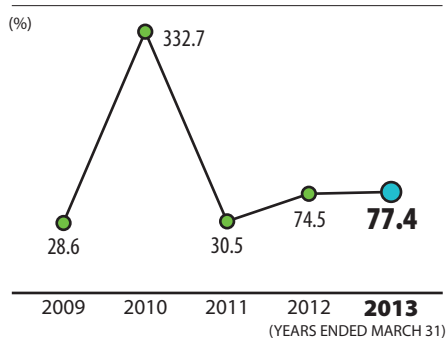
**Diagram 13**

### Dividend Payout Ratio



**Diagram 14**

### Total Return Ratio





# Augmenting Our Strategy in Light of Changes in the Consumer Market and the Online Market, Our Core Business, Respectively. We Aim to Maximize Profitability With Additional Multiple Usage.



**Haruhiro Tsujimoto**

President and  
Chief Operating Officer (COO)

In the fiscal year ended March 31, 2013, although the expanding online business caused sales to increase, an important point of our growth strategy, major games that either missed their sales targets or were postponed caused profits to decline.

The following is an explanation of Capcom's strategy to achieve medium-term business goals, including improvements to the Consumer business in response to rapid changes in the market environment and enhancements to the online business.

## Capcom's Strength

### 1 Advanced Ability to Develop Original Game Content

In the contents industry, generation of new content is the source of a company's competitiveness. One of the reasons Capcom has continued to grow is due to the core Consumer business "ability to provide original content" through the utilization of strong development capabilities for creating a large amount of superior game content.

Capcom's superior development capabilities possess "developer creativity" and an "organizational structure that enables developers to hone their skills"; two factors successfully realized a number of times through structural reforms.

## Capcom's Strength

### 2 Extensive Collection of Leading Global Content

The originality of content created by Capcom using the world-class development capability is, naturally, held in high esteem by users. We attempt to secure stable earnings by creating new million-seller titles once every two or three years, and introducing the sequels of these titles regularly, such as "Street Fighter" and "Resident Evil", which have sold over one million copies worldwide. We possess the most popular contents among Japanese game software manufacturers, and development capabilities continue to be one of our biggest strengths.

Furthermore, "possessing scores of content with universal market" appeal enables us to develop our Single Content Multiple Usage strategy worldwide. Based on our success in the Consumer business, we have engaged in the multiple development of popular content for various forms of media, which has led to success in other businesses, and we are now creating a business model to realize multiple profits in the contents market as well. [Diagram 15](#)

## Three Growth Strategies for Achieving New Medium-Term Business Goals

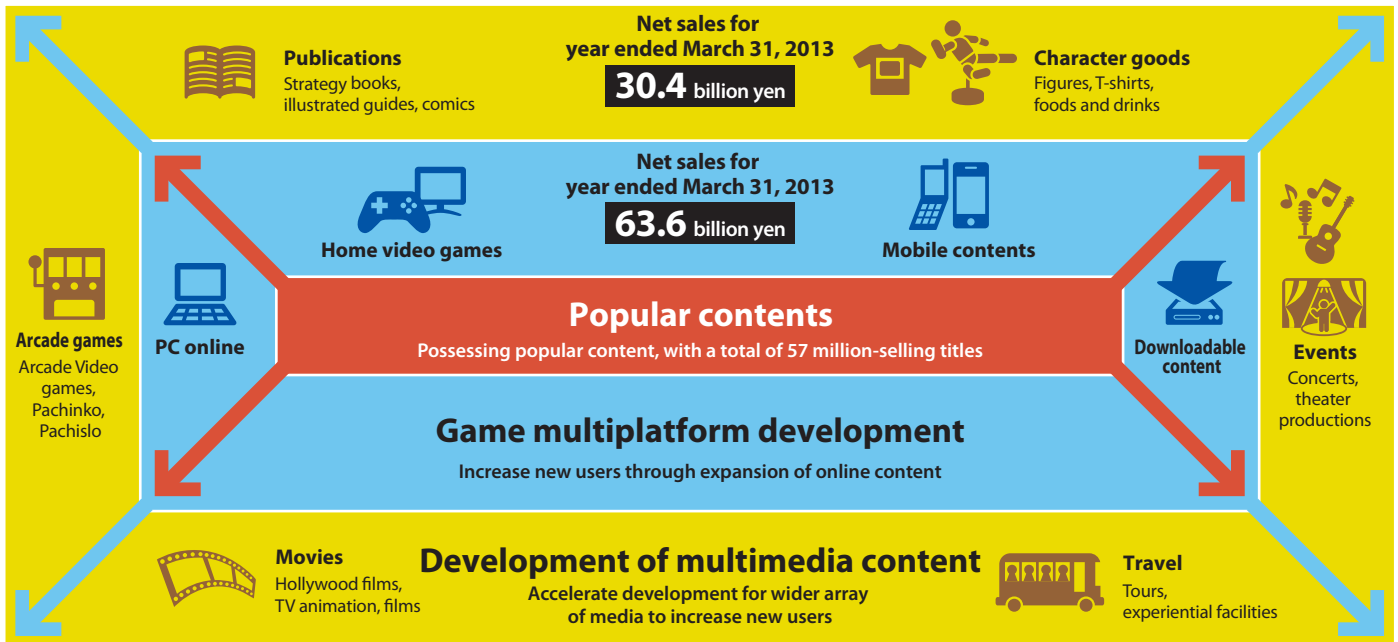
The 2012 game market was worth 61.4 billion dollars (up 7.0% from the previous year) due to platform expansion, and is expected to increase to 86.6 billion dollars in 2017.

There was significant growth in the mobile content and PC online market, which was worth 35.9 billion yen (up 20.9% from the previous

Total as of March 31, 2013

Diagram 15 Single Content Multiple Usage

94.0 billion yen



Our Strategy for Growth

year) in 2012. The main reasons for this include (1) the spread of smartphones and tablets, (2) the spread of social games and (3) high-speed PC and mobile phone communications that enables online game platforms connecting high-performance devices such as PC, smartphone, iPad and a wide range of other consoles to the home video games. As a result, the online game market is expected to grow steadily to 58.6 billion dollars in 2017 (up 63.2% from 2012). **Diagram 16**

At the same time, the consumer market was worth 25.5 billion dollars (down 7.9% from the previous year) in 2012, although it is expected to continue growing steadily to 28.0 billion dollars (up 9.8% from 2012) in 2017. Following online market compartmentalization, five years from now, we anticipate it will continue to be a cornerstone of the market.

In response to the changing market environment, and to achieve our medium-term business goals, Capcom has outlined three major strategies for growth: "improving the Consumer business", "strengthening the online business", and "expanding Single Content Multiple Usage",

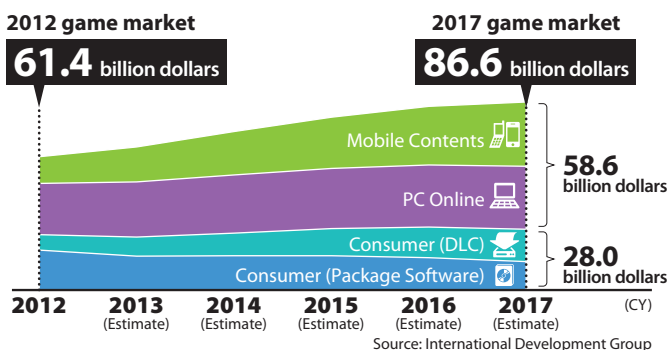
and will allocate 80% of management resources to the Digital Contents businesses promoting these strategies.

Please see "CEO's Discussion on the Summary of This Year's Performance and New Medium- and Long-Term Business Goals", Q4, on page 20.

Next fiscal year (ending March 31, 2014), an enhanced title lineup will be a contributing factor toward our goal of increased sales and profits, but we have to realize our growth strategy to stabilize performance. Accordingly, to ensure our medium-term business goals are achieved, we will enhance digitally distributed content (DLC) within the Consumer business, and make development more efficient and shorten the sales cycle of major titles by transitioning outsourced work in-house. Furthermore, in the online business, we will promote development for a variety of platforms and regions, while continuing to focus efforts on the development of Single Content Multiple Usage, which is at the core of our business development.

On the following pages, I will explain each of our three growth strategies.

Diagram 16 Game Market Size



Growth Strategy

- 1 **Development Strategy** P25  
Improving the Consumer Business
- 2 **Market Strategy** P27  
Strengthening the High-Growth Online Business
- 3 **Media Strategy** P29  
Expanding Single Content Multiple Usage Development

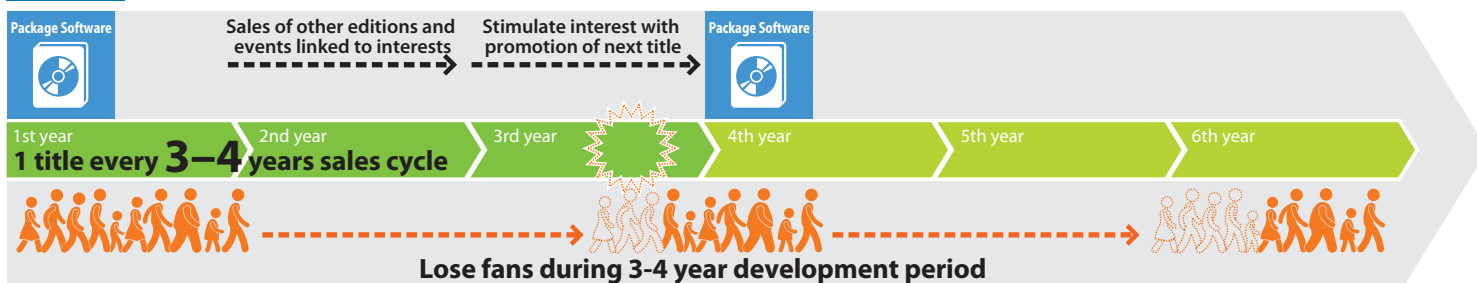


## Development Strategy

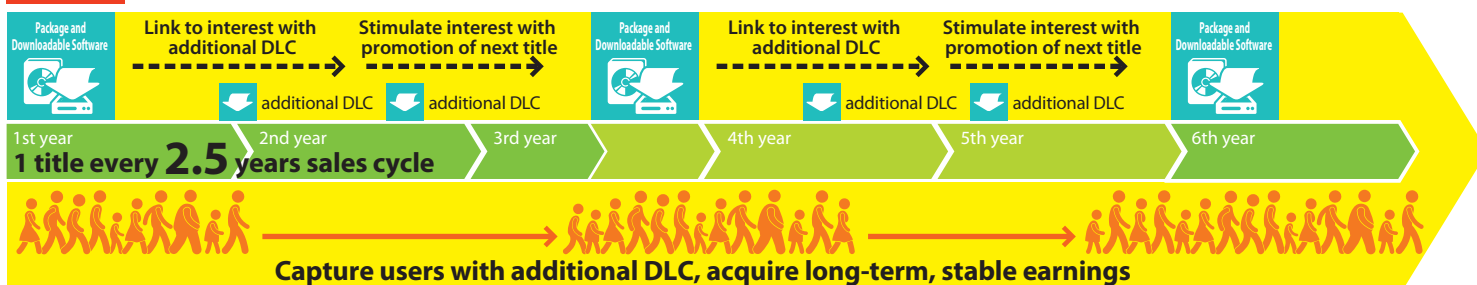
## Improving the Consumer Business

Diagram 17 Strengthening Digital Strategy (DLC)

## At present Package game focused business model



## In future Enhanced digital strategy (DLC) business model



## Revised Strategy in Response to a Changing Market

Here, I'd like to explain "improving the Consumer business," the first of our growth strategies for achieving our medium-term business goals. As stated in the CEO Message (see Q2 on page 18), the consumer market is currently going through major changes due to DLC market expansion and market oligopolization by certain titles. Capcom was late responding to the rise of DLC and we had quality issues with titles outsourced overseas, all of which has impacted earnings.

We will continue to create popular content for the consumer market, a major market that will continue to represent one-third of the overall game market in 2017, positioned as a core business able to ensure an operating margin of 15% or higher. Hence, with a slight shift in the strategy we have pursued up to now, we will create a structure better able to generate stable growth conforming to the rapidly changing market.

To this end, we will (1) strengthen our digital strategy (DLC), (2) improve development efficiency and product quality by transitioning outsourced work in-house and (3) shorten the sales cycle of popular series titles to create a portfolio of titles enabling sustainable growth over the medium- to long-term.

## 1 Strengthening Our Digital Strategy (DLC)

Looking at "strengthening our digital strategy (DLC)," [Diagram 17](#) DLC accounts for 27.8% of the consumer market. We will expand DLC sales

to improve the DLC ratio, currently 11.3% of Capcom's business. [Diagram 18](#)

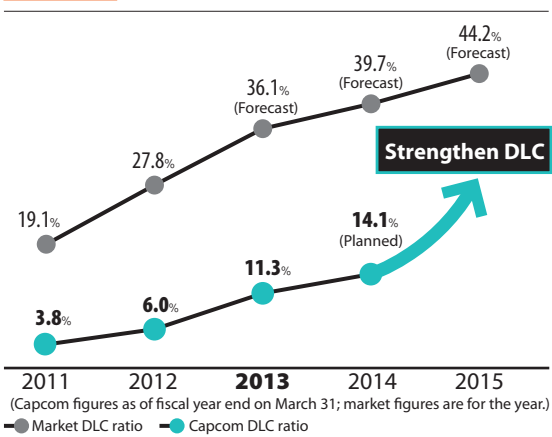
The merits of improving the DLC ratio include (1) the reduced production costs of digital distribution and the ability to avoid inventory risks and (2) the ability to realize long-term, stable additional sales by capturing users with the ongoing distribution of DLC. This is one strategy for responding to concerns over the volatility associated with hit titles and the rising development costs in the Consumer business indicated by investors.

Specifically, we will (1) provide additional content strategically after the launch of major titles like "Resident Evil" and "Street Fighter" to lengthen the product lifetime and (2) expand download only titles like "Dungeons & Dragons: Chronicles of Mystara." [Diagram 19](#) We will also establish a development and marketing structure conform to the DLC business.

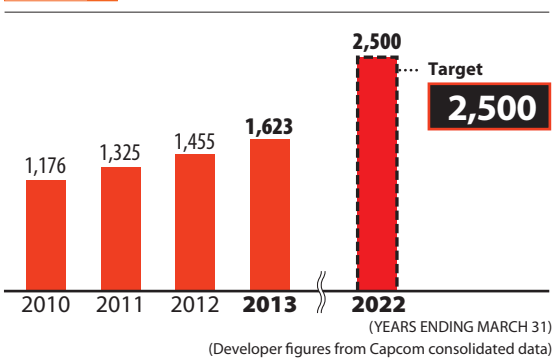
## 2 Improving Development Efficiency and Product Quality by Transitioning Outsourced Work In-House

We will "improve development efficiency and product quality by transitioning outsourced work in-house" by shifting to a structure focused on in-house development from our aggressive use of overseas outsourcing since fiscal 2009. This is because striking technological innovations in the market resulted in an inability to appropriately sell titles conforming to market needs due to time required to change specification and other agreements with foreign outsourcers, as well

**Diagram 18** DLC Ratio (Capcom and Market Average Comparison)



**Diagram 20** Number of Developers



as an increased number of development companies that could not keep up with the technology.

For Capcom, the current drastic changes in the marketplace, such as the arrival of next-generation consoles and the expansion of the DLC market, shifting our development structure to one focused in-house will improve quality through the internal accumulation of expertise on next-generation consoles and other new technologies. We will observe sales schedules with flexible staff organization.

Furthermore, shifting in-house will increase our internal production ratio (percent of development investment amount allocated to in-house production) to 60% (this fiscal year it was 50%) and we will continue to increase it over the medium-term. Also, there is concern over worsening profitability associated with staff allocation and rising costs. In response, Capcom thinks it possible to (1) hire 100 development employees, mainly new graduates, every fiscal year, growing to a structure of 2,500 people by fiscal 2021, (2) strengthen development personnel allocation management with a 52-week map and improve operating rates and (3) keep costs (of sales) down and reduce overseas outsourcing expenses.

### 3 Shortening the Sales Cycle of Popular Series Titles

In terms of "shortening the sales cycle of popular series titles", we launch sales of popular series titles held by the Company approximately every 2.5 years. This is because the development of a single major title usually

**Diagram 19** Digitally Distributed Content Examples

**Full title distribution**

**"Dungeons & Dragons: Chronicles of Mystara"**  
Same content as package game sold over the Internet

©1974, 1993, 1996, 2013 Wizards of the Coast LLC. Dungeons & Dragons, Chronicles of Mystara, Wizards of the Coast, their respective logos, and character likenesses are property of Wizards of the Coast LLC. All rights reserved. Distributed by CAPCOM CO., LTD.

**Item distribution**

**"Resident Evil: Revelations"**  
Distribution of equipment and parts to proceed through game advantageously

**DLC**

**New costume distribution**

**"Street Fighter X Tekken"**  
Providing new fun with distribution of additional character costumes

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**Additional scenario distribution**

**"DmC Devil May Cry"**  
Lengthening the title lifecycle through distribution of additional scenarios

requires 3–4 years; in the event that there are few hits, it will be difficult to create a series title every year and earnings will be adversely impacted. For this reason, it is important either to maintain a large number of popular titles or shorten the sales cycle to ensure stable earnings. **Diagram 17**

Although Capcom owns many major titles such as "Monster Hunter" and "Resident Evil", to pursue both stable performance and growth, we will promote shortening of the sales cycle to increase the number of titles released in a single fiscal year and expand earnings.

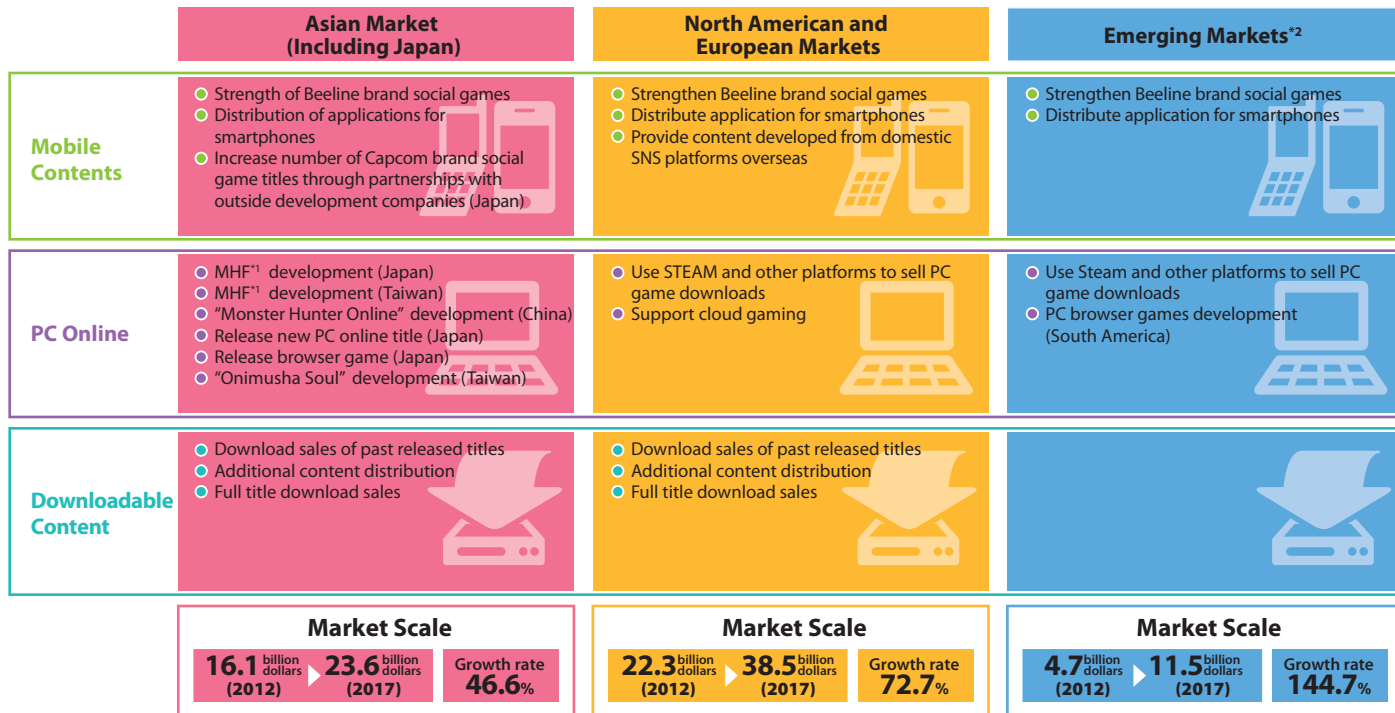
Moreover, we will also make development more efficient through the use of "Panta Rhei", our proprietary new integrated development environment. "Panta Rhei" brings out next-generation console performance, enabling further improvements to game quality, while optimizing game development with support for the latest graphics and an improved workflow that we expect will make development more efficient. In conjunction with the integrated development environment "MT Framework" for current game consoles, Capcom will launch multiple popular titles for various consoles.

With these three overlapping growth strategies and a development structure enabling a flexible response to rapid changes in the market, we will create popular titles for various consoles sold in a 2.5 year cycle. Furthermore, during times when there are no title launches, we will continuously offer new item and scenario downloads to attract users and solidify our fan base in an attempt to attain revenue from the sale of additional items and improve profitability.



# Strengthening the High-Growth Online Business

Diagram 21 Capcom Online Strategy (Matrix)



\*1: "Monster Hunter Frontier G"

\*2: South America, Africa, Middle East, etc.

## Online Business as Our Growth Engine

Now, I'm going to explain the second growth strategy for achieving medium-term business goals, "strengthening our online business." [Diagram 21](#)

In terms of online business measures, Capcom is (1) developing social games for mobile and PC on many platforms, (2) strengthening overseas development and (3) enhancing development staff. These measures will enable us to grow online business sales to 28 billion yen (up 22.3% from the previous fiscal year) in the fiscal year ending March 31, 2014 and to 30 billion yen in the fiscal year ending March 31, 2015. [Diagram 22](#) There are three points to these measures. The first is to augment the number of social game titles that make thorough use of the Capcom brand developed for a variety of platforms. The second, to strengthen the Beeline brand management structure and create a next hit to follow "Smurf's Village". The third is to establish a presence overseas with respect to PC online games. Through these measures, we aim to further entrench existing users and cultivate new user segments.

### 1 Augmenting Capcom Brand Social Games

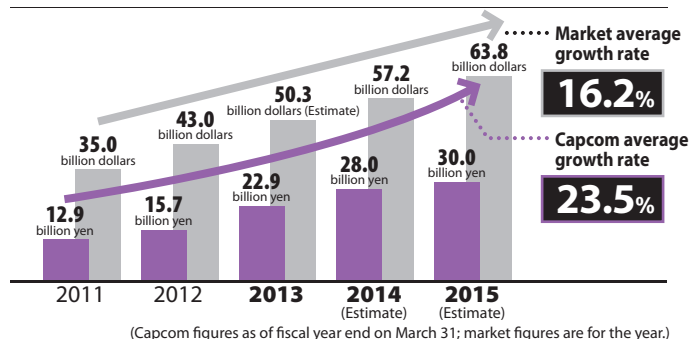
The Capcom brand develops content making use of popular title brand power at development bases in Tokyo and Osaka and attempts to realize a synergy effect with home video games. We will upgrade and expand the number of social games launched, aggressively

distribute native app content optimized for smartphones and original content for LINE games on multiple platforms. [Diagram 23](#)

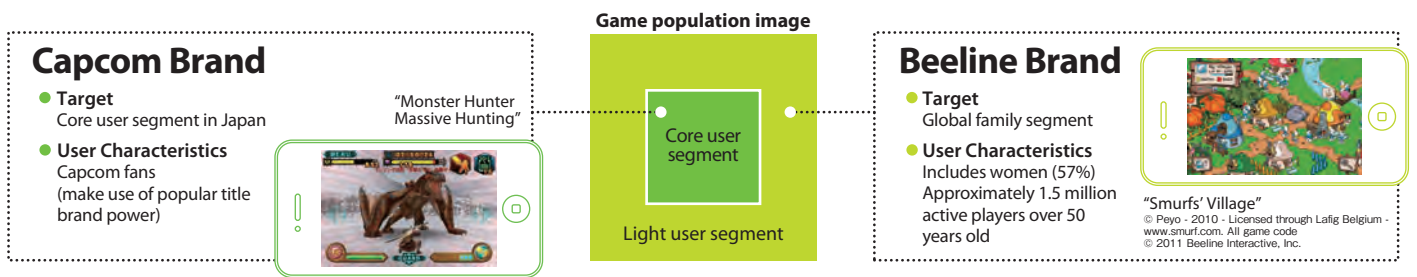
### 2 Cultivating the Light User Segment with the Beeline Brand

We are also strengthening social games for smartphones under the Beeline brand. The reason for creating a second brand is because Capcom brand games have an image of difficulty and complexity about them, creating high barriers preventing light users from casually purchasing a download. Developing a new brand circumvents these obstacles

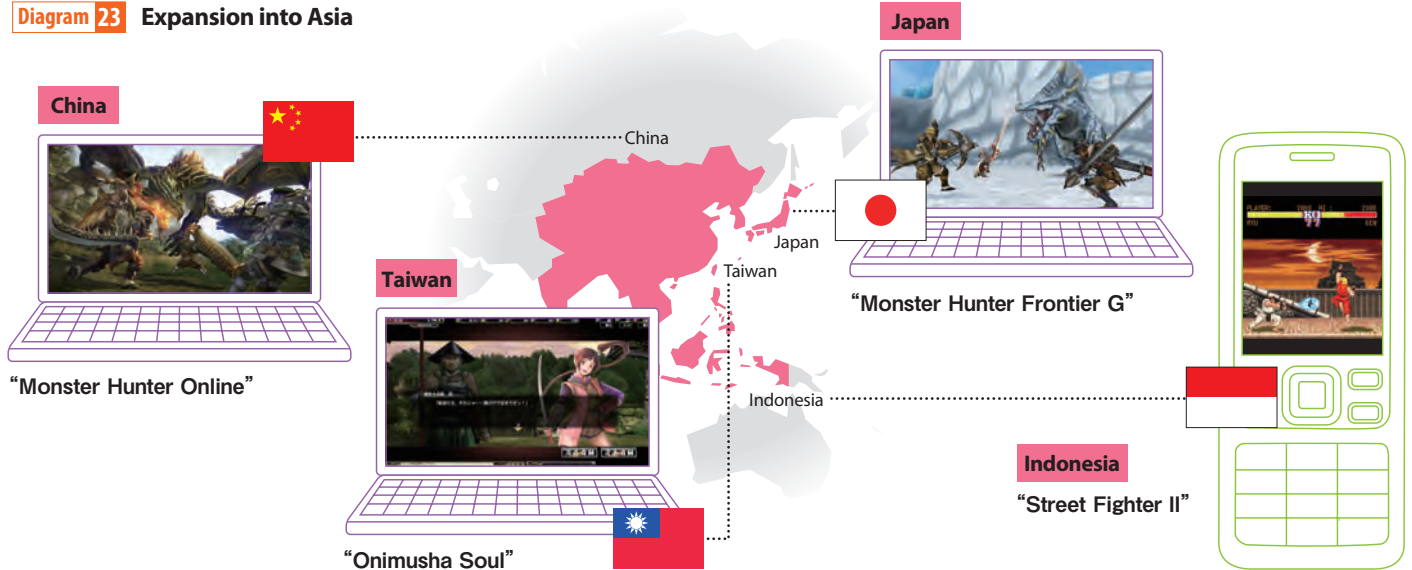
Diagram 22 Online Market and Capcom Online Sales Growth Rate Forecast



**Diagram 23** Mobile Contents and Two Brand Strategy



**Diagram 23** Expansion into Asia



Our Strategy for Growth

altogether. We will develop social games that conform to each of the various regional characteristics of our four development bases located in North America, Europe, Japan and Thailand, while acquiring users in developing regions where home video games have not been adopted. **Diagram 23**

Our growth strategy up to now is already paying off; major title “Smurf’s Village” became the “top-selling app” in the App Store sales rankings in 80 countries and downloads of Beeline titles in Japan and overseas have exceeded 100 million. However, in the second half of CY 2012, competition in overseas markets intensified, causing a lull in the creation of new hits.

In terms of our overseas title lineup next fiscal year (ending March 31, 2014), we will erect the next pillar of earnings following “Smurf’s Village” by launching titles that make use of globally popular brands, including “Snoopy 2” (tentative title) featuring this popular Western character licensed from a third-party company. Our target for Mobile Contents sales is 12.5 billion yen (up 13.6% from the previous fiscal year).

### **3** Launching Online Development in the Asia Region

Regarding PC online overseas business, Capcom will focus on the massive Asia market **Diagram 24** and growth potential of South America. Specifically, in China, the world’s largest online game market, we have begun beta testing “Monster Hunter Online” through a collaboration

with Tencent. In Taiwan, we are distributing “Onimusha Soul” and will upgrade and expand the development line at our subsidiaries in Taiwan and South Korea. Our collaboration with Tencent has been determined to be an effective means of mitigating country risks associated with China and gaining expertise.

In Japan, we will strengthen earnings power by distributing a major update to “Monster Hunter Frontier G” (for PC and Xbox 360) for the new PlayStation 3 and Wii U, and develop browser game “Onimusha Soul” on a new platforms. Next fiscal year, we are targeting sales of 9.5 billion yen (up 41.8% from the previous fiscal year).

Up to now, Capcom’s business focused mainly on package game software sold by retailers (sellout model, B to B), but going forward, we will switch to an operations business (operational model, B to C) where, after distributing software, updates are provided as appropriate based on user movement, and in-game events are held. Capcom will attempt to achieve its medium-term business goals by ensuring stable earnings each month and improving the operating margin.

Furthermore, to implement the above measures, we plan to hire 170 people for our development and sales management divisions next fiscal year.



# Expanding Single Content Multiple Usage Development

**Diagram 25** Making Use of Multiple Popular Contents



## Developing Popular Multimedia Content to Expand Earnings

This section will explain the "expansion of Single Content Multiple Usage" in terms of the aforementioned three growth strategies formulated to achieve the medium-term business goals.

A "home video game" is an artistic media product that consists of highly creative, multi-faceted elements such as images, storyline, a worldview, music and interactive game play. This is exactly why each of these constituent elements can be individually developed into an attractive product through different facets of media.

Therefore, we can expect the following four effects by developing each of these elements into different business fields: (1) creating new profit opportunities other than the Consumer business; (2) creating heightened excitement through increased exposure by simultaneous multiple-field development (promotional effects); (3) absorbing customers obtained from other business segments as home video game users; and (4) reducing profit fluctuations through business portfolio creation (risk hedge).

We own scores of intellectual properties based on popular content. We are now creating a business model to enjoy multiple profits by promoting

Single Content Multiple Usage strategy in several applications. [Diagram 25](#)

This strategy will allow us to leverage the success of our Consumer business with the aim of maximizing profits and achieving success in other businesses (Mobile, Pachinko & Pachislo, Arcade Games, Movies, Publishing, Character Goods, etc.).

## Promoting Multiple Usage Development to Achieve a Synergy Effect with Games

This fiscal year (ended March 31, 2013), we maximized profits by promoting the Single Content Multiple Usage development of popular content. First, Hollywood film "Resident Evil: Retribution" based on the "Resident Evil" series was released worldwide earning 0.24 billion dollars at the box office. In Japan, the CG animated film "Resident Evil: Damnation" was released. Also, we collaborated with Universal Studios Japan (USJ) to hold "Halloween Horror Night", part of the "Universal Surprise Halloween" event, as well as with Shibuya PARCO to open a "Resident Evil Café" inside that department store. These initiatives contributed to sales of the "Resident Evil" series consumer software in our attempt to maximize profits.

Other examples of multiple usage development involve the

\*1 Source: "Licensed Character Business 2011" by Yano Research Institute Ltd.  
 \*2 Source: Amusement Industry Survey Report  
 \*3 Source: Manufacturer sales base compiled by Capcom using Pachinko Maker Trends (2010,2011,2012); Yano Research Institute Ltd.  
 \*4 ©CAPCOM developed by gloops ©CAPCOM CO., LTD.  
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**Diagram 26** Examples of Single Content Multiple Usage



Our Strategy for Growth

"Monster Hunter" series. With the upcoming launch of "Monster Hunter 3G HD Version" and current distribution of social games "Monhan Tankenki Maboroshi no Shima" and "Minna to Monhan Card Master", we held "Monster Hunter Orchestra Concert: Hunting Music Festival 2012" with the Tokyo Philharmonic Orchestra in six cities across Japan in addition to holding "Monster Hunter The Real 2012" at USJ, all in an effort to realize a synergy effect with games. **Diagram 26**

Regarding "Sengoku BASARA", in connection to the release of home video game "Sengoku BASARA 3 Utage PlayStation 3 The Best" we broadcast the TV animation "Sengoku BASARA The Moon Light Party" and produced stage performances "Sengoku BASARA 2" and "Sengoku BASARA 3 Setouchi Kyoran".

As for "Ace Attorney", since the fiscal year in which "Professor Layton VS. Phoenix Wright: Ace Attorney" was launched, we have made efforts to create a buzz and expand this fan base, including the "Ace Attorney" film and collaboration with the Takarazuka Revue Company on the production "Prosecutor Miles Edgeworth: Ace Attorney 3".

In terms of multiple usage developments next fiscal year, we will (1) continue to make use of popular content, mainly "Monster Hunter",

"Sengoku BASARA" and "Ace Attorney", (2) engage in major project development with new game "Gaist Crusher" and (3) develop projects around Capcom's 30th anniversary in an attempt to realize ongoing multimedia development that appeals to a wide customer segment to improve brand value and profitability, as well as contribute to regional promotion.

In particular, with respect to (2) "Gaist Crusher", as a new project focused on kids, we will engage in large-scale cross-media development in collaboration with major companies in the manga, animation, music and toy areas to coincide with release of new games for the Nintendo 3DS in December 2013.

Specifically, we will be placing stories in "Saikyo Jump" and "V Jump", which are comic published by Shueisha Inc., promoting a television animation project produced by Pierrot Co., Ltd., developing music in collaboration with Avex Entertainment Inc., and with Bandai Co., Ltd., we plan to develop a "Gaimetal" toy from the game "Gaist Crusher". By launching a wide variety of ongoing content, despite the falling birthrate in recent years, we will attempt to grab the attention of our target, elementary school aged boys, to establish a new brand.



## Targeting Sustainable and Stable Growth Through the Creation of a New Business Model

With the environment surrounding the game industry in the midst of a great transformation, what strategies will Capcom employ to target sustainable growth? Game industry analyst Yusuke Tsunoda discusses the future of package games and digitally distributed content, as well as Capcom's response to the mobile game market, with President and Chief Operating Officer Haruhiro Tsujimoto.



Haruhiro  
Tsujimoto

President and  
Chief Operating Officer (COO)  
Capcom Co., Ltd.

### Conversation

Yusuke  
Tsunoda

Analyst, Corporate Research Division  
Tokai Tokyo Research Center Co., Ltd.



### From Unit Sales of Package Games Toward a More Sustainable Earnings Model

**Tsunoda** With the environment surrounding the game industry going through major changes, such as the rapid expansion of the mobile content market, what kind of business development is Capcom targeting?

**Tsujimoto** In the traditional package games business model, we used to recoup our investment by selling as many products at a few thousand yen each as possible. But now, even after game sales, the provision of digitally distributed content (DLC) facilitates longer enjoyment of each title, resulting in a business model with the potential for earnings on a continuous basis. An example of the success of this business model is already evident with the PC online game "Monster Hunter Frontier Online" (MHF). Compared to the consumer games market, the PC online games market is smaller and has fewer users. However, in the past five years since MHF was released, its fan base is still growing and providing support to Capcom's earnings. Going forward, I want to establish a sustainable earnings model similar to this for all our games.

**Tsunoda** I see. However, overseas markets have already embraced the DLC business, which I have to say, makes Capcom's download strategy response appear to be lagging behind somewhat. Moreover, what about the potential for new liabilities and risks associated with providing content on a continual basis?

**Tsujimoto** That's exactly right. I regret to say that, up to now, we had few plans for the full-scale implementation of DLC. From here on out, we need to focus on the long-term provision of content starting at the earliest stages of development. Furthermore, in terms of user response, if the additional related content we are providing continually to users online is deemed uninteresting from the start, there will be no ongoing business to pursue. This means that, more than ever before, the creation of underlying content is the key to success.

### Transforming a Project-Based Development Structure to One Focused on Series

**Tsunoda** Aren't changes to your development structure necessary to create the kind of earnings model you propose?

**Tsujimoto** Yes, that's right. We are transforming our development structure from one that has traditionally focused on projects where work on new content begins after a title is released, to a development structure focused on creating a series of content for well-known titles such as "Monster Hunter" and "Resident Evil". However, our basic approach to content creation has not changed. Popular Capcom games continue to be loved more than a decade after their initial release, but we now engage in a variety of measures to maintain user interest until the release of the next title. We make an effort to engage fans through user events, feature films, animation and other media developments. Maintaining customer satisfaction in this way enables us to heighten brand loyalty for each title.



**Tsunoda** Yes, but given that, in the package game era, new titles were released every couple of years, you not only need to develop even more content for release, you also need to step-up the frequency of DLC to prevent users from losing interest. I think Capcom's aggressive hiring strategy of employing nearly 100 new developers each year makes the deployment and management of human resources even more difficult. What are your thoughts regarding resource allocation?

**Tsujimoto** We approach this issue flexibly. For example, even in the event we have plans to create a new version of a game two years down the road, if the previous version continues to provide users with enjoyment, we see no reason to disrupt the flow by investing in more staff and moving forward with development of a new version. From here on out, we will monitor the feedback on and status of current titles in real time, regardless of genre, with the intention of maintaining and strengthening these communities through the flexible allocation of management resources. This is possible as long as the current environment enables us to connect with users directly.

### To Survive, Companies Must be Able to Continue Providing Customer Satisfaction with Creative Content

**Tsunoda** Regarding mobile content, although you were successful with "Smurf's Village", the impression is that subsequent developments have been a step behind that of other companies. Going forward, what is your strategy in this area?

**Tsujimoto** There is no doubt that the smartphone and tablet device user segment is large and attractive. However, with "Smurf's Village", we learned that there are not as many core users in this market as there are in the consumer market. Outside of Japan, people spend

less money on mobile games, particularly in Europe and North America, making it a low-margin, high turnover business. That being said, even in this area, we will continue aggressively releasing interesting titles under both the Capcom and Beeline brands. Our recognition of the high-growth potential of mobile contents and the pivotal role they play in our online strategy remains unchanged. Nevertheless, the consumer business is still the primary driver of new intellectual property creation. Our view is that mobile content developed from content created for the consumer segment is linked to sustainable and stable growth.

**Tsunoda** I see, so Capcom remains steadfast in its focus on the Consumer business?

**Tsujimoto** Today's mobile game industry is a world apparently full of dreams about making a fortune off a hit game. But if the hit is just a one-off, success is transient. For Capcom, it is crucial to maintain and deepen the user support we have worked so hard to earn up to now. We believe we can outperform other companies as long as we are able to continue this approach. This kind of strategy is already beginning to be implemented in Europe and North America, and we don't intend to be left behind. I keep coming back to this point, but the essence of a game's value is derived from its content—its worldview and characters, etc. Only companies that understand this and are able to continue providing customer satisfaction will be able to survive.

We have applied various aspects of this new business model approach to the development of "Monster Hunter 4", which goes on sale in September, and I look forward to seeing how the market reacts. We will strive to incorporate your assessment of us here into future developments.

### After the Conversation

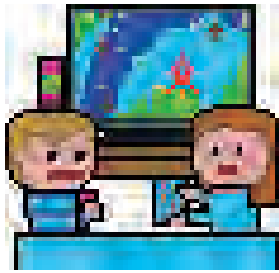
President Tsujimoto conveyed a clear vision for "enhancing profitability via a business model with more continuity focused on consumer games". However, I had hoped to hear a reasoned and easily understood story along the lines of "smash hit apps in the booming smartphone market giving rise to business amounting to several hundred million yen per month" in today's stock market amid unavoidable concerns over the high-risk consumer segment. That being said, I concur with the view that, 5–10 years down the road, only companies able to create content will survive, and I commend the management of such an unshakable leader. Nevertheless, in light of performance revisions last year as each business was at an inflection point, investor sentiment will surely be linked to Capcom's ability to achieve results through the realization of this vision. (Tsunoda)

### Yusuke Tsunoda (Profile)

Bachelor of Business Administration, Risho University  
2006 April: Joined Tokai Tokyo Securities Co., Ltd.  
2008: Began working as an analyst covering the game, amusement and telecom sectors.



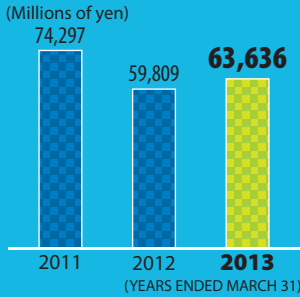




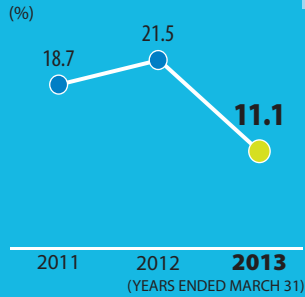
# Digital Contents

This core business, which represents approximately 70% of Capcom sales, develops and sells consumer package games and digitally distributed contents (DLC), as well as develops and manages mobile content and PC online games. Million-seller titles created for the home console are used to create games for smartphone, table device and PC online users and distributed globally.

## Net Sales



## Operating Margin



## SWOT Analysis

S: Strength W: Weakness O: Opportunities T: Threats

- |   |   |
|---|---|
| <ul style="list-style-type: none"> <li>World-class development and technological capabilities</li> <li>Own a great number of original popular titles</li> <li>Practical use of plentiful in-house content</li> <li>Cultivate expertise through concurrent operation of Beeline and Capcom within Mobile Contents</li> </ul> | <ul style="list-style-type: none"> <li>Dependence on specific genres</li> <li>Lack of development staff</li> <li>Lack of social game titles/hits</li> </ul> |
|---|---|
- 
- |  |  |
|--|--|
| <ul style="list-style-type: none"> <li>Release of next-generation home video game consoles</li> <li>Expand DLC business</li> <li>Expand area/genre of PC online games</li> <li>Improved quality of mobile contents via highly-advanced smartphones and tablet devices</li> <li>Increased users from global expansion of smartphone adoption</li> </ul> | <ul style="list-style-type: none"> <li>Game presence diminished by diversity of play</li> <li>Falling average sales price of package games</li> <li>Barriers to entry low, significant competitor presence</li> <li>Speculation over tightening of domestic social game regulations</li> </ul> |
|--|--|

## Market Trends

### Consumer (Package and DLC)

### In 2012, Package Market Contracted 17.9%, DLC Market Expanded 34.0%

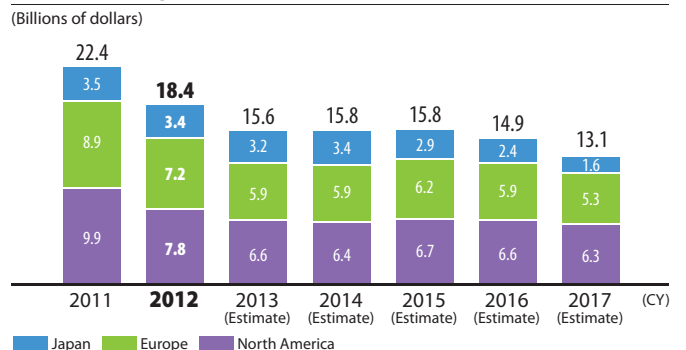
In 2012, the home video game (package) market was worth 18.4 billion dollars (down 17.9% from the previous year), the fourth straight year of negative growth. As in the previous year, the reasons for this include (1) lower annual unit sales caused by delayed purchases ahead of release of next-generation consoles replacing existing consoles and (2) lower average retail prices of package software as a result of intensified competition, (3) the diversification of sales into digital distribution and other forms, etc. In the package market, consisting primarily of North America, Europe and Japan, where North America and Europe accounts for almost 80% of the market, the notable decline [Diagram 27](#) was connected to the overall market contraction.

At the same time, advancements to global network infrastructure and the establishment of the virtual item sales model have led to a focus on DLC associated with major game company titles, resulting in significant expansion in the DLC market, which grew to 7.1 billion dollars (up 34.0% from the previous year). However, the package market contraction adversely affected the consumer market (Package and DLC), which declined slightly to 25.5 billion dollars (down 7.9% from the previous year). [Diagram 28](#)

In terms of outlook for the future, although Sony Computer Entertainment will release the PlayStation 4 (PS4) and Microsoft will release the Xbox One during the 2013 year-end sales season, we think it will take some time before the next-generation cycle begins and market activity picks up. This is because the DLC market is expected to continue to grow as a result of the digital distribution of an increased number of

Diagram 27

### Size of Package Markets



Source: International Development Group

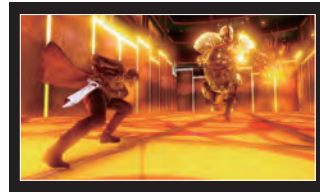




"Resident Evil 6"



"Dragon's Dogma"



"DmC Devil May Cry"



"MONSTER HUNTER 3 ULTIMATE"

DLC titles, as well as the assumption that the adoption of new hardware will start small and won't begin to make a significant contribution until 2014. For this reason, we forecast a slight decline in the consumer market to 24.4 billion dollars in 2013 (down 4.3% from the previous year).

### Mobile Contents

## The 2012 Market Expanded Rapidly Around the World, Increasing 43.0%

The 2012 mobile contents market achieved significant global growth, increasing to 12.3 billion dollars from 8.6 billion dollars in 2011 (up 43.0% from the previous year). **Diagram 29** The main reasons for this were (1) the advance of smartphones and other mobile devices in all countries of the world, (2) the rise of high-performance tablet devices and (3) the spread of social games due to the increase in mobile users.

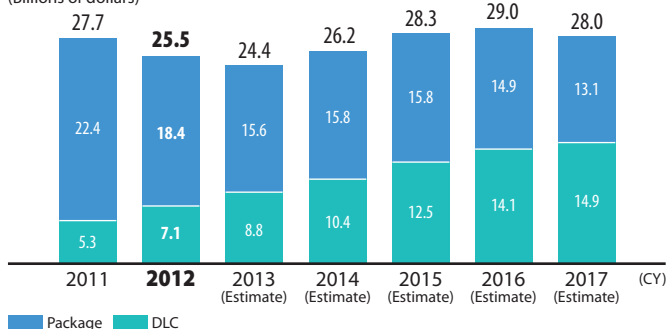
By region, the North American market was worth 2.8 billion dollars (up 40.0% from the previous year) and the European market was worth 2.0 billion dollars (up 53.9% from the previous year) and the Asian market including Japan was worth 6.2 billion dollars (up 40.9% from the previous year). Furthermore, in emerging and Eastern European markets, as well as other areas, the global market grew rapidly to 1.3 billion dollars (up 44.4% from the previous year).

The freemium (virtual item purchases/in-game purchases), a business model where users download a game for free, then purchase access to additional items and other game content as needed, has been rising rapidly in the market since about 2010. Freemium-type social games appeal to users because of the power of their content (brand/game content), in-game events and other mechanisms to maintain appeal and manageability. For game companies with lots of popular software titles and mobile developers with strong expertise in operations, this represents an even greater opportunity to improve earnings.

**Diagram 28**

### Consumer (Package and DLC) Market

(Billions of dollars)



Source: International Development Group

In Japan, game distribution is beginning to transition from browsers to direct distribution of native apps via iOS and Google Market Place in line with the shift from traditional feature phones (mobile phones) to smartphones, resulting in the need for development structures able to respond rapidly to dramatic changes in the mobile market.

Furthermore, in June 2013, the Japan Consumer Affairs Agency introduced regulations concerning "complete-gacha" games, but the impact has been negligible. Formulating guidelines regarding in-game representations, each operating company strengthened voluntary initiatives to improve the game environment and provide users with peace of mind, safety and enjoyment. This has led game developers, no longer dependent on speculation, to begin providing wholesome and original games.

Looking ahead, we forecast shipments in the 2013 smartphone market to exceed last year's 720 million units and grow to 950 million units (up 32.7% from the previous year), with the ratio of smartphones as a percentage of all mobile phone shipments rising above 50%. Also, the adoption of tablet devices is advancing rapidly, with 290 million units expected to ship in 2013 (up 59% from the previous year), expanding to surpass global PC shipments in 2015 as the number of mobile content users continue to grow. The adoption of tablet devices is expected to drive growth in the mobile contents market to 29.6 billion dollars by 2017 (an average annual growth rate of 19.2%), growth that will surpass even the home video game market.

### PC Online

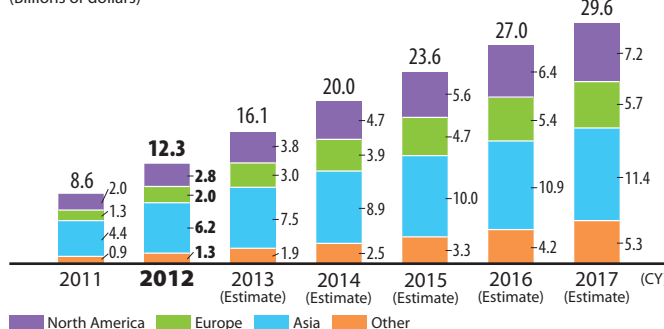
## In 2012 the Market Expanded Favorably by 11.9%

In the PC online market, the adoption of PC games in North America and Europe and the rise of users of a new genre of browser game, the Massively Multiplayer Online (MMO), in Asia, resulted in favorable

**Diagram 29**

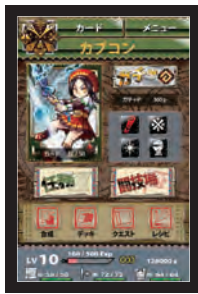
### Mobile Contents Market

(Billions of dollars)



Source: International Development Group





"Minna to Monhan Card Master"

©CAPCOM developed by gloops



"Resident Evil: Outbreak Survive"



"Monster Hunter Massive Hunting"



"Smurfs' Village"

© Peyo - 2010 - Licensed through Lafgy Belgium - www.smurf.com. All game code © 2011 Beeline Interactive, Inc.

market expansion and growth to 23.6 billion dollars (up 11.9% from the previous year). **Diagram 30**

In 2013, this market is expected to continue growing steadily to 25.4 billion dollars (up 7.6% from the previous year). The drivers of this growth include improvements to the global network environment and the expansion of households with broadband. The Asia market in particular is expected to continue expanding, driven primarily by MMO games, from 9.7 billion dollars in 2012 to 11.8 billion dollars by 2017 (up 21.7% from 2012). Accordingly, the PC game market is expected to surpass the package game market and grow to 29.0 billion dollars by 2017.

### Summary

The consumer market will maintain its present scale, as the PC online and mobile content markets grow over the medium-term. The key to maximizing earnings for game software manufacturers is to continue launching successful content for a variety of platforms every year. However, only companies that "possess multiple popular major titles" and "a development structure efficient enough to produce year after year" will be able to maintain their competitive positions.

## Operating Results for This Fiscal Year

### Capcom's Strength

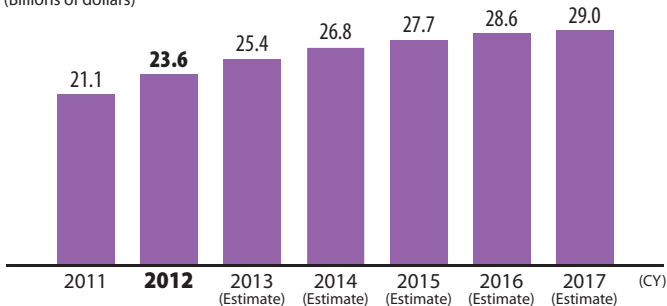
### Numerous Intellectual Properties, Strong Development and Overseas Marketing Capabilities

Capcom's strength in the Consumer Online Games business is threefold. First, we have scores of "long-lasting intellectual properties with universal market appeal" such as million-seller titles and popular characters. **Diagram 31**

**Diagram 30**

### PC Online Market

(Billions of dollars)



Source: International Development Group

Second, we maintain an "advanced ability to develop original game content" without relying on licenses obtained from external sources. We also possess a "high level of technology", assisted by the "MT Framework", an integrated development environment built to provide common development tools for Xbox 360, PlayStation 3, PC, Wii, Nintendo 3DS, PlayStation Vita platforms and iPhone. Lastly, we have "strong overseas marketing capabilities" as represented by effective sales operations in overseas markets, which are the majority of our markets, with a proper understanding of regional preference for game titles, market characteristics and business practices.

Another of our strengths is the appeal of our products to a diverse group of global users through the development of mobile contents under the Capcom and Beeline brands. The Capcom brand makes effective use of content and expertise accumulated over years of consumer game development, while the Beeline brand makes use of original characters, as well as characters licensed from other companies, to distribute social games for smartphones aimed at winning over light users rather than traditional Capcom users.

### Consumer (Package and DLC)

### Despite Significant DLC Growth, Package Game Stagnation Resulted in Sales of 45.9 Billion Yen (Down 2.1%)

In the Consumer segment, despite strong initial sales of core title "Resident Evil 6", sales flattened out to 4.9 million units, failing to achieve sales targets and adversely affecting profitability. At the same time, "Dragon's Dogma" surpassed expectations to become a hit in the highly profitable domestic market, one of the few original titles in recent years to achieve million-seller status (1.3 million units sold). "DmC Devil May Cry" has steadily gained popularity overseas, easily selling 1.15 million units. Also, despite smash hit "Monster Hunter 3 Ultimate"

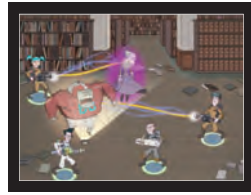
**Diagram 31**

### Total Number of Units of Major Titles Sold (As of March 31, 2013)

Major Titles	Number of Titles	Total Number of Units Sold (Thousands)
Resident Evil	82 titles	56,000
Street Fighter	77 titles	34,000
Mega Man	129 titles	29,000
Monster Hunter	25 titles	23,000
Devil May Cry	19 titles	12,000
Dead Rising	11 titles	5,400
Lost Planet	13 titles	4,900
Ace Attorney	16 titles	4,400
Sengoku BASARA	25 titles	3,300



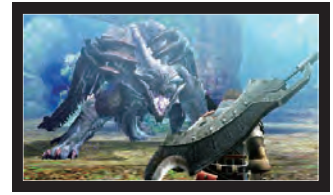
"Chibimaruko-Chan to Okashi no Kuni"  
©Sakura Production / Nippon Animation  
©Beeline Interactive Japan, Inc.



"Ghostbusters"  
Ghostbusters: TM & ©2012 Columbia Pictures Industries Inc.  
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"Monster Hunter Frontier Online"



"MONSTER HUNTER 4"

for the new stationary game system Wii U, which sold 500,000 units, package software sales were sluggish overall at 14 million units (down 10.8% from to the previous fiscal year) and package sales of 40.7 billion yen (down 7.7% from to the previous fiscal year). That being said, significant growth in DLC contributed to earnings with sales of 5.2 billion yen (up 85.7% from the previous fiscal year).

As a result, Consumer segment sales were 45.9 billion yen (down 2.1% from the previous fiscal year). [Diagram 32](#)

### Mobile Contents

## Capcom and Beeline Brands Performing Strongly with Sales of 11.0 Billion Yen (Up 74.6%)

In mobile contents, as the adoption of smartphones continues, "Minna to Monhan Card Master", released last year under the Capcom brand for distribution on Mobage, has maintained its growth trajectory, while "Resident Evil: Outbreak Survive" for GREE continues to add new users, with both titles boasting over 2 million members each. In February 2013, we also launched "Monster Hunter Massive Hunting", a native app for iOS.

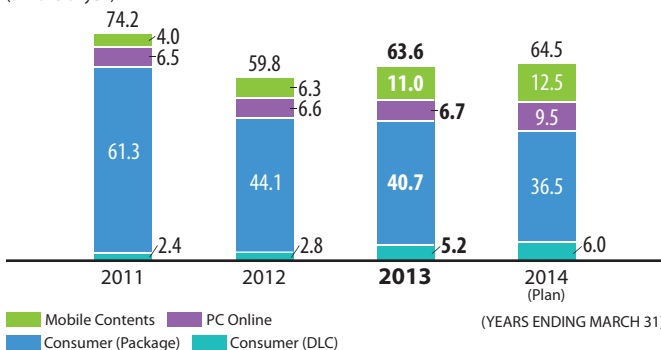
Under the Beeline brand, core title "Smurf's Village" continued to perform strongly and contribute steady earnings. Furthermore, the distribution of new titles such as "Chibimaruko-Chan to Okashi no Kuni" and "Ghostbusters" contributed to more than 100 million cumulative downloads for the Beeline Brand. [Diagram 33](#) Furthermore, we established Beeline Interactive (Thailand) Co., Ltd., in response to the rapid adoption of smartphones in the Asia region in an effort to strengthen our development structure globally.

As a result, sales grew vigorously to 11.0 billion yen (up 74.6% from the previous fiscal year). [Diagram 32](#)

[Diagram 32](#)

### Sales by Genre

(Billions of yen)



### PC Online

## Popular Series Maintain Strength with Sales of 6.7 Billion Yen (Up 1.5%)

In addition to the stable contribution to earnings provided by the extremely popular "Monster Hunter Frontier Online" series for the PC and Xbox 360, we expanded our lineup in the PC online segment, including distribution of the new browser game "Onimusha Soul".

As a result, sales were 6.7 billion yen (up 1.5% from the previous fiscal year). [Diagram 32](#)

### Summary

As a result, the Digital Contents business this fiscal year achieved sales of 63,636 million yen (up 6.4% from the previous fiscal year) and operating income of 7,062 million yen (down 45.2% from the previous fiscal year).

### Outlook for the Next Fiscal Year

### Consumer (Package and DLC)

## Forecasting Sales of 42.5 Billion Yen (Down 7.4%) on Revised Strategy and Strengthened Earnings Initiatives

In the Consumer segment, we are engaged in initiatives aimed at (1) releasing leading titles, (2) enhancing digital (DLC) strategy and (3) improving overseas competitiveness by strengthening the link between development and marketing to achieve our medium-term business goals.

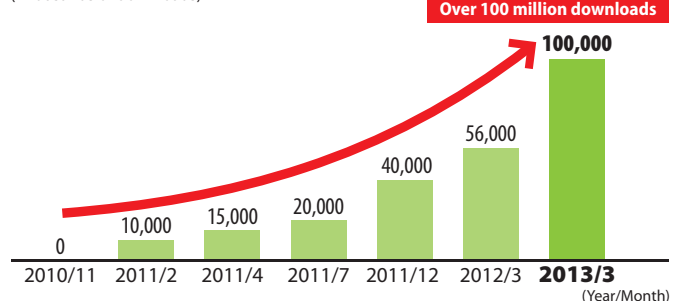
For details, please see "Growth Strategy" on pages 23–30.

In terms of (1) leading titles, we forecast total sales of 13 million units from the release of "Monster Hunter 4" for the Nintendo 3DS,

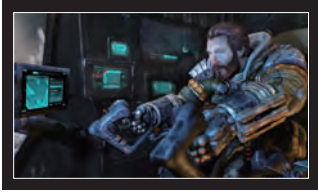
[Diagram 33](#)

### Beeline SNS Game Downloads (Total)

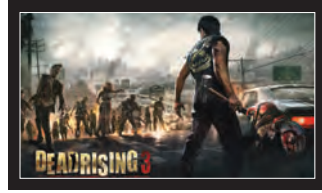
(Thousands of downloads)







"Lost Planet 3"



"Dead Rising 3"



"Dungeons & Dragons: Chronicles of Mystara"

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"Onimusha Soul"

"Lost Planet 3" for the PlayStation 3 and Xbox 360 and "Dead Rising 3" for the next-generation Xbox One (please see the next page for details). Regarding (2) enhancing digital (DLC) strategy, we will strategically release additional content for major titles and expand downloadable titles including "Dungeons & Dragons: Chronicles of Mystara". With respect to (3) improving overseas competitiveness, we will ensure that our development and marketing structures are equipped with next-generation console and DLC capabilities.

However, in light of repercussions from sluggish sales of "Resident Evil 6" and the transitional phase we are about to enter into with the release of next-generation consoles next fiscal year, we forecast sales of 42.5 billion yen.

### Mobile Contents

## Expanding Users with Two Brands, Forecasting Sales of 12.5 Billion Yen (Up 13.6%)

In Mobile Contents, our strategy involves (1) augmenting the number of Capcom brand titles and (2) strengthening the management structure of the Beeline brand, as well as creating a hit title to follow "Smurf's Village", in an attempt to deepen our existing user base while developing new business.

In terms of Capcom brand strategy, we will attempt to create synergy with home video games by developing content using the brand power of popular titles from our Tokyo and Osaka development bases. We will also step up the release of social game titles and aggressively launch native app content optimized for smartphones in addition to other original content.

At the same time, Beeline brand strategy will continue to focus on strengthening social games for smartphones. We develop these brands separately because Capcom brand games are perceived as

difficult and complex, creating a high hurdle preventing most light users from a casual download; the Beeline brand is more effective at appealing to light users. Also, we can acquire users in developing regions where home video game consoles have yet to be adopted by developing social games incorporating distinctive regional characteristics at our development facilities in North America, Europe, Japan and Thailand. In terms of the overseas title lineup next fiscal year (ending March 31, 2014), we will release content utilizing popular global brands, including "Snoopy 2" (tentative name).

In light of these measures, we forecast Mobile Content sales of 12.5 billion yen.

### PC Online

## Strengthening Development in Japan and Asia, Forecasting Sales of 9.5 Billion Yen (Up 41.8%)

We anticipate earnings expansion in the PC online segment, mainly in Japan, resulting from a major update to "Monster Hunter Frontier G" (please see the next page for details) and the full-fledged contribution to earnings from browser game "Onimusha Soul".

Furthermore, we will enhance business development in Asia with the release of "Monster Hunter Online", developed in collaboration with China's Tencent Inc., in the China market and the launch of "Onimusha Soul" in the Taiwan market.

As a result of these activities, we forecast sales of 9.5 billion yen.

### Summary

In light of the above, we forecast sales of 64.5 billion yen and operating income of 9.1 billion yen next fiscal year.

### Diagram 34

## Market Share by Region (CY2012 Amount of Sales for Package Software)

### Japanese Market

Company name	Share (%)
1. Nintendo	21.3
2. Namco Bandai	19.3
<b>3. Capcom</b>	<b>8.8</b>
4. Square-Enix	8.2
5. Pokemon	6.4
6. KONAMI	5.7
7. Sega	4.5
8. Level Five	3.2
9. Tecmo Koei	3.0
10. SCE	2.0
Others	17.6
<b>Total</b>	<b>100.0</b>

Source: Enterbrain, Inc.  
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### North American Market

Company name	Share (%)
1. A	
2. B	
3. C	
4. D	
5. E	
6. F	
7. G	
8. H	
⋮	⋮
<b>10. Capcom</b>	<b>2.76</b>
<b>Total</b>	<b>100.0</b>

Source: The NPD Group/ Retail Tracking Service

### European (UK) Market

Company name	Share (%)
1. ELECTRONIC ARTS	21.4
2. ACTIVISION BLIZZARD	16.9
3. UBISOFT	11.3
4. NINTENDO	7.2
5. MICROSOFT	6.1
6. TAKE 2	4.1
7. SEGA	3.7
8. WARNER BROS. INTERACTIVE	3.6
⋮	⋮
<b>13. Capcom</b>	<b>2.0</b>
Others	23.7
<b>Total</b>	<b>100.0</b>

Source: Chart Track / ELSPA

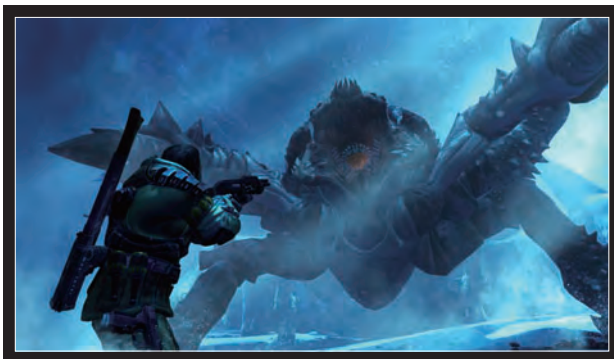
## Major Titles Next Fiscal Year (ending March 2014)



### “Monster Hunter 4” (Nintendo 3DS)

The latest title in this smash-hit series boasting cumulative sales of 23 million units (as of March 31, 2013). In this hunting action game series, players take on giant monsters in majestic natural settings using network collaboration to get help from friends, establishing a new style of communication that led to the rise of a social phenomenon known as the “Monster Hunter Craze”.

“Monster Hunter 4”, which goes on sale in September 2013, is the first game in this series to make use of differences in height to realize three-dimensional action, as well as enabling collaborative play with hunters nationwide over the Internet, among other new elements. We are targeting sales of 2.8 million units.



### “Lost Planet 3” (PlayStation 3/Xbox 360)

This third title in the action shooting game series “Lost Planet” challenges players to discover truths hidden on an icy planet. Since its launch in 2006 as a globally developed game title, this series continues to gain popularity, particularly in the United States and Europe. In this third installment, once again set on the icy planet “EDN-3rd”, extremely beautiful graphics and an engaging story can be enjoyed by a group of up to 10 players in online multi-player match-up mode among other elements designed to appeal to global users. This game is scheduled to go on sale in August 2013.



### “Dead Rising 3” (Xbox One)

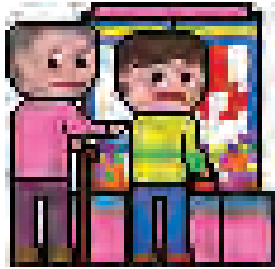
The “Dead Rising” series is a survival horror action game where players must fight off an endless onslaught of zombies while attempting to uncover the truth behind an cause of the incident. As of March 31, 2013, the series has sold more than 5.4 million units. “Dead Rising 3” features stunning graphics for the next-generation console Xbox One and various online elements for Xbox Live® as well as compatibility with the advanced Kinect™ and Xbox SmartGlass™ to provide players using these devices with an exceptionally realistic experience. This title is slated to release in fall 2013, around the same time as the Xbox One sales launch.



### “Monster Hunter Frontier G” (PC/Xbox 360)

“Monster Hunter Frontier Online” is an online game developed for the PC and Xbox 360 based on the “Monster Hunter” series of home video games. Combining the brand power of content accumulated through home video game development with the ongoing and flexible management capabilities unique to online games, this title continues to attract new users and maintain its position as one of Capcom’s major titles. In April 2013, we released a major update to “Monster Hunter Frontier G”, featuring new fields and the addition of G-class monsters, in an aim to further expand the adoption of this title, with plans to make it available to users of PS3 and Wii U later next fiscal year.

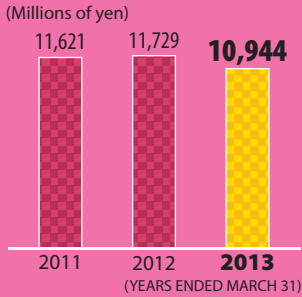




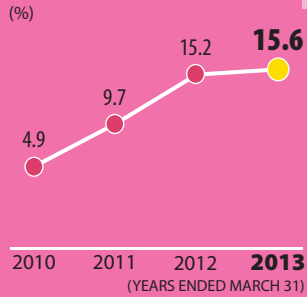
# Arcade Operations

We operate "Plaza Capcom" amusement facilities in Japan. These arcades are predominantly in large commercial complexes and host various events designed to attract families and female customers. We have diligently followed a scrap-and-build policy to maximize our efficiency in arcade operations.

## Net Sales



## Operating Margin



## SWOT Analysis

**S:** Strength **W:** Weakness **O:** Opportunities **T:** Threats

- Specialize in opening mall-based large-scale facilities to secure a stable customer base
- Thorough scrap-and-build focused on investment efficiency to ensure sustainable earnings



- Expanded ability to attract customers through installation of new machines
- Hedges risks through inverse relationship to home video game market
- Expand customer base through appeal to senior segment

- Low sales growth from small number of carefully selected facilities
- Little synergy with proprietary contents
- Reduced desire to consume resulting from natural disasters or brownouts
- Decline in number of suburban mall-based large-scale facilities
- Increased consumption tax

## Market Trends

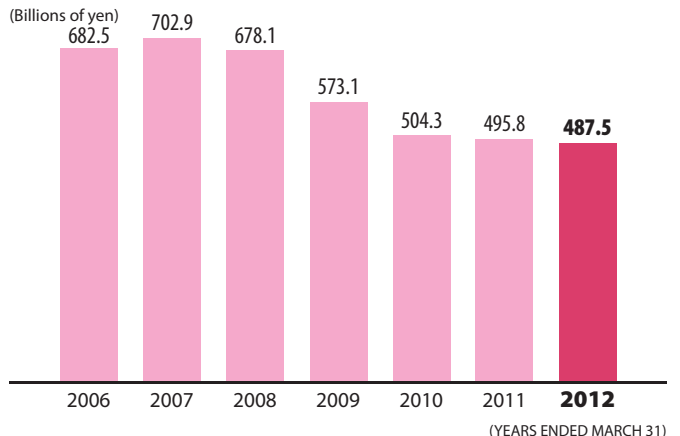
### 1.7% Contraction Indicates Market Has Bottomed Out, Sales per Facility Surpasses Previous Year with Stable Trend Ahead

During the previous fiscal year (ended March 31, 2012), the size of the arcade facilities market was 487.5 billion yen (down 1.7% from the previous year). **Diagram 35** This was due to an easing of the impact from voluntary restraint following the Great East Japan Earthquake and electricity conservation on arcade operations and inexpensive, nearby and short-duration leisure activities that fueled the renewal of arcade facilities. The number of facilities declined slightly to 18,114 (down 2.8% from the previous year) **Diagram 36** as sales per facility increased 1.2%, signaling that the market has bottomed out and that the rapid decline since 2007 has come to an end. This fiscal year (ended March 31, 2013), along with the closing of unprofitable facilities, there was an increased appetite for investment in facilities. However, repercussions from increased demand after the Great East Japan Earthquake were unavoidable, resulting in a somewhat weak market.

In terms of outlook for the future, as companies make efforts to further improve the profitability of their facilities, they will also continue aggressive capital expenditure, including the opening of new facilities, renovation of existing facilities and investment in new products expected to result in market stability.

**Diagram 35**

### Arcade Facilities Market Trends

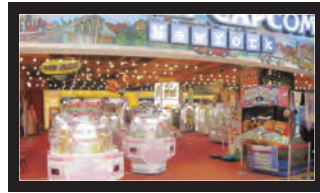


Source: JAMMA "Survey on the Amusement Industry"





Plaza Capcom Chiharadai



Plaza Capcom Narita



Plaza Capcom Kyoto



Plaza Capcom Shizuoka

## Operating Results for This Fiscal Year

### Promoting Customer Segment Expansion to Include Women, Families and Seniors Amid Lower Sales and Profits Resulting From Repercussions of Increased Demand After Earthquake

Capcom's strengths in this business category are: (1) specialization in opening mall-based large-scale facilities that quickly secure a long-term stable customer base, (2) the planning and operation of sales venues popular with customers and (3) the ability to maintain higher profitability than the competition by instituting a strict scrap and build policy concerning unprofitable facilities to raise return on investment. [Diagram 37](#)

This fiscal year (ended March 31, 2013), in an attempt to enhance our ability to draw customers, we held various events and made efforts to secure core users with welcoming arcade operations. Furthermore, in addition to attempts to expand our customer base, such as conducting arcade experience tours for people 50 years and older, as well as cultivating new customers including women, families and seniors, Capcom also engaged in thorough cost reductions and more efficient arcade operations in response to the market environment to improve profitability.

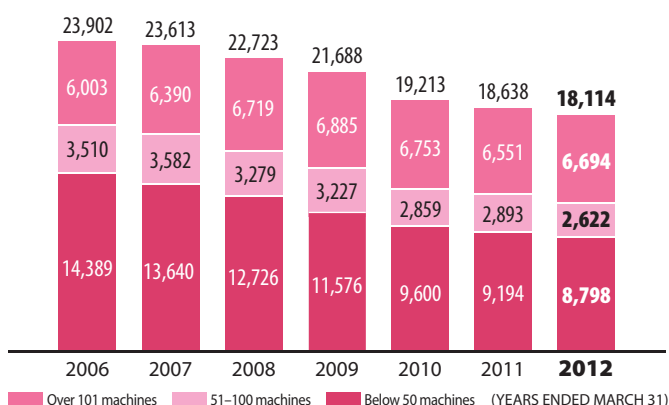
However, user segment overlap from the rapid adoption of smartphones, the diversification of leisure pursuits, insufficient machine traction and the unavoidable repercussions of increased demand after the Great East Japan Earthquake resulted in a softer market.

Due to these circumstances, this fiscal year we did not open any new arcades and three unprofitable arcades were closed, bringing to the total number of arcades in operation at the end of this fiscal year to 34.

**Diagram 36**

### Number of Amusement Arcades (by number of machines)

(Facilities)



Source: JAMMA "Survey on the Amusement Industry"

## Outlook for the Next Fiscal Year

### Planning to Open Three Arcades and Close Five Next Fiscal Year, Aiming for Higher Sales by Promoting More Efficient Arcade Management

In terms of business development next fiscal year (ending March 31, 2014), despite signs that the arcade facilities market has bottomed out, we believe it will take some time before the market gets back on a stable growth track due to concerns over loss of interest in inexpensive, nearby and short-duration leisure activities caused by the economic recovery. We will ensure profitability through the ongoing efficiency of our operating structure. At the same time, we will increase capital expenditure to open new arcades, renovate existing arcades and continue introducing machines in an aim to improve the earnings of existing arcades.

In terms of the opening and closing of facilities, we will further strengthen efficient facilities and close unprofitable ones, while moving forward with the establishment of new facilities in areas with a high concentration of customers to establish new revenue streams. In the next fiscal year, we plan to open three new facilities, and close five old ones.

We forecast net sales of 11.0 billion yen and operating income of 1.7 billion yen in the next fiscal year.

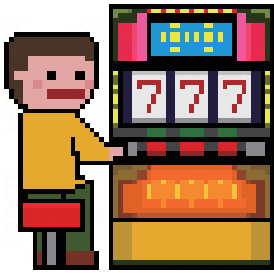
**Diagram 37**

### Comparison of Arcade Operations Performance (March 2013)

	Net sales (Millions of yen)	Operating income (Millions of yen)	Operating margin (%)
<b>Capcom</b>	<b>10,944</b>	<b>1,709</b>	<b>15.6</b>
Aeon Fantasy	44,868	3,402	7.6
Sega Sammy	42,728	1,194	2.8
Namco Bandai	60,185	1,683	2.8

Source: Financial Results FY 2012 by respective company and support documentation (Aeon Fantasy fiscal end in February 2013)  
\* Segments exclude companies with business other than Arcade Operations.



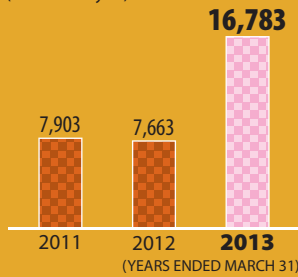


# Amusement Equipments

We are engaged in two other businesses based on the content used for our home video games. The Pachinko & Pachislo (P & S) business is involved in the development, manufacture and sales of frames and LCD devices for gaming machines as well as software. The Arcade Games Sales business develops, produces and distributes arcade games for amusement facilities, creating synergy between businesses.

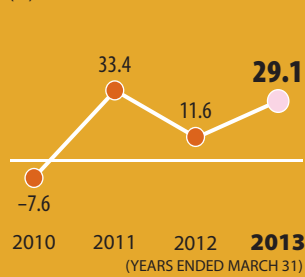
## Net Sales

(Millions of yen)



## Operating Margin

(%)



## SWOT Analysis

**S:** Strength **W:** Weakness **O:** Opportunities **T:** Threats

- High quality development capabilities cultivated through home video games
- Multiple usage of plentiful in-house content
- Ability to observe real time market movements through company-owned arcades



- Market recovery via introduction of popular machines
- Market expansion through network and 3D and other new technologies
- Market recovery from relaxation of The Entertainment Establishments Control Law

- Lack of title lineup

- Declining operator investment appetite
- Long-term market stagnation
- Market fluctuations resulting from changes to regulation on business affecting public morals

## Market Trends

### Pachislo Machine Growth Underpins Major Gaming Machines Market, Arcade Game Market Expands 7.5% in Second Year of Consecutive of Growth

The Amusement Equipments business consists of two businesses that develop the content of our home video games, the Pachinko & Pachislo business and the Arcade Games Sales business.

During the previous fiscal year (ended March 31, 2012), the major gaming machines market totaled 1,200.8 billion yen (up 2.3% from the previous year), surpassing the previous fiscal year on track toward recovery. Although the Pachinko machine market, which accounts for 60% of the market, continued to contract, Pachislo machine growth underpinned the major gaming machines market with two consecutive years of expansion beginning in the fiscal year ended March 31, 2010. [Diagram 38](#)

This fiscal year (ended March 31, 2013), although sales continued to be brisk with the launch of hit Pachislo machines that sold over 100,000 units, conditions remained severe for Pachinko machines, which were unable to break out of their slump. Nevertheless, the major gaming machines market remained on a track overall due to an increase in Pachislo machines associated with the new opening or renovation of Pachislo parlors.

In terms of the future outlook, although the introduction of popular Pachislo machines will continue, we anticipate another round of additional machine installations that may result in a rebound in the Pachinko machine market next fiscal year. This complementary relationship should continue in the market overall, which we expect will remain stable.

Next, in the previous fiscal year, in line with the bottoming out of the arcade facilities market, the arcade games domestic product sales market surpassed the previous year for the second year in a row, growing to 173.8 billion yen (up 7.5% from the previous year). [Diagram 39](#) By genre, in addition to high-sales-ratio coin-operated games (accounting for 20.8% of the market), which led the recovery with 36.2 billion yen (up 18.3% from the previous year), amusement vendors (accounting for 8.1% of the market) also maintained a favorable trajectory at 14.0 billion yen (up 27.7% from the previous year).

This fiscal year, the aggressive introduction of new products resulting from facility operators' need for capital expenditure resulted in the continued stability of the market.

In terms of the outlook for the future, continued capital expenditure on facilities and increased network game machines including links to smartphones should keep the market moving toward a gentle recovery.





"Resident Evil 5"



"Shin-Onimusha Sairin"

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"MONSTER HUNTER"

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"Monster Hunter Medal Hunting"



"Mario Party Kurukuru! Carnival"

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## Operating Results for This Fiscal Year

**Contributing to Earnings with Major Hit Proprietary Pachislo Machine "Resident Evil 5"; Coin-Operated Games Robust Among Arcade Games, Net Sales Increase 119.0%, Operating Profit Increases 449.7%**

Capcom's strength in this business is our ability to maintain high profitability through the multiple usage of our wealth of intellectual properties in a variety of areas.

In the P&S business, Capcom develops attractive software featuring our proprietary content along with that of other companies, using our technological expertise in high-resolution image processing cultivated through the development of home video games is our strength. This fiscal year in the P&S business, our proprietary Pachislo machine "Resident Evil 5" contributed significantly to earnings with sales of approximately 48,000 units. The number of units sold in the consignment business also increased, as expansion remained on track.

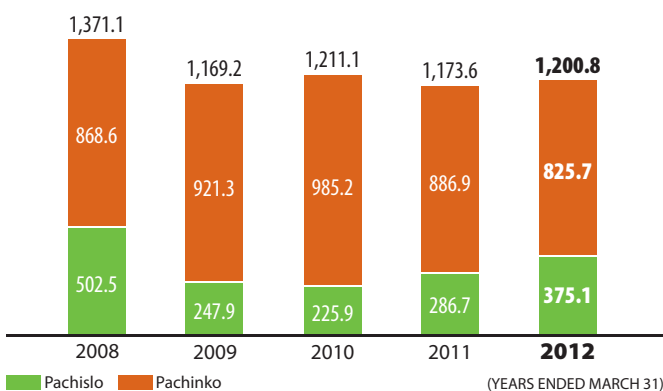
At the same time, making use of the high awareness of Capcom content, the strength of the Arcade Games Sales business is the ability to develop coin-operated game machines that anticipate steady sales by meeting stringent market needs. As for Arcade game sales this fiscal year, the product supply cycle entered a transitional stage in which "Mario Party! Kurukuru Carnival" sales were strong and repeat sales of existing products were also healthy.

Results were favorable, with net sales of 16,783 million yen (up 119.0% from the previous fiscal year) and operating profit of 4,892 million yen (up 449.3% from the previous fiscal year).

Diagram 38

### Major Gaming Machines Market (New Machine Sales)

(Billions of yen)



Source: Manufacturer sales base compiled by Capcom using Pachinko Maker Trends (2010-2012); Yano Research Institute Ltd.

## Outlook for the Next Fiscal Year

**P&S Business to Expand Sales of Outsourced and In-House Cases, Arcade Games to Focus on Popular Coin-Operated Game Content; Aiming for a 10% Increase in Net Sales**

In terms of business development in the next fiscal year (ending March 31, 2014), we expect stable demand for Pachislo machines in the P&S business resulting from expanded demand for our specialty LCD display machines and aggressive use of popular characters. On the other hand, high-performance hardware and a spike in promotion expenses are intensifying competition among companies, resulting in further polarization. In light of this, Capcom will (1) expand the consignment business which is expected to contribute stable profits, (2) enter into an alliance with the Fields Corporation to enhance development capabilities and strengthen sales network and (3) introduce major popular home video game contents in an aim to ensure the number of outsourced and in-house cases sold.

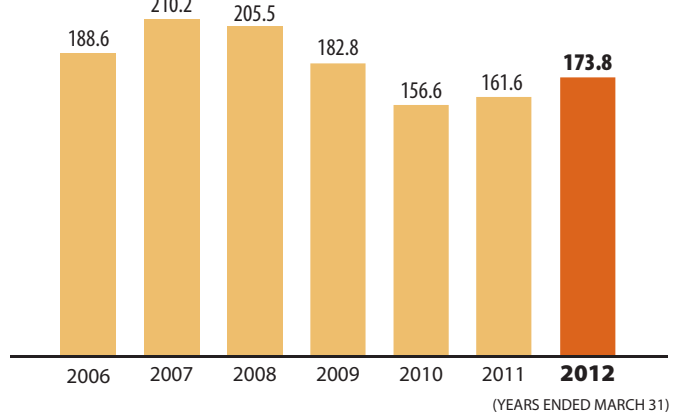
Regarding arcade game sales, the market has bottomed out and we think facilities operators will continue to increase investment. Capcom will focus on the development of coin-operated games using popular in-house and well-known content from other companies in an attempt to differentiate from other companies' products.

As a result of these measures, we forecast net sales of 18.5 billion yen and operating income of 4.3 billion yen.

Diagram 39

### Arcade Game Market Trends

(Billions of yen)



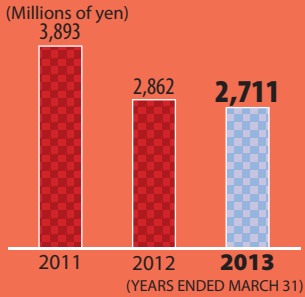
Source: JAMMA "Survey on the Amusement Industry"



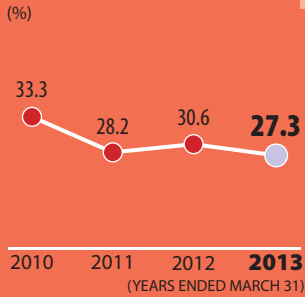
# Other Businesses

Based on a Single Content Multiple Usage strategy of developing game content for various media, we will pursue a variety of copyright-related business opportunities including publishing (walkthrough and strategy guides as well as game settings collections) and licensing (music CDs and licensed merchandise). Furthermore, we are concentrating on developing game content into movie and TV animation programs.

### Net Sales



### Operating Margin



### SWOT Analysis

**S:** Strength **W:** Weakness **O:** Opportunities **T:** Threats

- |  |   |
|--|---|
| <ul style="list-style-type: none"> <li>● Synergy effect from multiple use of abundant content</li> <li>● Brand value increased through high media exposure</li> <li>● High profitability</li> </ul>    | <ul style="list-style-type: none"> <li>● Low return of sales of licensed products</li> </ul>                                      |
| <ul style="list-style-type: none"> <li>● Expansion of film, animation, comics, stage productions, orchestras and other development media</li> <li>● Contents business demand area expansion</li> </ul> | <ul style="list-style-type: none"> <li>● Direct competition with other company's contents as a result of globalization</li> </ul> |

### Operating Results for This Fiscal Year

#### Collaborating with Other Industries on Film and Stage Productions of Popular Series to Gain New Fan Base

Capcom's strength in this category is its ability to take advantage of the strong synergy with the Home Video Games by making multifaceted use of its abundant intellectual properties. In particular, the brand value of our movie-related business has risen through extensive media exposure. This leads to greater sales of video game software, completing a virtuous sales cycle.

During this fiscal year (ended March 31, 2013), we continued to execute our Single Content Multiple Usage strategy (see "Growth Strategy 3" on page 29), conducting various projects based on each game title to enhance the branding of our game content and maximize profits.

These projects were implemented across all business segments, with each division involved in the launch of arcade games, mobile content, walkthrough and strategy guides and character goods, as well as movie and TV animation programs and other events in connection with the release of our home video games. [Diagram 40](#)

Specifically, we focused on increasing the "film version of Capcom contents", which strengthens the promotion and sales of home video games. Although other Japanese software manufacturers have made similar moves, the number of Capcom game titles adapted into movies and the attendant box-office revenues demonstrate our clear competitive advantage in this area. This success is a result of (1) our strength in creating original content,

Diagram 40

#### List of Our Content that Has Been Adapted into Movies and Theatrical Productions

Movie	Aug. 1994	Animated movie	Street Fighter II
	Dec. 1994	Hollywood movie	Street Fighter
	Mar. 2002	Hollywood movie	Resident Evil
	Sep. 2004	Hollywood movie	Resident Evil: Apocalypse
	Mar. 2005	Animated movie	Mega Man Battle Network
	Nov. 2007	Hollywood movie	Resident Evil: Extinction
	Oct. 2008	CG movie	Resident Evil: Degeneration
	Feb. 2009	Hollywood movie	Street Fighter: The Legend of Chun-Li
	Aug. 2010	Movie	ZOMBREX DEAD RISING SUN
	Sep. 2010	Hollywood movie	Resident Evil: Afterlife 3D
	Jun. 2011	Animated movie	Sengoku BASARA -The Last Party-
	Feb. 2012	Movie	Ace Attorney
	Sep. 2012	Hollywood movie	Resident Evil: Retribution
	Oct. 2012	CG movie	Resident Evil: Damnation
	Nov. 2012	Movie	Sengoku BASARA -MOONLIGHT PARTY-Remix

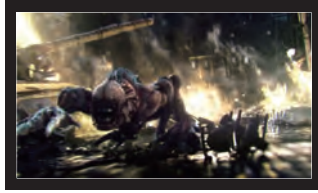
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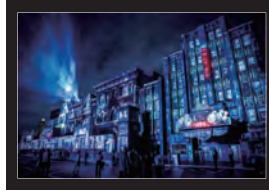




"Resident Evil: Retribution"  
©2012 Screen Gems, Inc. All Rights Reserved.



"Resident Evil: Damnation"  
©2012 CAPCOM CO., LTD. / Resident Evil CG2 Film Partners



"Halloween Horror Night"



"MONSTER HUNTER THE REAL 2012"



"Prosecutor Miles Edgeworth: Ace Attorney 3"  
©TAKARAZUKA REVUE COMPANY / ©CAPCOM

underpinned by owning more proprietary content than our competitors and (2) the global popularity of our titles, which are suitable for adaptation into movies for global distribution.

As an example this fiscal year, the release of Hollywood movie "Resident Evil: Retribution" and CG animation "Resident Evil: Damnation" were timed to coincide with the sales launch of our core software "Resident Evil 6". The Hollywood film earned 0.24 billion dollars at the box office, significantly contributing to new fan base acquisition. **Diagram 41**

We also engaged in various measures, such as "Halloween Horror Night", a "Resident Evil" series tie-up held in conjunction with Universal Studios Japan's (USJ) "Universal Surprise Halloween" event, as well as the creation of a "Resident Evil Café and Grill S.T.A.R.S." inside Shibuya PARCO, both of which had a big impact on game software sales. Furthermore, we promoted cross-industry collaborations involving popular series including a "Monster Hunter The Real" event at USJ, a "Sengoku BASARA: Samurai Heroes" stage production, and a "Phoenix Wright: Ace Attorney—Trials and Tribulations" stage production performed by the Takarazuka Revue Company in an effort to appeal to ongoing users.

Capcom is also moving forward with a number of multi-development projects involving "Street Fighter", "Devil May Cry" and "Dead Rising".

These activities resulted in net sales of 2,711 million yen (down 5.3% from the previous fiscal year) and operating income of 740 million yen (down 15.6% from the previous fiscal year), with net sales generally at the same level as the previous fiscal year.

## Outlook for the Next Fiscal Year

### Further Progress with Our Single Content Multiple Usage Strategy, Expecting 10.7% Growth in Net Sales, 62.2% Growth in Operating Profit with Development of Large-Scale Projects Aimed at Children

Looking ahead to the next fiscal year (ending March 31, 2014), we will continue to execute our Single Content Multiple Usage strategy.

We are aggressively developing various collaborations to accompany the launch of "Monster Hunter 4" software for the Nintendo 3DS. In particular, we will hold user participatory events including a "Monster Hunter Festa 2013" tie-up with the Shibu hot springs resort in Nagano Prefecture and USJ to further cultivate a sense of unity.

Also, in the fall of 2013, as part of our new multiple usage development, we will conduct a large-scale multiple usage development project aimed at children involving toy and animation collaborations with various companies to accompany the launch of new title "Gaist Crusher".

Furthermore, we will continue to engage in stage productions and fan appreciation events involving "Sengoku BASARA" and "Ace Attorney".

Functioning as horizontal deployment for game content, these cross-industry collaborations enable our products to reach a wider audience and enhance our brand value.

In light of these efforts, we forecast net sales in the next fiscal year of 3.0 billion yen and operating income of 1.2 billion yen.

### Diagram 41

#### Revenue Ranking of Japanese Game Content that Has Been Adopted into Movies

Title	Original writer company	Box-office revenue (worldwide)
1. RESIDENT EVIL: AFTERLIFE 3D	Capcom	\$296,221,663
2. RESIDENT EVIL: RETRIBUTION	Capcom	\$240,159,255
3. RESIDENT EVIL: EXTINCTION	Capcom	\$147,717,833
4. RESIDENT EVIL: APOCALYPSE	Capcom	\$129,394,835
5. RESIDENT EVIL	Capcom	\$102,441,078
6. STREET FIGHTER	Capcom	\$99,423,521
7. SILENT HILL	Konami	\$97,607,453
8. FINAL FANTASY: THE SPIRITS WITHIN	Square	\$85,131,830
9. SUPER MARIO BROS.	Nintendo	\$20,915,465
10. HOUSE OF THE DEAD	Sega	\$13,818,181

As of June 30, 2013 (Capcom figures)

TV animation	Apr. 1995	TV animation	Street Fighter II V
	Mar. 2002	TV animation	Mega Man Battle Network
	Oct. 2004	TV animation	Viewtiful Joe
	Oct. 2006	TV animation	Mega Man Star Force
	Jun. 2007	TV animation	Devil May Cry
	Apr. 2009	TV animation	Sengoku BASARA
	Jul. 2010	TV animation	Sengoku BASARA2
	Aug. 2010	TV animation	MONHAN NIKKI GIRIGIRI AIRU MURA AIRU KIKI IPPATSU
	Jul. 2011	TV animation	MONHAN NIKKI GIRIGIRI AIRU MURA G
	Oct. 2012	TV animation	IXION SAGA DT
Oct. 2013	TV animation	Gaist Crusher (planned)	
Theatrical production	Feb. 2009	Takarazuka Revue Company	Phoenix Wright: Ace Attorney – The Truth Comes Back to Life
	Jul. 2009	Theatrical production	Sengoku BASARA
	Aug. 2009	Takarazuka Revue Company	Phoenix Wright: Ace Attorney 2
	Apr. 2010	Theatrical production	Sengoku BASARA Stage Adaptation second stage
	Oct. 2011	Theatrical production	Sengoku BASARA: Samurai Heroes
	May 2012	Theatrical production	Sengoku BASARA 2
	Nov. 2012	Theatrical production	Sengoku BASARA 3 Setouchi Kyoran, Stage Adaptation
	Jan. 2013	Takarazuka Revue Company	Prosecutor Miles Edgeworth: Ace Attorney 3
Apr. 2013	Theatrical production	Sengoku BASARA 3 Utage	
Jun. 2013	Takarazuka Revue Company	Sengoku BASARA	
Jul. 2013	Theatrical production	Phoenix Wright: Ace Attorney – Gyakuten no spotlight	
TV drama	Jul. 2012	TV drama	Sengoku BASARA -MOONLIGHT PARTY-

## Promoting the Visibility and Systematization of Management and Operations to Establish a Governance Structure Able to Respond to Sudden Changes in the Management Environment

As sudden changes in the global environment surrounding the game industry give rise to both risks and opportunities, corporate governance is more important than ever. Capcom Chairman and CEO Kenzo Tsujimoto and External Director Hiroshi Yasuda discuss the kind of governance structure the company should adopt to achieve further growth.



Kenzo  
Tsujimoto

Chairman and  
Chief Executive Officer (CEO)  
Capcom Co., Ltd.

Conversation

Hiroshi  
Yasuda

External Director,  
Capcom Co., Ltd.



### Thorough Management Transparency as a Public Presence

**Yasuda** It has been six years since I was first appointed as an external director. When first I accepted your request, I remember being a bit unsure about whether I was a good fit or not, since I had only ever worked in government institutions.

**Tsujimoto** Well, I always appreciate your pertinent advice at board meetings. It is reassuring to have someone like yourself from the top-levels of administration to provide a broader perspective of Capcom.

**Yasuda** You founded and built Capcom into what it is today in one generation, so before I was appointed, I wondered if this was a company run by authoritarian management, but in fact you are extremely focused on corporate governance and compliance. Capcom was one of the first companies in the game industry to introduce an external director system. This is not just for show; rather, we are provided with highly objective information immediately that enables us to fulfill our role as external directors.

**Tsujimoto** I built this company so I can do whatever I like—that is not the way I think. When I created Capcom, I had neither people nor money and I worked extremely hard, but today, on a consolidated basis, Capcom employs nearly 3,000 people, has net sales of 100 billion yen and is supported by over 20,000 shareholders. We're not yet a huge corporation, but as a publicly traded company, Capcom does not belong to management only. For this reason, to meet our responsibility to all our stakeholders, the challenge is how best to put people and capital to work. Management transparency facilitating a shared awareness of the company's current situation among all employees throughout the organization is vitally important. This is why we introduced an external director system and promote the "visibility" and systematization of management.

**Yasuda** With respect to the numbers in particular, Capcom makes a thorough effort. Movement in the game industry is intensifying, and although there are some technical issues that are difficult to understand,

the points in the materials distributed at board meetings are very well organized, enabling the management situation to be understood just by looking at the numbers. I am always impressed by how well this system was created.

**Tsujimoto** The problem with governance is, if a mistake or error occurs, there is a tendency to cover it up since no one is looking. Creating a highly transparent structure can prevent this situation. Of course, nothing obvious should ever be neglected, so I think we need to be aggressive about what you and the other external directors point out, namely, "what is going on here? And will it be a problem if we ignore it?"



## Focusing Efforts on the Creation of Operational Systems

**Tsujimoto** Defensive tactics, such as visibility, transparency of management and prevention of governance problems are important for corporate growth, but so are offensive tactics. Decisive strategy alone does not guarantee a company's success. We are developing business in a world that is constantly changing and evolving, so no matter how carefully we formulate strategy, things don't always go according to plans. Management transparency is necessary to identify problems and their causes and quickly deal with them. I think ongoing analysis as a member of senior management is linked to corporate growth.

**Yasuda** Projects that do not proceed according to plans are a kind of new challenge, then? You often say "the landscape changes", and I think the game industry at present, including the rapid expansion of the online market, is in the vortex of a major upheaval on a global scale. This vortex is not limited to traditional developed countries like Japan, the United States and Europe, it is spreading globally. To ride out these turbulent times, I think we need more investment in development than ever before. In the online market, where success or failure is obvious and immediate, it is possible for a split-second decision to decide one's fate entirely. As the opportunities get bigger and bigger, so do the risks.

**Tsujimoto** As you say, risk and opportunity are two sides of the same coin. As for the environment surrounding the game industry, I expect the dramatic changes to continue. Only companies with solid "management and operational capabilities" able to respond to these changes will survive. With regard to "management", Capcom has spent five years creating a highly perfected system. In terms of issues going forward, we will enhance this system from an operational standpoint. Under our present system, even if we determine an outcome, we have

no process for arriving at that outcome. I feel there is still a lot of waste in the "actual process" with respect to employee utilization. I want to promote the creation of a mechanism that makes the status of individual progress visible from the perspective of both manufacturing and sales operations.

## Aiming to Create Governance Appropriate for a Global Corporation

**Yasuda** With advances in technology and the increasingly global nature of Capcom's business development, I think intellectual property rights management is an important issue.

**Tsujimoto** You are absolutely correct. For nearly 20 years, I have served as director of The Association of Copyright for Computer Software (ACCS), and from now, protecting intellectual property rights will become more important than ever in the game industry. Piracy in Asia is rampant, and if we just stand by and do nothing, primary game development will be a challenge because creative people will not want to get involved. In Japan, there are a large number of talented young people able to create highly original content. By protecting intellectual property rights, we are creating an overall industry environment that enables them to make the most of their talent. It is also necessary if Japanese game companies intend to do battle on the world stage.

**Yasuda** It appears that Japan is finally coming out of a long period of economic deflation and is on track toward recovery. Game industry development capabilities involve the most advanced technologies in the world, and Capcom, as a representative of Japan, is doing its part to promote the government's proposed "Japan Growth Strategy", isn't that right?

**Tsujimoto** I think the economic recovery is wind in Capcom's sails.

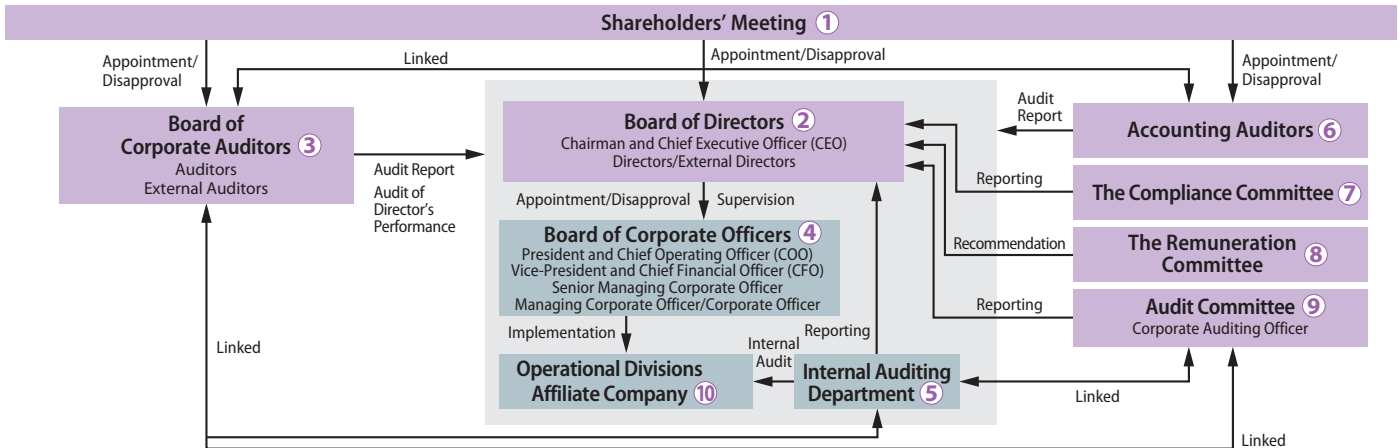
Compared to when I established the company, the technological progress of home video games is really eye-opening; the development process and expenses have risen exponentially. Furthermore, rapid growth in the online and mobile markets has ushered in an era of great transformation in the markets where Capcom does business. In this new era, game configurations and user needs will certainly continue to change. At one time, clothing, food and shelter represented the majority of tangible product consumption, but we are moving toward an era where the majority of consumption will consist of intangible products. These products are not limited to games, and I am confident that the applicable scope of content and simulation technologies used in games will widen. In addition, considering that network environment advances will further lower regional barriers, there are plenty of opportunities for companies like Capcom, with an abundance of popular titles, to be victorious on the global stage. In our quest to become one of the world's leading companies, we will heed the advice of our savvy external directors to create a more solid governance structure.





# Corporate Governance Structure and Initiatives

Shareholders and investors have made the practical and effective functioning of internal control into a key issue amidst an epidemic of corporate misconduct in Japan and overseas. In this section, Capcom will explain the corporate governance structure and mechanisms that it has initiated so far based on the key concepts of “effectiveness and visibility” in terms of the results of third party assessment. (Assessment areas are highlighted in yellow.)



## Corporate Governance Structure

### Enhancing Management Health and Transparency while Responding to Changes in the Environment

Capcom is aware that comprehensive corporate governance ranks among management's most important priorities. We make the utmost effort to enhance management health and transparency and maintain an organization that is responsive to changes in the business environment while focusing efforts on improving the satisfaction of shareholders, customers, employees and all our stakeholders. The introduction of a Corporate Officer System, part of our management system reforms, established a clear separation between the responsibilities of the Board of Directors and the corporate officers and facilitates faster decision-making and more flexible execution of operations while heightening management efficiency. In addition, we make an effort to ensure fairness and improve reliability by raising the level of our Board of Directors monitoring function with three external directors and two external auditors.

#### 1 Shareholders' Meeting Convened on June 18, 2013

### Avoiding the Same Meeting Date as Other Companies and Encouraging Shareholders to Exercise Their Voting Rights

Capcom's general shareholders' meeting serves as its highest decision-making body and determines important matters as well as reports audit results of consolidated financial statements.

We have scheduled the meeting to take place around 10 days prior to the date on which most other companies in Japan hold their general shareholders' meetings to ensure as many shareholders as possible can be in attendance. We have also made it possible for shareholders to exercise their voting rights over the Internet using a computer or smartphone. In addition, we participate in an electronic voting rights exercise platform for institutional investors.

Two resolutions were brought up for discussion at this year's shareholders' meeting on the issues of the "Proposed Appropriation of Retained Earnings" and the "Election of 10 Corporate Directors". Both of these resolutions were approved and passed.

For more details, please see "Shareholders' Meeting Resolutions" on page 51.

#### 2 Board of Directors Convened 14 Times in Year ended March 31 2013

### Management Decisions that Incorporate Outside Opinions

The Board of Directors consists of 10 members, meets regularly once a month and holds extraordinary meetings when necessary. Three of the 10 members are external directors, whose opinions, advice and feedback invigorate and improve the transparency and reliability of the Board of Directors while strengthening the management monitoring function. During the period under review, the Board of Directors met 14 times, engaging in lively discussions concerning reported items and matters for resolution. Moreover, we established a Remuneration Committee chaired by an external director to determine fair and appropriate compensation for directors. Also, two external directors were appointed as independent directors to avoid any conflict of interest among general shareholders in terms of decision-making.

Capcom has established a database of information on the company's business conditions, including at its overseas subsidiaries, so that its directors can correct monitor the status of the entire company.

For more on external directors, please see "External Directors and Auditors" on page 49.

#### Officer Remuneration (Year ended March 31 2013)

	No. of People	Remuneration Amount
Directors (External Directors)	11 (3)	¥558 million (¥32 million)
Corporate Auditors (External Auditors)	6 (4)	¥49 million (¥21 million)

Note 1: Above includes director's bonus of ¥63 million (external directors excluded) for business activities in this fiscal year.

Note 2: Above includes two external auditors who resigned at the conclusion of the 33rd General Shareholders' Meeting held on June 15, 2012.

#### 3 Board of Corporate Auditors Convened 14 Times in Year ended March 31 2013


### Accounting Auditors Partner with Internal Auditing Department to Monitor Management

Capcom has adopted a corporate auditor system consisting of four members, two of whom are external auditors. In addition to formulating auditing policies and providing consultation regarding audit results,

members of the Board of Corporate Auditors submit items identified in the audit to the president and exchange opinions and information with accounting auditors when appropriate.

Capcom adopted the corporate auditor system over a company with committees because, in addition to the introduction of a Corporate Officer System, we had already introduced the company with committees concept of separating the monitoring and business operation functions through the appointment of three external directors and the establishment of a Remuneration Committee.

Moreover, to improve the effectiveness and efficiency of the auditing function, the Audit Committee, Internal Auditing Department and auditors mutually coordinate to exchange views and information when necessary.

 For more on external auditors, please see "External Directors and Auditors" on page 49.

#### 4 Board of Corporate Officers Convened 12 Times in Year ended March 31 2013

### Executing Operations Based on a Clear Management Policy

The Board of Corporate Officers is composed of 19 members selected by the Board of Directors. **Under the supervision of the Board of Directors, corporate officers promptly and precisely execute business activities based on management policy determined by the Board of Directors** and take agile and appropriate response to rapid changes in the management environment when deemed necessary.

#### 5 Internal Auditing Department

### Ensuring and Verifying Legal Compliance and Operating Efficiencies

As an internal auditing function established to be independent from business execution, the Internal Auditing Department conducts internal audits on all divisions of Capcom and works with corporate auditors to verify and ensure the legal compliance and efficiency of the company's operations. The audit office makes an effort to ensure that internal controls work effectively in every division and recommends improvements to audited divisions based on their findings.

#### 6 Accounting Auditors

### Ensuring and Verifying Accounting Transparency

Capcom has engaged KPMG AZSA LLC for financial audits as prescribed by the Companies Act and financial audits as prescribed by the Financial Instruments and Exchange Law. There is no relationship involving financial or other interests between Capcom and this audit corporation or the individuals at this firm who perform audits at Capcom.

#### Auditor Remuneration (Year ended March 31 2013)

	Audit Operations	Non-Audit Operations
Delivery company	¥40 million	—
Consolidated subsidiary	¥2 million	—
Total	¥42 million	—

Auditing Company	Name of Certified Public Accountants	
KPMG AZSA, LLC	Designated and Engagement partner	Masaaki Doi Takuya Obata

Note 1: Assistants to accounting audit operations  
 Certified public accountants: 12; Others: 6 (those who have passed the certified public accountant exam and persons in charge of system audits)

#### 7 The Compliance Committee Convened Four Times in Year ended March 31 2013

### Focusing on Compliance as an Important Management Issue

The Compliance Committee, chaired by an external director licensed to practice law, meets quarterly to address various risks facing the company. The Compliance Committee receives reports on "period compliance checks" that investigate the business operations of each department semiannually and on the nature of inquiries made at the "Compliance Hotline", which serves as a whistle-blowing system for the company. These reports are also presented to the board of directors through the Compliance Committee, and when necessary, it will issue reminders and recommendations as well as provide advice.

#### 8 The Remuneration Committee Convened Three Times in Year ended March 31 2013

### Reporting Details of Director Compensation

Based on the amount agreed upon at the general shareholder's meeting, the Remuneration Committee recommends remuneration for each board member to the Board of Directors that is befitting and determined with consideration for each board member's title, duties, tenure, full/part-time service, etc., as well as Capcom's earnings and individual job performance. To ensure fairness and transparency, the committee chairman is an external director.

#### 9 Audit Committee Convened 42 Times in Year ended March 31 2013

### Auditing Operations from a Risk Management Perspective

The Audit Committee conducts audits from a different perspective than the auditors and the Internal Auditing Department. They focus on risk management in all businesses and regularly monitor execution of business duties in Group companies. They also collect and compile information through individual business auditor investigations, providing analysis and reports to the Board of Directors. Based on these reports, the board works to prevent risks and executes business reforms while accurately ascertaining business inefficiencies and business risks inherent in the Group from the perspectives of compliance, validity and efficiency. And, in the event of an unforeseen situation, the Audit Committee contributes to the formulation of appropriate management decisions by quickly providing the Board of Directors with a report examining and analyzing the causal factors in an attempt to minimize losses to the company.

#### 10 Affiliate Companies

### Ensuring Effective Government through Close, Group-wide Collaboration

We have developed a group-wide compliance framework through close communication and collaboration between parent company and subsidiaries based on monthly subsidiary board meetings and the "Management Regulations for Subsidiaries". Through this framework, we ensure that our operations are being undertaken properly so that corporate governance functions effectively.

# Corporate Governance Structure and Initiatives

## External Directors and Auditors

### Using External Perspectives to Ensure Effective Governance

External directors ensure the effectiveness of the corporate governance function by playing key roles in the Compliance and Remuneration Committees. They also focus efforts on compliance and the prevention of corrupt or illegal activities, and **openly exchange opinions and provide counsel at Board of Directors meetings in an effort to strengthen the management audit function.**

External auditors participate in Board of Directors and other important meetings, evaluating the directors' execution of their duties with an opinion of objectivity and fairness from the perspective of compliance and appropriateness.

In addition, the Executive Secretariat Office (six staff) and Internal Audit Office (seven staff) provide support work to ensure that our external directors and external auditors can perform their duties effectively.

### ■ Board of Directors/Board of Corporate Auditors Rate of Attendance (Year ended March 2013)

	Name	Rate of Attendance
External Directors	Hiroshi Yasuda	Attended 13 of 14 (92.9%) board meetings in year ended March 2013
	Makoto Matsuo	Attended all board meetings in year ended March 2013
	Takayuki Morinaga	Attended all board meetings in year ended March 2013
External Auditors	Yoshihiko Iwasaki	Attended all five board meetings and all 10 corporate auditor meetings held after his appointment on June 15, 2012
	Akihiko Matsuzaki	Attended all five board meetings and all 10 corporate auditor meetings held after his appointment on June 15, 2012

### Reason for the Selection of External Directors

**Hiroshi Yasuda:** Mr. Yasuda was appointed external director in overall consideration of his character, business acumen and successive

appointments to important posts. Mr. Yasuda also serves as a member of the independent committee on takeover defense measures in his capacity as an external director independent from the executive management team. None of the criteria inhibiting director independence as stipulated by the Tokyo Stock Exchange applies to him. Consequently, we have determined there is no potential conflict of interest with general shareholders in terms of his decision making.

**Makoto Matsuo:** Mr. Matsuo was appointed external director to ensure the effectiveness of corporate governance through the appointment of a legal professional able to provide precise guidance and advice on legal compliance. Moreover, in the event of a conflict of interest between senior management and general shareholders at Board of Directors or other meetings, Mr. Matsuo points out aggressive statements and problem areas from an independent and neutral perspective based on a conviction in the responsibilities placed on the Board of Directors, including taking the position of general shareholders when receiving an explanation, as part of his duty to maintain shareholder trust.

**Takayuki Morinaga:** Mr. Morinaga was appointed external director based on his management experience at other companies, professional career, track record, and personal connections in the business world. Mr. Morinaga also serves as a member of the independent committee on takeover defense measures in his capacity as an external director independent from the executive management team. None of the criteria inhibiting director independence as stipulated by the Tokyo Stock Exchange applies to him. Consequently, we have determined there is no potential conflict of interest with general shareholders in terms of his decision making.

### Reason for the Selection of External Auditors

**Yoshihiko Iwasaki:** Mr. Iwasaki was appointed external auditor based on the determination that his professional experience in tax administration would be of benefit to the company.

**Akihiko Matsuzaki:** Mr. Matsuzaki was appointed external auditor to leverage the wealth of experience and knowledge accumulated during his many years in law enforcement administration to help the company further enhance its corporate governance.

## Comments from External Director

### Makoto Matsuo

External Director



### Fulfilling My Monitoring Function for Internal Controls and Legal Compliance

In recent years, several incidents involving the inappropriate disclosure of information in Japan and overseas have caused investors to demand companies strengthen their internal controls. Furthermore, the Companies Act and Financial Instruments and Exchange Act require the establishment of a "basic policy on internal control systems" to ensure the accuracy of financial reporting, legal compliance and management efficiency as well as the submission of an "internal control report" on the company's financial reporting. On top of this, Capcom is proactively expanding overseas and working to ensure management transparency by making "clearer quantitative management targets" for all of its group companies, in conjunction with their business growth. I am also aware of the importance found

in building an optimum governance framework that encompasses global risk management and information management systems.

I will leverage my many years of professional experience and expertise as an attorney to strengthen Capcom's operational audits so as to strengthen the auditing function and enhance internal control and legal compliance based on objective and fair communication. I will also work to disclose information appropriately and promote the enhancement of Capcom's compliance and risk management frameworks in order to respond smoothly and appropriately in the unlikely event that unforeseen incidents should occur.



## Third-Party Assessment

### Promoting More “Visible” Governance

An analysis of an assessment performed by a third-party organization into the validity and effectiveness of Capcom’s corporate governance shows that the company ranked 146th among listed companies in Japan in the “NEEDS-Cges” quantitative corporate governance assessment developed by Nikkei Digital Media, Inc.

“NEEDS-Cges” has an established reputation as a system that quantitatively assesses corporate governance using scores on a scale of 0 to 10 for eight categories, including “capital efficiency”, “information disclosure”, and “shareholder and capital composition”, among others, assigned based on some 130 indicators calculated from data of publicly released company documents, such as financial reports.

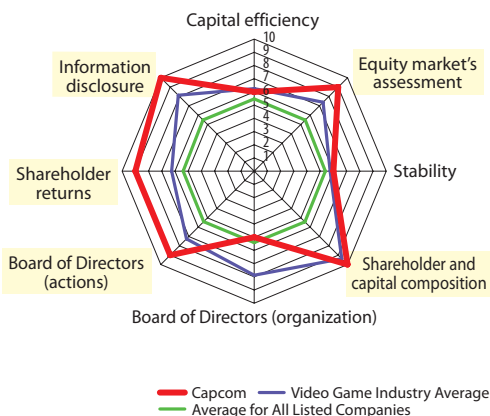
Capcom’s total score was 8.00 points, placing it in the top 4.3% of Japan’s 3,358 listed companies. Our score also greatly exceeded the average for all listed companies and for the industry, at 5.43 points and 7.46 points, respectively.

### Third-Party Assessment Results of Capcom’s Corporate Governance

#### Details of Capcom’s Corporate Governance Assessment

Rank	Company	Total Score
146	Capcom	8.00
Categories		Score
Capital efficiency		6
Equity market’s assessment		9
Stability		6
Shareholder and capital composition		10
Board of Directors (organization)		5
Board of Directors (actions)		9
Shareholder returns		9
Information disclosure		10

#### Comparison of the Industry Average and the Average for All Listed Companies



#### Details of Highest Rated Categories

Highest Rated Categories	Score	Areas that Received Particular Notice
Equity market’s assessment	9	Tobin’s Q-related values PBR-related values
Shareholder and capital composition	10	Ratio of institutional investor shareholdings Ratio of foreign investor shareholdings Cross-shareholding ratio
Board of directors (actions)	9	President ownership ratio-related Director ownership-related
Shareholder returns	9	Shareholder return ratio Dividend payout ratio (non-consolidated)
Information disclosure	10	Changes in accounting policy Date of general shareholders’ meeting Corporate website

\* Source: NEEDS-Cges from Nikkei Digital Media Inc.

#### Comments from Auditor

### Kazushi Hirao

Corporate Auditor (Full-Time)



### Auditing the Execution of Operations Related to Business Development Amid a Changing Market Environment

Capcom’s team of corporate auditors consists of four individuals, including two external auditors.

Daily audit operations are implemented in accordance with the audit policy and segregation of duties determined by the Board of Corporate Auditors. To perform our duties, we communicate with the Board of Directors, the Internal Auditors Office and the Internal Controls Office and other persons within the company, and work to ensure a suitable audit environment is in place. In addition, collaborating with the Audit Committee, we constantly share information and views in order to reinforce operational audits. We also audit and verify frameworks that ensure director duties conform to laws and the company’s articles of incorporate

as well as frameworks for ensuring the appropriate operations of the company (internal control system).

Corporate auditors attend board of directors and other important company meetings, and based on reports from directors on their duties, when necessary, we request further explanations and browse important decision-making documents to investigate the status of Capcom’s operations and assets.

Looking ahead, with Capcom engaged in a dramatically changing market environment, going forward, I would like to further strengthen communication and information exchange with directors at our affiliated subsidiaries and perform audits based on fundamental perspectives.

# Creating Relationships with Shareholders and Investors

## Initiatives for the General Shareholders' Meeting

### Making Shareholders' Meetings Lively and Facilitating the Exercise of Voting Rights

To ensure our General Shareholder's Meetings are lively, we hold our meeting about 10 days before the period when most Japanese companies typically hold their meetings in an attempt to encourage the attendance of as many shareholders as possible.

In addition, voting rights can be exercised via computer, smartphone, mobile phone and Internet. Participating in the digital exercise of voting rights platform, institutional investors are ensured a sufficient amount of time to consider proposals starting on the day the convocation notices are distributed. We also post convocation notices in English on our corporate website to promote the exercise of voting rights by shareholders in Japan and overseas.

## Basic Policies Regarding IR Activities

### 1. Disclosure Policies

Capcom believes that the timely and appropriate disclosure of information is the duty of every listed company, and that accountability to our shareholders and investors is indispensable from the perspective of corporate governance.

To this end, our basic policy for IR activities involves (1) the establishment of a responsible investor relations framework, (2) the thorough disclosure of information, and (3) the creation of a system for the timely disclosure of information to enhance management transparency.

### 2. Disclosure Criteria

Capcom provides timely disclosure in accordance with the Securities and Exchange Law and other regulations including the "Rules on Timely Disclosure of Corporate Information" by Issuer of Listed Security

## Shareholders' Meeting Resolutions

The following presents the number of votes in favor, opposed or abstained for the matters to be resolved at the year ended March 31, 2013 general shareholders' meeting, the requirements for the resolutions to be passed and the results of voting.

Resolutions	Approval Votes	Votes Opposed	Abstained Votes	Approval Rate (%)	Voting Results
First proposal: Proposed Appropriation of Retained Earnings	426,595	359	200	97.84	Resolved
Second proposal: Election of Ten (10) Directors					
Kenzo Tsujimoto	424,132	2,678	340	97.28	Resolved
Haruhiro Tsujimoto	422,764	4,046	340	96.96	Resolved
Tamio Oda	422,647	4,163	340	96.94	Resolved
Kazuhiko Abe	422,691	4,119	340	96.95	Resolved
Yoshifumi Yamashita	422,697	4,113	340	96.95	Resolved
Katsuhiko Ichii	422,665	4,145	340	96.94	Resolved
Yoichi Egawa	422,621	4,189	340	96.93	Resolved
Hiroshi Yasuda	422,956	3,854	340	97.01	Resolved
Makoto Matsuo	374,548	52,262	340	85.91	Resolved
Takayuki Morinaga	423,365	3,445	340	97.10	Resolved

\*1 Conditions for each proposal to be passed

(1) The first proposal could be approved with a majority approval of the voting rights of the shareholders in attendance.

(2) The second proposal could be approved with at least one-third of the company's shareholders with voting rights in attendance and with a majority approval of the voting rights of the applicable shareholders in attendance.

(3) The percentage of approval is calculated according to the following formula.

Percentage of approval = number of voting rights for approval (votes exercised until the day prior to the meeting + certain shareholders in attendance on the day of the meeting) ÷ number of votes (votes exercised until the day prior to the meeting + shareholders in attendance on the day of the meeting)

\*2 Reason why certain voting rights of shareholders in attendance were not added to the total number of voting rights

The total confirmed number of votes in approval from the votes exercised until the day prior to the meeting and certain shareholders in attendance on the day of the meeting fulfilled the requirements for each proposal. As a result, the number of voting rights for which confirmation was not made in terms of approval, opposition or abstention from shareholders in attendance on the day of the meeting were not counted because the proposals were legitimately approved in accordance with the Companies Act of Japan.

(hereinafter Timely Disclosure Rules) stipulated by the Financial Instruments and Exchange Law and the Tokyo Stock Exchange. It is our policy to disclose as much information as possible, including the disclosure of information not required by the Timely Disclosure Rules, to accommodate our investors' needs.

We also disclose information through our corporate website in an attempt to provide quick and fair disclosure. Shareholders are informed of operating results and business conditions through business reports.

### 3. Quiet Period

To prevent the unauthorized disclosure of quarterly earnings information prior to official announcements, Capcom has established a quiet period starting one month prior to the scheduled earnings announcement. During this period, we refuse all inquiries relating to our business performance. However, if significant changes to our earnings outlook are anticipated during the quiet period, we will disclose this information pursuant to the Timely Disclosure Rules.

## Third-Party Assessment of IR Activities

### High Praise for Proactive IR Initiatives

In recognition of our ongoing pursuit of timely and appropriate information disclosure, our IR activities and various IR tools have received a number of awards from third-party organizations. This fiscal year, Capcom won Grand Prize at the Nikkei Annual Report Awards 2012, our IR website was ranked number one in the Gomez Investor Relations Site Overall Rankings 2013 and we were selected by Daiwa Investor Relations for the Internet IR Grand Prize and Special Award.

With an awareness of the importance of accountability, we will continue our efforts to earn the trust of investors and provide timely disclosure.

## Making Use of Shareholder and Investor Opinions

### Incorporating Results of Research on Investor and Analyst Understanding of Capcom into IR Activity Objectives

Capcom's Investor Relations Section conducts a perception gap study every year targeting investors and analysts in Japan and overseas. Being aware of investor perception gaps with regard to management objectives, business strategy and shareholder's return enables us to fine-tune corporate management and IR activities. Questionnaires are also given to attendees at our semiannual earnings announcements and individual shareholder briefing sessions, which we make proactive use of as one management criterion to determine stock market opinion.

Specific examples of how this information is used include (1) reviews of medium-term business goal indices, (2) reviews of business strategy, (3) enhancements to shareholder's return (dividends + treasury stock), (4) reviews of content and timing of information disclosure and (5) Group meetings with management.

## Website Utilization

### IR activities making use of our website

Since 2001, Capcom has made proactive use of its corporate website as a tool for disseminating information pertaining to IR activities. The main reasons for this are to emphasize the importance of information disclosure procedures within corporate governance, to ensure fairness for a wide range of stakeholders, including investors, analysts, the mass media and job-seekers, and because it easily ensures information is available for inspection immediately in Japan and over 200 countries worldwide. Capcom's corporate website is positioned as our most cost-effective tool from the perspective of printing and shipping costs.



<http://www.capcom.co.jp/ir/english/>

## Advantages of Website Usage

Details	Advantages
Information disclosure*	Ensures management transparency as an important item within corporate governance
Immediacy/Fairness	Enables access to anyone, anytime
Wide range of targets	Enables information to be distributed all at once to individual investors, institutional investors, securities analysts, the mass media, job-seekers students (university research students, middle and high school students) and game users
Wide range of target regions	Enables information to be distributed to Japan, the United States and Europe, Asia and over 200 countries worldwide
Reduced work	Recommended browsing of our IR site offers a labor-saving first response to basic questions from shareholders and individual investors
Reduced expenses	Reduces costs compared to printed materials and road shows

\* Target category of the "NEEDS-Cges" quantitative corporate governance assessment.

## From Management to Development, a Wealth of Information

Capcom's IR website offers not only a wealth of necessary and indispensable basic content, such as financial information and business strategy, we also make an effort to provide information behind the numbers, such as delving into the profile and management philosophy of senior management in the "Views & Personalities" section and probing the source of Capcom's developmental ideas and power in the "Developer Interviews" section. Also, to support human resource recruitment, as well as take advantage of our specialty in the entertainment business, we offer the "Capcom Quiz" enabling users to study about the company in a quiz format, "Capcom Trivia" to tests user's knowledge about Capcom and "Monster Hunter Hit Trajectory" detailing the development of this hit title. The inclusion of this kind of playful content stimulates the interest of job-seekers and students.

On the other hand, to support stakeholder corporate analysis, we make every effort to provide content including data for each market, data on the unit sales of major titles and market share information in addition to analyst ratings and consensus and other third-party perspectives.



## Distributing a Variety of Information Using Social Media

In recent years, we have been making use of various social media services with the goals of providing a way for stakeholders around the world to easily access our IR website and strengthening the efficiency of our IR information distribution. We use USTREAM to distribute videos of our earnings announcements and briefings, Facebook and Twitter to distribute IR information and Flickr to display images from Capcom-related events among other advanced Internet technologies to provide information in a timely manner. Furthermore, we aim to enhance usability with the release of a Capcom IR website app for the increasingly popular iPhone.



## IR Team

### Full-Time Staff Engaged in a Wide Variety of Activities

Capcom IR activities are conducted by four full-time staff members in addition to the chairman, the president and the IR director on behalf of shareholders and investors in Japan and overseas.

For earnings information and other IR-related inquiries, please contact the IR team.



Investor Relations Staff

### Public Relations & Investor Relations Section

PHONE: +81-6-6920-3623  
E-mail: [ir@capcom.co.jp](mailto:ir@capcom.co.jp)

Business Hours:  
9:00-12:00, 13:00-17:30 (JST)  
(excluding weekends and public holidays)



# Internal Management Structure and Initiatives

## Internal Control System Status

### Strengthening Risk Management through the Development of Our Internal Control System

As part of directors' due diligence, Capcom developed the following internal control system based on the Companies Act and its enforcement regulations to ensure that all Group company practices comply with regulations and are executed in an efficient manner.

#### 1. Creation of a Structure to Ensure Directors Perform their Duties in Accordance with Laws and Regulations

To strengthen the management monitoring function and enhance corporate value, Capcom strives to prevent illegal activities and ensure compliance through regular Compliance Committee checks while attempting to invigorate and heighten the monitoring function of the Board of Directors in accordance with advice and recommendations from the three external directors.

#### 2. Internal Control over Financial Reporting

Based on our internal control rules, Capcom has developed and continues to operate the necessary systems in order to guarantee reliable financial reporting and ensure proper internal control over financial reporting, in accordance with the Financial Instruments and Exchange Act. Our internal control system over consolidated financial reporting at the end of the period under review has been determined as effective and the results of this assessment have been reported to the Director-General of the Kanto Regional Finance Bureau in the form of an internal control report. The results have also been disclosed through EDINET and our corporate website.

#### 3. Develop a System to Maintain Appropriate Business Practices

##### (1) Information Management and Storage

The management and storage of documents and information such as the minutes from board meetings is conducted in accordance with "document management regulations".

##### (2) Risk Management

A risk management structure and "crisis management regulations" were created to proactively prevent crises and execute the appropriate actions if one occurs.

##### (3) Efficient Execution of Business Operations

Capcom introduced a Corporate Officer System under which the duties of the Board of Directors and corporate officers are separated to enable smooth and flexible business operations and enhance management efficiency.

##### (4) Legal Compliance System

The "Capcom Code of Conduct" is our guideline for legal compliance. We seek to prevent illegal activities and misconduct through employee training and monitoring programs.

##### (5) Operational Audit Structure

In accordance with auditing policies, the execution of operations by corporate officers are audited, with recommendations for improvements indicated in auditor reports as necessary to ensure internal controls function effectively. To enable auditors to perform their duties smoothly

and appropriately, an employee is selected with the consent of auditors to provide assistance.

#### 4. Basic Policy and Framework for the Eradication of Antisocial Forces

Capcom takes a firm stand against antisocial forces that threaten social order and the safety of citizens, and strictly prohibits any association with such groups at the organizational, employee and individual levels. If we are contacted by such groups, in addition to swift organizational measures, we will cooperate with the police and other relevant authorities to firmly refuse unlawful demands.

While Capcom attempts to remain aware of information related to these groups in order to avoid contact or involvement, if we discover that we have unknowingly become involved with them, we will immediately terminate the association with the help of the police and other relevant authorities.

## Initiatives to Strengthen Compliance

### Focusing on the Viability and Effectiveness of Our Compliance System

As noted on page 48, Capcom has established a Compliance Committee chaired by an external director that periodically reports to the Board of Directors and issues reminders and recommendations as well as provides advice based on reports from local compliance committees. The Internal Controls Department, which has been established as the committee's secretariat, works to enhance the viability of the entire Capcom Group's compliance system by planning and operating the internal compliance system and functioning as the department that provides consultations and receives notifications to prevent legal violations before they occur.

Furthermore, the "Capcom Code of Conduct" was formulated to strengthen our compliance system. Capcom is dedicated to proactively preventing illegal acts and misconduct, and ensuring legal compliance through the promulgation of corporate ethics and principles.

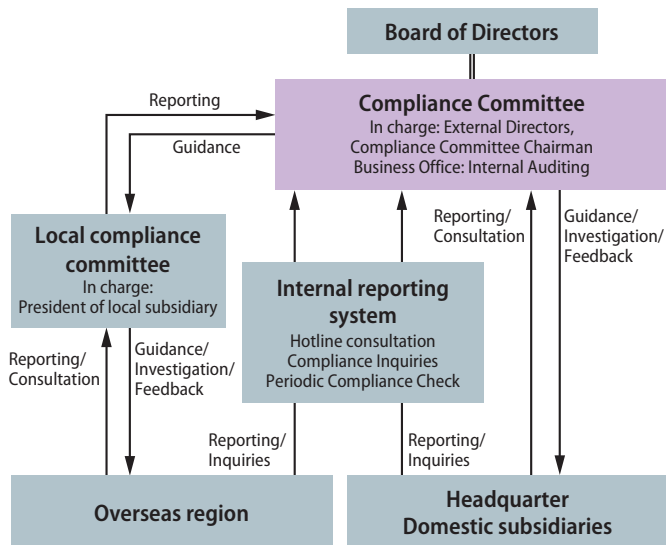
During the period under review, the Compliance Committee met four times and conducted compliance training sessions for new employees. Also, "e-learning sessions on legal compliance and personal information protection rules" were given to all employees.

Compliance is the foundation of corporate governance and the basis for the fulfillment of corporate social responsibility. Capcom will continue to instill this understanding in all its officers and employees.

#### ■ Status of Training and Other Programs (Year ended March 31, 2013)

Activity	No. of Times	Target
Compliance training	1	New employees
Sessions on personal information protection rules	2	All employees
Sessions on legal compliance	2	All employees

## ■ Compliance Structure



## Periodic Compliance Checks

### Compliance Status Checked Regularly

Capcom conducts “periodic compliance checks” to regularly monitor the operational status of each of its departments. Every six months more than 30 items, including fair business practices, workplace health and safety, and information asset management, are checked using a paper questionnaire, while compliance officers covering each department are also interviewed individually to confirm the effectiveness of our overall compliance system.

In response to feedback received from interviews and questions during the “periodic compliance check”, such as on protocol for issuing documents to business partners and proper document management practices, clear-cut answers are provided to related persons and when necessary, all employees are notified and made aware using the intranet.

## Compliance Hotline

### Special Hotline Set Up for Compliance Issues

Capcom established the “Compliance Hotline” and “Corporate Ethics Hotline Rules” in accordance with the Whistle-Blower Protection Act of Japan and as a means to prevent and uncover risks in order for the company to thoroughly practice compliance-focused management.

This hotline enables the company to smoothly address whistle-blowing complaints from employees and have in place an environment to prevent legal violations or illegal behaviors as well as take corrective action.

## Information Security Initiatives

### Building Mechanisms for the Appropriate Protection of Information Assets

As a company primarily engaged in the planning and development of software, Capcom is an environment where the latest information

technology is always in use. Compared to companies in other lines of business, we face relatively high information security risks.

Capcom protects its information assets from theft, loss, accident and threat of damage, and has formulated an information security policy appropriate for a corporation trusted by society.

We also provide employees with a self-learning environment via the company intranet, and publish internal information regulation collections including “Basic Security Policies”, “System Usage Policies” and “Basic Disclosure Policies”, etc.

We use a firewall to protect us from external attacks via the Internet, and our internal system requires each user to have a unique ID, password and PIN to access the system, thereby reducing the risk of unwelcome intruders.

Furthermore, we are in the process of patching known security holes. Over the next few years, we will implement measures to prevent information leaks, which will include (1) identification of information leak risks, (2) creation of an early response structure to respond to information leaks and (3) establish response process to minimize damage in event information is leaked.

Above all, in (1) we will reconfirm the importance of information assets held by each department with the aim of clarifying critical risks and create a manual detailing procedures related to (2), while (3) will involve a system capable of quickly auditing the information log to find the cause and prevent the reoccurrence of problems. In this manner, we are focusing our efforts on using our expertise to enhance our internal response capabilities.

To improve security literacy among all our employees, we are implementing internal training to raise awareness and educate on the topic of information leak risks.

Through these and other initiatives, Capcom is striving to create a structure for making an appropriate first response in the event information is leaked or an accident occurs.

## Business Continuity Plan (BCP) Initiatives

### Strengthening Our Crisis Management System

Capcom is working to strengthen its crisis management system in order to minimize damages, losses and disrepute, and ensure the company continues to function, based on an appropriate and smooth response, in the event of an emergency, such as a natural disaster or accident. If an emergency occurs, under our crisis management rules, a task force consisting of top management will be set up to assess the extent of damage to the company. In addition, we have established action criteria and an emergency contact route in our crisis management manual in order to ensure an appropriate response and convey information to one another in a prompt manner.

In the wake of the Great East Japan Earthquake, we are striving to build a crisis management system that will ensure our business continuity in the event of an unforeseen incident or natural disaster. This will be made possible by strengthening our risk management through the stockpiling of disaster-relief supplies, implementation of a safety confirmation system, and storage of health kits for flu, to ensure that we can properly and quickly respond to these emergencies.

# Risk Management

## Various Risk Management Efforts to Achieve Stable Earnings

Capcom faces many risks (see below) that have the potential to affect operating performance and the company's financial condition. A risk management system has been created to minimize the impact of these risks on operating and other performance.

For example, in terms of intellectual property rights, the legal affairs department (composed of patent and trademark copyright teams) conducts preliminary audits and submits the required applications during the planning and production stages of development in an effort to avoid the risk of infringement in terms of the acquisition and maintenance of rights. Capcom also focuses on internal education by holding in-house intellectual property study groups on a regular basis and conducting activities to impart legal knowledge.

Furthermore, in terms of "risks related to overseas operations", in consideration of the culture, religion and customs of each country the legal affairs division and quality control departments conduct game content checks in addition to those conducted by the research department, and the legal affairs division consults with local legal teams as necessary to ensure compliance with local laws. Regarding the increased task risk of expanding overseas operations, Capcom requests advanced pricing agreements to limit transfer pricing risk.

### Risks Affecting Operating Results

Capcom is exposed to risks which may affect its operating results, financial status, stock price and its operational environments, including but not limited to those stated in writing below, which are based on information that is available as of March 31, 2013 and certain assumptions by the Group that serve as the basis of rational judgments.

#### 1. Risks Relating to Digital Contents

##### (1) Increase in Development Costs

In recent years, home video games have increased in sophistication and functional diversity due to computer graphics and Internet technology initiatives, and the development costs have tended to increase. Therefore, there is a risk that the development costs may become irrecoverable with respect to some software titles, including those which have failed to fulfill the sales plan.

##### (2) Obsolescence of Game Software

Game users are mainly children and young people. In addition, competition against other industries which have the same customer base is intensifying, including mobile phones and the Internet. Therefore, the life of products is not necessarily long, and games become outdated quickly; there is a risk that product inventory may increase and development costs may become irrecoverable.

##### (3) Dependency on Popular Series

Capcom releases many game titles in the market. Among them, a handful of titles tend to be dominant in terms of popularity. Further, sequel titles undergo limited volatility in terms of sales, and help stabilize our business performance. However, we may lose users in the event of any problem in these popular software titles or any change in the market environment. There is a risk that it may result in having an adverse effect on our future business strategies and business performance.

##### (4) Violent Scenes and Depictions

Some of our popular software titles have provocative graphics and

text, such as violent and grotesque scenes. Accordingly, in the event of violent incidents and other criminal cases involving juveniles, we may be subject to a smear campaign by some sections of the mass media which often point out the correlation between crime and games. Therefore, there is a risk that it may result in having an adverse effect on our business performance, corporate value and narrowed distribution channel under orders from the relevant authorities.

##### (5) Seasonal Fluctuations

Trends in the demand for games fluctuate substantially throughout the year. As the market experiences peak demand during the Christmas season until New Year's Day, the first quarter of the year tends to be relatively quiet. Accordingly, there is a risk that business performance may substantially fluctuate from quarter to quarter.

##### (6) Trends in Proliferation of Home Video Game Consoles

Our home video game titles are primarily supplied to game consoles made by Sony Computer Entertainment Inc., Nintendo Co., Ltd. and Microsoft Corporation. Therefore, there is a risk that our business strategies and business performance may be adversely affected in the event of any setback in the proliferation trends or any problem in their game consoles.

##### (7) License Agreements with Console Manufactures

We take a multi-platform approach, which involves supplying home video game software titles to all existing game platforms. Accordingly, we have a license for manufacturing and distributing game software from Sony Computer Entertainment Inc., Nintendo Co., Ltd. and Microsoft Corporation, who are also our competitors. However, there is a risk that amendments to the licensing agreements and new terms and conditions of the agreements may have an adverse effect on our future development strategies and business performance.

##### (8) Technological Enhancement of Home Video Game Platforms

New home video game platforms have been released every three to seven years in the past. In the hardware transition stage, users tend to be reluctant to purchase new software. Therefore, there is a risk that our business performance may be adversely affected by sluggish sales in the transition stage.

##### (9) Expansion of Used Software Market

Currently, used software accounts for approximately one-third of the domestic software market. Also, the flood of pirated copies in the Asian market is becoming increasingly serious.

As a result, it is gradually becoming more difficult to recover development costs. There is a risk that it may adversely affect our operating results, depending on the trends in the market.

##### (10) Internet Market Expansion, Etc.

The Internet market has expanded in recent years as a result of the rapid adoption of smartphones and other mobile devices. An inability to keep up with new technologies can prevent the smooth provision of games and other digital content. Additionally, if the number of users who receive content via SNS website distribution were to decline due to the further diversification of consumer entertainment needs, there is a risk that Capcom Group performance and financial conditions may be adversely affected.

#### 2. Risks Relating to Other Businesses

##### (1) Arcade Operations

There is a risk that customer traffic and the unit value of customers may be adversely affected by the popularity of installed machines,



diversification of entertainment, falling birth rate, intensified competition and changes in the market environment and other such factors.

## **(2) Amusement Equipments**

In terms of Pachislo machines, there is a risk that we may only sell machines to a small number of business partners, as the performance of the Amusement Equipments segment may depend heavily on the sale of these devices, which in recent years has grown from a majority to the largest portion of sales in this segment. Also, under the provision of the “The Entertainment Establishments Control Law”, we are allowed to sell peripheral devices only for those machines that meet Security Electronics and Communications Technology Association requirements. Performance in this business segment may be significantly affected by the aforementioned systemic industry trends.

At the same time, There is a risk that business performance may be adversely affected by the narrowing gap between arcade games and home video games, a decline in facility operators’ purchasing power, changes in the business environment and uncertainties regarding growth.

As a result of the above factors, there is a risk that Capcom Group performance and financial conditions may be adversely affected.

## **3. Risks Relating to Overseas Operations**

- (1) There is a risk that our business strategies and business performance may be adversely affected by market trends and the existence of competitors in other countries within our sales territory, in addition to other various country risks including political, economic, legislative, cultural, religious, custom and foreign currency risks.
- (2) As the volume of the overseas transaction expands, it is possible that the loss or expense burden (i.e.; tax rates and custom duties) will increase depending on the regulations or the interpretation of the accounting laws by the audit authorities. The operating results and financial position of the Capcom group may be affected negatively by these conditions.
- (3) There is a risk that our business performance may be adversely affected by the increase in expenses and the failure to recover overseas investment in the event of unforeseeable circumstances which cannot be predicted by feasibility studies.

## **4. Risks Relating to Financial Status and Operating Results**

- (1) As mentioned before, home video games, which is our principal business, is exposed to the risk of increasing inventories, as the products generally have a short life and become obsolete quickly. There is a risk that our financial status and operating results may be adversely affected by their obsolescence.
- (2) As already explained, our business performance may substantially fluctuate from quarter to quarter, as the market environment may change throughout the year in our industry. Also, cash flows may not be generated as originally planned, due to the fall in sales, changes in management strategies and other factors. There is a risk that it may result in having an adverse effect on the operating results in the following years.

## **5. Risks Relating to Development Technologies**

Products relating to game machines including home video games are subject to rapid technological progress, and are constantly evolving. Therefore, there is a risk that sales opportunities may be lost due to delays in responding to technological progress, which may result in having an adverse effect on our operating results and product quality.

## **6. Legislative Risks**

Arcade operations are controlled by the “Entertainment Establishments Control Law” and its related regulations and ordinances. Due to the amendment and establishment of the laws and ordinances in the future, the scope of business activities may be subject to changes or preliminary examination, inspection and other procedures carried out by regulatory agencies may become stricter. There is a risk that it may result in impeding our business plans, and adversely affecting the business and operating results.

## **7. Risks Relating to Intellectual Property Rights**

The development and distribution of game software involve intellectual property rights such as patent rights, trademark rights, utility model rights, design rights, copyrights, etc. Therefore, there is a probability that the development and distribution of game software may become difficult if we cannot acquire intellectual property rights. Also, one cannot deny the risk of a third party’s intellectual property rights being violated by us. There is a risk that they may adversely affect our operating results.

## **8. Risks Relating to Lawsuits**

In the past, Capcom has sued over copyright infringement or been sued in other cases. In addition, as the company expands its business domain, it is possible Capcom may be taken to court in the future over product liability, labor or intellectual property rights related issues. As a result, there is a risk that they may adversely affect our operating results, depending on the type of the lawsuit and the amount claimed in the lawsuit.

## **9. Risks Relating to Information Leaks**

It is possible for hardware, software and databases to be compromised through unauthorized access via technology exceeding our assumptions, computer viruses, and other unforeseeable events. Accordingly, in the event that confidential information related to individual persons or game development was leaked, damages may have to be paid, the company’s image may be tarnished and development may be brought to a halt. Therefore, the operating results and financial position of the Capcom group may be negatively affected by these incidents.

## **10. Development and Assurance of Human Resources**

The expression, “the business is all about its people”, means that the future success and growth of any corporation depends upon competent employees. Although Capcom group is actively engaged in recruiting, educating, and securing excellent human resources, the mobility of personnel is relatively high in the game industry, and it is possible that our business activities will be disturbed if any of our talented employees decide to resign or to move to our competitors.

Therefore, the operating results and financial position of the Capcom group may be affected negatively by these factors.

# CSR Initiatives

## Educational Assistance as a Game Company

### Implementing Independent Education Programs

Video games are a comparatively new cultural phenomenon about which there is little academic research. Rather than examining the educational aspects, theories about the detrimental effects resulting from violent content have been persistently trumpeted to the general public. Nevertheless, the idea of a “future career” as a video game creator is very popular among children, and some schools have even begun to incorporate portable video game consoles into the classroom in recent years.

As part of our corporate social responsibilities as a game software manufacturer, we believe in fostering an understanding about video games by inviting elementary and junior high school students to visit our company and proactively participate in classroom activities at schools. We conduct two highly acclaimed programs: the “Career Education Support program” providing an overview of the company, focusing on the rewards and challenges of developing video game software; and the “Game Literacy Education Support program” teaching students how to develop a healthy relationship with video games.

Last fiscal year, we launched a new educational program focused on the “Career Education Support program”. This program represents our commitment to continually improve our educational assistance based on feedback received from educators.

As a result, as of March 31, 2013, 1,531 students from 211 schools had visited the company, and Capcom school visits have been held for a cumulative total 2,961 students in 24 schools, including Kakizaki Elementary School in Niigata Prefecture.

This fiscal year, Capcom developed a new program targeting elementary and middle school students to help prevent the recent trend toward declining math skills among children. This new program provides students with experiences designed to prove that “the study of mathematics is not a waste of time—you will need it when you get older”, by introducing developers who use arithmetic and mathematics regularly in the workplace. The game-based textbook “The Workplace Guide to Arithmetic and Mathematics” is used to motivate students to study rather

than for career education by having students solve arithmetic and mathematics problems our employees actually encounter in their work. Full-scale implementation of this program will commence in fiscal 2013.

Capcom will continue to incorporate feedback from schools and advice from university education specialists to better meet educational needs in promotion of CSR activities.

### Capcom School Visit Feedback

#### We received a wide range of comments after our Capcom school visits and student company visits.

- I discovered there are so many more jobs out there than I knew about, and that was really surprising (elementary school student).
- I learned that not only are jobs that bring games to the world important, but the jobs that support this kind of work are also important (middle school student).
- The students were really fascinated by what the creator working on the front lines had to say (elementary school teacher).
- I felt it was important to address other adults not working in schools (middle school teacher).
- Although there are many fidgety boys in our class, they all listened with careful concentration. I want to use these kinds of school visits so students can experience various workplaces (middle school teacher).
- It was very meaningful to have a discussion that not only included games, but also going out into society and working in a company (middle school teacher).

### Educational Support Programs

	Year ended March 31, 2013		Cumulative	
	Schools	Participants	Schools	Participants
School visits by Capcom	9	1,506	24	2,961
Visits from schools	34	275	211	1,531



“The Workplace Guide to Arithmetic and Mathematics”



School visit by Capcom

## Providing Free Copies of “Secrets of Video Games” to Schools and Public Libraries

Capcom publishes the educational comic “Secrets of Video Games” in cooperation with Gakken Co., Ltd. (currently Gakken Holdings Co., Ltd.) The comic offers insights into the game development process, promotes healthy relationships with video games and provides information on what to study to become a video game creator.

The comic is distributed free of charge to 24,000 elementary schools and 2,700 public libraries across Japan, as well as to students as an educational material in advance of a Capcom visit to their school. It is also recommended by the National Congress of Parents and Teachers Association of Japan for use as a secondary teaching material in integrated courses and other classroom settings.

## Rating System for the Sound Development of Youth

The video game industry voluntarily restricts game content and sales methods to limit access to sexual and violent content for the healthy development of young people who frequently play home video games. Specifically, before all home video games are sold, they are given a rating by the Computer Entertainment Rating Organization (CERO) that informs consumers of the nature of the content and age-appropriateness via a label on the game package. The industry voluntarily prohibits the sale of software intended for users 18 years or older (category Z) to consumers who are under 18, with 99% of retailers\* separating game displays by ratings category and checking purchaser identification to confirm age. Furthermore, to ensure fairness, CERO is not affiliated with any company or organization, but exists and operates independently.

In addition, the latest home video games include a parental control function that enables parents to limit the purchase and use of certain games according to their ratings. The industry is making a concerted effort to promote the adoption of this ratings system and improve its efficacy.

In the period under review, Capcom made an effort to promote a greater understanding of this ratings system through detailed explanations in “Secrets of Video Games” and on its corporate website, as well as during student visits to the company and presentations at schools.

\* From the results of the 4th CERO Age-Based Ratings System Field Survey



Gakken’s “Understanding” Series: “Secrets of Video Games”

Rating Symbol

## Regional Invigoration

### Use of Popular Game Characters Contributes to Higher Voter Turnout and Maintenance of Security

In addition to CSR activities that support education, Capcom also engages in CSR activities using popular game content to contribute to regional invigoration.

In 2009, we attempted to promote gubernatorial elections and encourage young people to vote in Miyagi Prefecture, a region strongly associated with famous warlords of the Sengoku Period, by providing “Date Masamune” from the popular “Sengoku BASARA” game series for use as the election promotion mascot. This use of a game character created a buzz and received media coverage, and was used throughout all of Miyagi Prefecture for lively announcements in a variety of media formats, including election posters, television commercials and radio, newspaper and in public transit ads, resulting in a more than six-point rise in voter turnout, which increased from 40.35% to 46.57%. “Date Masamune” was used again in 2013 to raise awareness and aid prevention of vehicle-related theft in Osaka Prefecture. The theft of vehicles and private property locked inside vehicles is the most common theft the country, and for the 13th year in row, theft of auto parts was the number one theft across Japan, prompting a request from the Osaka Prefectural Police Department for assistance with creating an effective awareness-raising campaign. In addition to 5,000 awareness posters displayed throughout Osaka Prefecture and 150,000 advertisements distributed at public facilities and automotive parts dealers, large hanging banners were displayed on the Police Department in an effort to inform Osaka residents.

Going forward, Capcom will continue to proactively engage in CSR activities as a good corporate citizen and maintain societal trust by contributing to regional invigoration and improved public safety.



Vehicle-related theft damage prevention awareness poster

Miyagi Prefecture gubernatorial election poster



# Directors and Corporate Auditors



Yoichi  
Egawa

Yoshifumi  
Yamashita

Kazuhiko  
Abe

Katsuhiko  
Ichii

Tamio  
Oda

Kenzo  
Tsujimoto

Haruhiro  
Tsujimoto

## Kenzo Tsujimoto

Chairman and Chief Executive Officer (CEO)

Jul. 1985 President and Representative Director of the Company  
Apr. 2001 Chief Executive Officer (CEO) of the Company (to present)  
Jul. 2007 Chairman and Representative Director of the Company (to present)

## Haruhiro Tsujimoto

President and Chief Operating Officer (COO)

Apr. 1987 Entered into the Company  
Jun. 1997 Director of the Company  
Feb. 1999 Managing Director of the Company  
Apr. 2001 Senior Managing Director of the Company  
Jul. 2004 Director and Executive Corporate Officer of the Company  
Apr. 2006 Director and Executive Vice President of the Company  
Jul. 2007 Representative Director, President and Chief Operating Officer (COO) of the Company (to present)

## Tamio Oda

Director, Executive Vice President and Chief Financial Officer (CFO)

Apr. 1969 Entered into The Sanwa Bank, Limited. (Currently The Bank of Tokyo-Mitsubishi UFJ, Limited.)  
Jun. 1991 Managing Director of Unicharm Corporation  
Jun. 1997 Branch Manager of Nakanoshima Branch of the said bank  
Jun. 1999 Managing Director of Daisue Construction Co., Ltd.  
May 2001 Advisor of the Company  
Jun. 2001 Director of the Company  
Jun. 2003 Managing Director of the Company  
Jul. 2004 Director, Executive Corporate Officer, Chief Financial Officer (CFO) and in charge of Corporate Strategies, Administration, President's Office, Affiliated Companies' Management of the Company  
Jul. 2007 Director, in charge of Corporate Management of the Company (to present)  
Jul. 2010 Director, Chief Financial Officer (CFO) of the Company (to present)  
Apr. 2011 Director, Executive Vice President of the Company (to present)

## Kazuhiko Abe

Director and Executive Corporate Officer

Apr. 1987 Entered into The Mitsubishi Bank, Limited. (Currently The Bank of Tokyo-Mitsubishi UFJ, Limited.)  
Jul. 1994 Deputy Manager of New York Branch, the said Bank  
Nov. 2000 Executive Officer, Hikari Tsushin, Inc.  
Jan. 2002 Executive Officer, Intuit Co., Ltd. (Currently Yayoi Co., Ltd.)  
Mar. 2003 Entered into the Company  
Jul. 2003 General Manager of Corporate Planning Dept. of the Company  
Apr. 2004 Corporate Officer of the Company  
Apr. 2006 Managing Corporate Officer of the Company  
Jun. 2006 Director, Chief Financial Officer (CFO) of the Company  
Jul. 2007 Director, in charge of Group Management of the Company  
Jul. 2010 Director, in charge of Overseas Business of the Company (to present)  
Apr. 2011 Director, Executive Corporate Officer of the Company (to present)

## Yoshifumi Yamashita

Director and Executive Corporate Officer

Feb. 1992 Entered into the Company  
Apr. 1997 General Manager, Business Dept. in R&D Division of the Company  
May 2001 Corporate Officer and Head of Budget Control Office of the Company  
Jul. 2003 Managing Corporate Officer, Head of Creative Division of the Company  
Apr. 2011 Executive Corporate Officer (to present), Head of Human Resources, IT and Research & Development Management  
Jun. 2011 Director, in charge of Human Resources, IT and Research & Development Management of the Company  
Oct. 2012 Director, in charge of General Affairs, Legal, Human Resources and IT Division of the Company (to present)

## Katsuhiko Ichii

Director and Executive Corporate Officer

Aug. 2004 Entered into the Company  
Oct. 2004 General Manager of Home Video Games Business of the Company  
Apr. 2005 Corporate Officer Head of Home Video Games Business Strategy Division of the Company  
Apr. 2006 Managing Corporate Officer and Head of Home Video Games Business of the Company  
Apr. 2011 Executive Corporate Officer (to present), General Manager of Consumer Entertainment Business Management Group and Head of Consumer Games Business Division and Consumer Games R&D Division of the Company  
Jun. 2011 Director, in charge of Consumer Games Business of the Company (to present)

## Yoichi Egawa

Director and Executive Corporate Officer

Apr. 1985 Entered into the Company  
Apr. 1999 General Manager of Creative Division 5 of the Company  
Aug. 1999 Corporate Officer, General Manager of Creative Division 5 of the Company  
Apr. 2005 Corporate Officer, Head of Contents Expansion Business Division of the Company  
Apr. 2006 Corporate Officer, Head of Pachinko & Pachislo Business Division of the Company  
Apr. 2011 Managing Corporate Officer of the Company  
Apr. 2013 Executive Corporate Officer of the Company (to present)  
Jun. 2013 Director, in charge of Arcade Business and Pachinko & Pachislo Business of the Company (to present)

## External Directors



Takayuki Morinaga

Hiroshi Yasuda

Makoto Matsuo

## Hiroshi Yasuda

Director

- Apr. 1957 Entered into the Ministry of Finance
- Nov. 1973 Personal Secretary to the Minister of Finance
- Jan. 1977 Personal Secretary to the Prime Minister
- Jun. 1988 Deputy Vice Minister of Finance
- Jun. 1990 Director-General, Budget Bureau
- Jun. 1991 Administrative Vice Minister of Finance
- May 1994 Governor, the Export-Import Bank of Japan (Currently Japan Bank for International Cooperation)
- Oct. 1999 Governor, Japan Bank for International Cooperation
- Sep. 2001 Advisor, the Kansai Electric Power Co., Inc.
- Jan. 2002 Chairman, Yomiuri International Economic Society (to present)
- Jul. 2002 President, Japan Investor Protection Fund
- Jun. 2004 External Corporate Auditor, Shiseido Co., Ltd.
- Aug. 2004 President, Capital Market Promotion Foundation (Currently Capital Market Promotion Public Interest Incorporated Foundation) (to present)
- Jun. 2007 External Director of the Company (to present)

\* Messrs. Hiroshi Yasuda, Makoto Matsuo and Takayuki Morinaga are External Directors.

## Makoto Matsuo

Director

- Apr. 1975 Admitted to Japanese Bar (The Dai-ichi Tokyo Bar Association) Ozaki & Momo-o Weil, Gotshal & Manges in New York
- Mar. 1979 Admitted to New York Bar
- Apr. 1989 Partner, Momo-o, Matsuo & Namba (to present)
- Apr. 1997 Lecturer, Nihon University, Faculty of Law: International Transaction Law
- Jun. 1999 External Corporate Auditor, Victor Company of Japan, Limited
- Jun. 2000 External Corporate Auditor, Billing System Corporation (to present)
- Jun. 2003 External Corporate Auditor, Yamanouchi Pharmaceutical, Co., Ltd.
- Jun. 2004 External Director, Yamanouchi Pharmaceutical, Co., Ltd.
- Apr. 2005 External Director, Astellas Pharma Inc. Lecturer, Hitotsubashi University Faculty and Graduate School of Law: World Business Law
- Jun. 2007 External Director of the Company (to present)
- Oct. 2008 External Director, JVC KENWOOD Holdings, Inc.
- Jun. 2009 External Corporate Auditor, Toray Industries, Inc. (to present)

## Takayuki Morinaga

Director

- Apr. 1964 Entered into The Export-Import Bank of Japan
- Apr. 1992 General Manager of Personnel Division of the said Bank
- Apr. 1994 General Manager, Osaka Branch of the Bank
- Apr. 1996 Senior General Manager of the Bank
- Sep. 1998 Managing Director, Yazaki Corporation
- Sep. 2000 Senior Managing Director, Yazaki Corporation
- Jun. 2006 Vice Chairman, Yazaki Corporation
- Jun. 2007 Director and Executive Councilor, Yazaki Corporation
- Jun. 2008 Advisor of Yazaki Corporation
- Jun. 2009 External Director of the Company (to present)

## Auditors



Akihiko Matsuzaki

Masanao Iechika

Yoshihiko Iwasaki

Kazushi Hirao

## Kazushi Hirao

Corporate Auditor (full-time)

- Apr. 1975 Entered into Hitachi Zosen Corporation
- Apr. 1987 Assistant Manager of the said company
- Jun. 1988 Entered into the Company
- Apr. 1997 General Manager of Overseas Business Dept. of the Company
- Jul. 1999 Corporate Officer, General Manager of Overseas Business Dept. of the Company
- Oct. 2002 General Manager of General Affairs Dept. of the Company
- Apr. 2004 Senior Manager of Investor Relations Section of the Company
- Jun. 2004 Corporate Auditor of the Company (full-time)(to present)

## Yoshihiko Iwasaki

Corporate Auditor (full-time)

- Apr. 1979 Entered into National Tax Agency
- Jul. 1986 District Director of Ijuin Tax Office
- Jul. 1997 Deputy Commissioner (Revenue Management and Collection) of Hiroshima Regional Taxation Bureau
- Jul. 1999 Deputy Commissioner (Large Enterprise Examination and Criminal Investigation) of Hiroshima Regional Taxation Bureau
- Jul. 2003 Director of Commissioner's Secretariat, the National Tax Agency
- Jul. 2007 Assistant Regional Commissioner (Management and Co-ordination) of Nagoya Regional Taxation Bureau
- Jul. 2008 Executive Director of National Tax College
- Jul. 2009 Director-General of Kanazawa Regional Tax Tribunal
- Jul. 2010 Director-General of Sapporo Regional Tax Tribunal
- Jul. 2011 Vice President of National Tax College
- Jun. 2012 External Corporate Auditor of the Company (full-time)(to present)

\* Messrs. Yoshihiko Iwasaki, Akihiko Matsuzaki are External Auditors.

## Masanao Iechika

Corporate Auditor

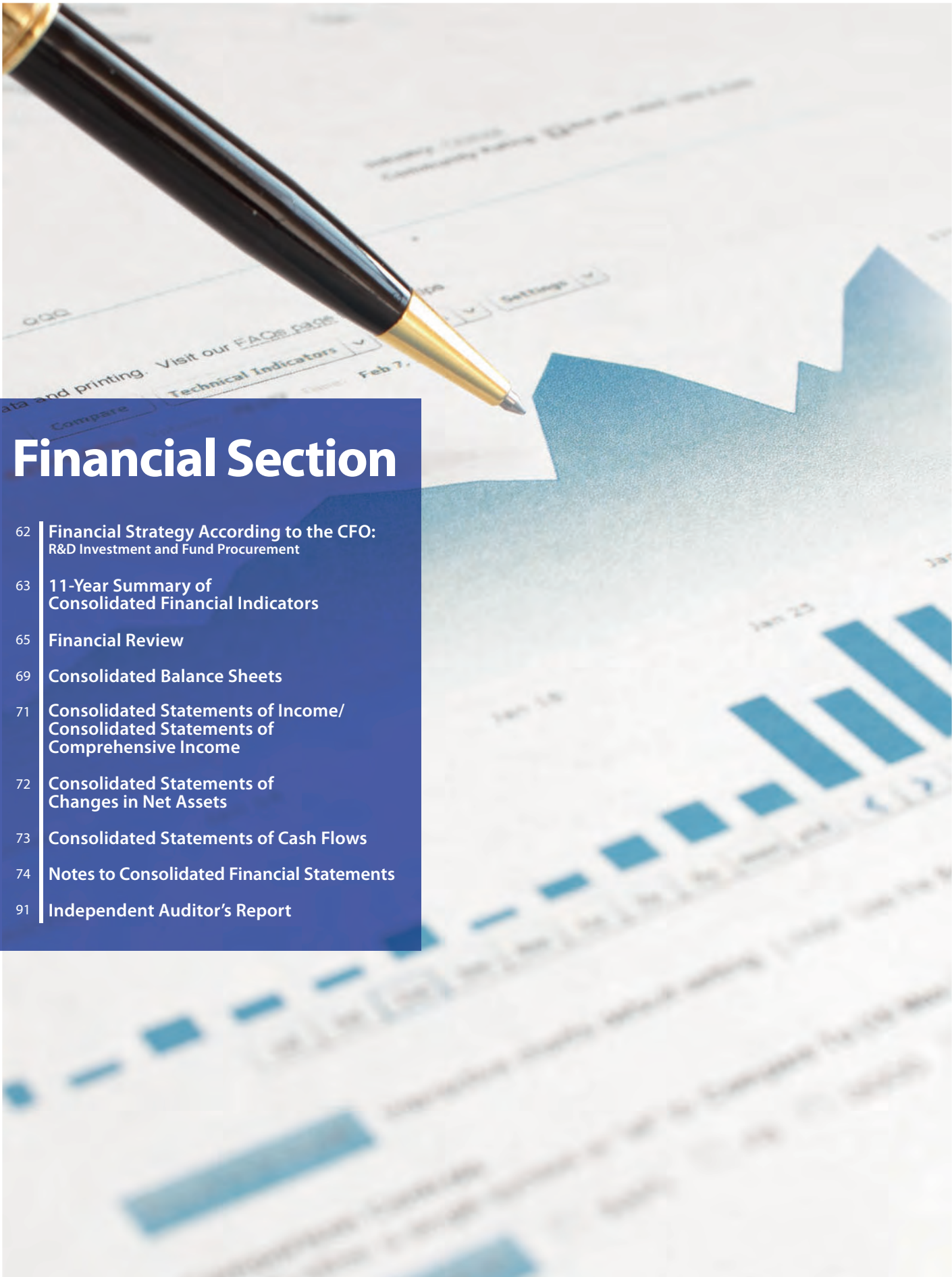
- Apr. 1962 Registered Lawyer (Osaka Bar Association)
- Apr. 1981 Vice President of Osaka Bar Association, Governor of Japan Federation of Bar Association
- Mar. 1988 Member of Commercial Code Committee of Judicial System and Research Dept. of Ministry of Justice
- Jun. 1994 Outside Corporate Auditor of Mitsubishi Tanabe Pharma Corporation (to present)
- Jun. 1998 Outside Corporate Auditor of Keihan Electric Railway Co., Ltd. (to present)
- Apr. 2001 Outside Corporate Auditor of ES-CON JAPAN Ltd. (to present)
- Jun. 2002 Director of the Company
- Jun. 2004 Professor of the Konan Law School
- Dec. 2007 Executive Partner of Daiichi Law Office, P.C. (to present)
- Jun. 2008 Corporate Auditor of the Company (to present)

## Akihiko Matsuzaki

Corporate Auditor

- Apr. 1968 Entered into National Police Agency
- Feb. 1975 Chief of Foreign Affairs Section, Security Bureau, Hyogo Prefectural Police Headquarters
- May 1979 First Secretary of Embassy of Japan in Thailand
- Jul. 1988 Chief of Tottori Prefectural Police Headquarters
- Apr. 1993 Chief of Nagano Prefectural Police Headquarters
- Aug. 1996 Director General of Chubu Regional Police Bureau
- Sep. 1997 Director of the Board, Japan Road Traffic Information Center
- Apr. 2002 Auditor of Japan Police Mutual Aid Association
- Sep. 2003 Director of the Board, Japan Police Mutual Aid Association
- Mar. 2005 President of Kioi Kyosai Co., Ltd.
- Jul. 2009 Auditor of Japan Police Cooperative (Part-time) (to present)
- Jun. 2012 External Corporate Auditor of the Company (to present)
- Outside Corporate Auditor of SENON LIMITED (to present)





# Financial Section

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## Net Cash Strategy for Supporting Investments in Online Game Development

Capcom has set a financial goal of improving net cash to build a lean financial foundation without waste while at the same time securing funding to invest in growth and increasing shareholder returns.

The reason behind the goal is the significant evolution underway in the game software market due to the incorporation of mobile and social games in addition to home games and PC online games, which represents a business opportunity for Capcom. We have therefore formulated growth strategies for our online and mobile businesses in addition to our basic strategy of developing high-quality content, and have sought to reinforce our investments in development.

We will seek stable growth over the medium- and long-term by raising profitability through our growth strategies and generating high level of cash flows.

### Tamio Oda

Director, Executive Vice President and Chief Financial Officer (CFO)



### 1. Securing Funding to Invest in Growth

With the market environment undergoing major changes, Capcom believes now is the right time for investing in growth. We are therefore aiming to increase our net cash position further by maximizing our free cash flows and making investments in development.

In order to fulfill this policy, we will institute two new financial strategies focused on generating cash flows through process management. The first strategy is to take a thorough approach to managing the recovery of investments. In this regard, we will expand current title-by-title investment management system using a comparable category-by-category database based on information covering our brands and producers. The second strategy is to maximize working capital efficiency. Under this strategy, we will expand our business-by-business investor capital management system and establish a framework to manage our investment turnover period and turnover ratio in a more visible manner.

Despite the confluence of major titles falling short of their sales targets and others being postponed, net cash in the fiscal year ended March 2013, increased 3 billion yen from the previous fiscal year to a total of 14.3 billion yen. This was due to the execution of the above strategy, which resulted in an increase in cash deposits less interest-bearing debt via thorough capital efficiency.

Furthermore, analysis of past fiscal years shows that our net cash position, or cash deposits less interest-bearing debt, as of the fiscal year ended March 1996 was negative 66.2 billion yen. Considering that our net cash position in the year ended March 2013 was 14.3 billion yen, this represents an improvement of nearly 80.5 billion yen over the past 15 years.

### 2. Increasing Shareholder Returns

Capcom believes it is important to provide returns to shareholders and

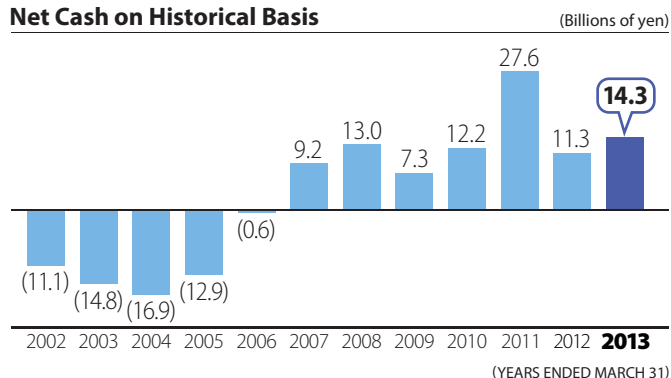
seeks to: (1) enhance corporate value by achieving growth through investments and other means and (2) maintain stable dividend payments commensurate with business performance.

For the year ended March 2013, the total annual dividend was 40 yen, the same as the previous fiscal year. As a result, our payout ratio was 77.5%.

Following analysis of past fiscal years, Capcom paid 20 yen per share from the year ended March 1998 to the year ended March 2006. From the year ended March 2007, we increased dividends to 30 yen per share as the structural reforms enabled us to establish a stable profit base. Since the year ended March 2009, we had been paying 35 yen per share, but as of the year ended March 2011, we are paying a dividend of 40 yen per share.

We have also acquired approximately 13.0 billion yen in treasury stock since the year ended March 2004. We will seek further improvement in net cash to continue strengthening investments for growth and to deliver returns to shareholders.

### Net Cash on Historical Basis



## 11-Year Summary of Consolidated Financial Indicators

	2003	2004	2005	2006	2007
<b>For the Year:</b>					
	Millions of yen				
Net sales	¥ 62,036	¥ 52,668	¥ 65,895	¥ 70,253	¥ 74,542
Operating income	6,680	1,402	7,752	6,580	9,602
Net income (loss) before income taxes	(30,049)	(6,900)	7,006	6,912	9,986
Net income (loss)	(19,598)	(9,158)	3,622	6,941	5,852
Depreciation & amortization	2,202	2,081	2,101	1,936	2,774
Capital expenditures	2,289	4,678	1,665	1,600	4,495
R&D expenses	1,151	1,124	1,323	1,864	1,828
<b>At Year-End:</b>					
	Millions of yen				
Total assets	¥ 106,648	¥ 93,096	¥ 106,361	¥ 98,457	¥ 91,478
Net assets	42,888	31,854	32,491	39,464	45,144
Net cash	(14,894)	(16,957)	(12,948)	(678)	9,200
<b>Cash Flows:</b>					
	Millions of yen				
Cash flows from operating activities	¥ 3,635	¥ 5,577	¥ 7,977	¥ 13,921	¥ 16,063
Cash flows from investing activities	(2,329)	(5,011)	(1,099)	(1,779)	(6,715)
Cash flows from financing activities	(2,000)	(395)	6,251	(18,259)	(15,206)
Net increase (decrease) in cash and cash equivalents	(1,555)	(1,313)	13,406	(4,885)	(5,654)
Cash and cash equivalents at end of year	33,444	32,131	45,538	40,652	35,020
<b>Per Share Data:</b>					
	Yen				
Net income (loss) per share	¥ (338.01)	¥ (160.91)	¥ 63.37	¥ 125.19	¥ 107.52
cash dividends applicable to the year per share	20.00	20.00	20.00	20.00	30.00
Net assets per share	753.47	559.66	589.99	716.91	799.35
<b>Financial Index:</b>					
Operating margin (%)	10.8	2.7	11.7	9.4	12.9
ROE (%)	—	—	11.3	19.3	13.8
ROA (%)	—	—	3.6	6.8	6.2
Net worth ratio (%)	40.2	34.2	30.5	40.1	49.3
Interest coverage ratio (times)	14.6	20.3	30.0	82.6	237.3
Debt-equity ratio (%)	148.8	192.4	227.9	149.4	102.8
<b>Stock Information:</b>					
Price earnings ratio (times)	—	—	16.5	9.7	15.7
Number of outstanding shares (thousands shares)	58,435	58,435	58,435	58,435	62,269
Foreign investors (%)	16.85	16.59	14.79	23.35	32.60

CAPCOM CO., LTD. AND ITS CONSOLIDATED SUBSIDIARIES. YEARS ENDED MARCH 31

2008	2009	2010	2011	2012	2013	2013
Millions of yen					Thousands of U.S. dollars	
¥ 83,097	¥ 91,878	¥ 66,837	¥ 97,716	¥ 82,065	¥ <b>94,075</b>	\$ <b>1,000,709</b>
13,121	14,618	5,587	14,295	12,318	<b>10,151</b>	<b>107,993</b>
11,962	12,448	1,124	10,807	11,425	<b>3,719</b>	<b>39,572</b>
7,807	8,063	2,167	7,750	6,723	<b>2,973</b>	<b>31,632</b>
3,393	4,143	3,368	3,315	3,123	<b>3,406</b>	<b>36,235</b>
4,503	2,906	2,205	2,758	4,153	<b>8,724</b>	<b>92,811</b>
2,972	2,329	2,125	2,924	2,236	<b>1,982</b>	<b>21,086</b>
Millions of yen					Thousands of U.S. dollars	
¥ 93,606	¥ 106,210	¥ 86,621	¥ 90,408	¥ 98,247	¥ <b>104,365</b>	\$ <b>1,110,266</b>
53,660	59,349	53,956	58,007	59,352	<b>62,828</b>	<b>668,386</b>
13,061	7,378	12,299	27,655	11,348	<b>14,327</b>	<b>152,415</b>
Millions of yen					Thousands of U.S. dollars	
¥ 7,452	¥ (551)	¥ 14,320	¥ 22,392	¥ (7,672)	¥ <b>6,647</b>	\$ <b>70,714</b>
(3,374)	(2,715)	(1,618)	(2,046)	(4,794)	<b>(1,375)</b>	<b>(14,628)</b>
(2,448)	(342)	(10,747)	(12,919)	587	<b>1,162</b>	<b>12,366</b>
(2,256)	(4,454)	1,203	5,196	(12,724)	<b>9,235</b>	<b>98,246</b>
32,763	28,611	29,815	35,011	22,287	<b>31,522</b>	<b>335,345</b>
Yen					U.S. dollars	
¥ 132.90	¥ 130.98	¥ 35.71	¥ 131.18	¥ 116.10	¥ <b>51.64</b>	\$ <b>0.55</b>
30.00	35.00	35.00	40.00	40.00	<b>40.00</b>	<b>0.43</b>
881.31	961.38	913.18	981.76	1,030.70	<b>1,091.08</b>	<b>11.61</b>
15.8	15.9	8.4	14.6	15.0	<b>10.8</b>	
15.8	14.3	3.8	13.8	11.5	<b>4.9</b>	
8.4	8.1	2.3	8.8	7.1	<b>2.9</b>	
57.3	55.9	62.3	64.2	60.4	<b>60.2</b>	
103.7	—	86.9	155.8	—	<b>62.4</b>	
74.4	79.0	60.5	55.9	65.5	<b>66.1</b>	
25.6	13.3	49.5	12.1	16.3	<b>28.6</b>	
66,719	67,394	67,723	67,723	67,723	<b>67,723</b>	
27.72	33.73	24.22	22.17	27.05	<b>32.37</b>	



**Financial Review**

**1. Operating Results**

Capcom Co., Ltd. consolidated performance in year ended March 31, 2013 consisted of net sales amounting to 94,075 million yen (up 14.6% from the previous fiscal year). As for profits, operating income was 10,151 million yen (down 17.6% from the previous fiscal year), and ordinary income was 10,944 million yen (down 7.4% from the previous fiscal year).

Net income for the current fiscal year was 2,973 million yen (down 55.8% from the previous fiscal year) due to the recognition of a special loss on business restructuring in line with development structure revisions.

**2. Sales and Profits**

**(1) Net Sales**

This fiscal year, net sales were 94,075 million yen (up 14.6% from the previous fiscal year).

Sales were brisk in Digital Contents, the core of Capcom's business, with package game sales of major title "Resident Evil 6" reaching 4.9 million units globally and original title "Dragon's Dogma" becoming an unexpected million-seller hit in the highly profitable domestic market. In Mobile Contents, "Minna to Monhan Card Master" and "Resident Evil: Outbreak Survive" were on track to surpass two million members each and online game "Monster Hunter Frontier Online" contributed stable income to earnings. In the Amusement Equipments business, sales of the "Resident Evil 5" Pachislo cabinet created in-house greatly exceeded expectations.

**(2) Operating Income**

Cost of sales was 61,911 million yen (up 24.8% from the previous fiscal year), gross profit was 32,163 million yen (down 0.9% from the previous fiscal year) and selling, general and administrative expenses were 21,942 million yen (up 8.9% from the previous fiscal year).

These results were mainly due to the cost of goods was increased by 12.3 billion yen from the last fiscal year as a result of expansion development and general costs associated with the sales of major

titles such as "Resident Evil 6". Furthermore, lower sales resulting from package game titles that failed to achieve their targets and other factors caused the cost to sales ratio to increase almost 5.3 points.

In addition, selling, general and administrative expenses increased approximately 1.7 billion yen on the combination of major title sales and advertising activities.

As a result, operating income was 10,151 million yen (down 17.6% from the previous fiscal year) and the operating margin decreased 4.2 points.

**(3) Net Income**

Non-operating expenses for the current fiscal year were 312 million yen, while non-operating income was 1,105 million yen on the recognition of 745 million yen in foreign exchange gains arising from the ongoing weakening of the yen.

As a result, ordinary income was 10,944 million yen (down 7.4% from the previous fiscal year) and the ordinary income ratio was 11.6%, down 2.8 points from the previous fiscal year.

Additionally, the recognition of a 6,949 million yen special loss on business restructuring in line with development structure revisions contributed to a significant increase in special losses totaling 7,224 million yen.

As a result, net income for the current fiscal year was 2,973 million yen (down 55.8% from the previous fiscal year) and the net margin dropped significantly by 3.2%.

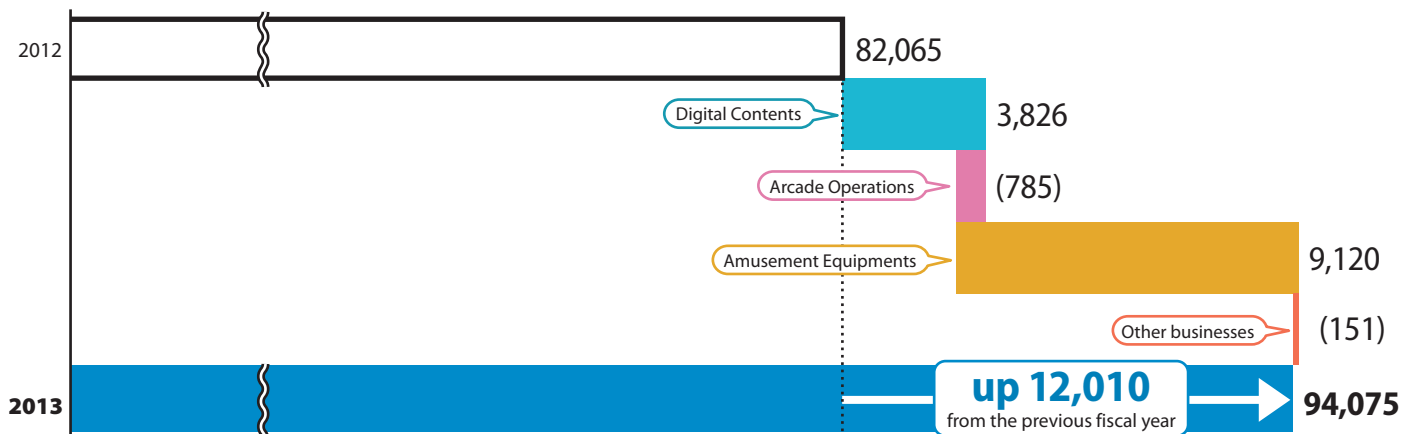
**3. Status of Each Operational Department**

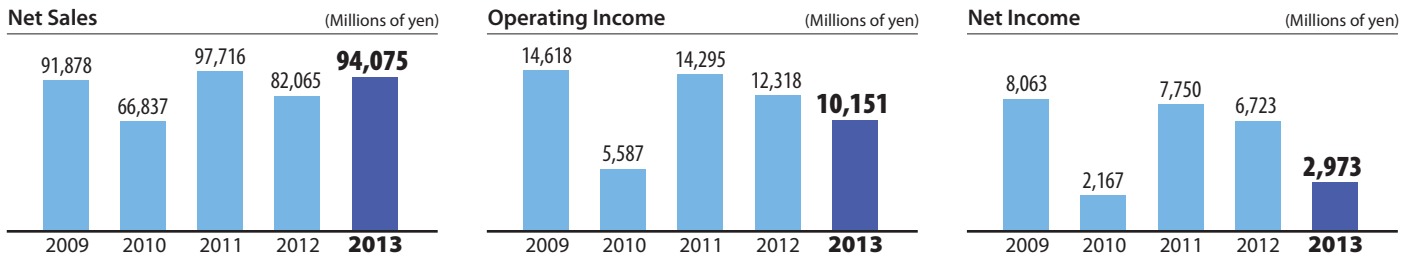
**(1) Digital Content business**

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

**Net Sales**

(Millions of yen)





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 "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.

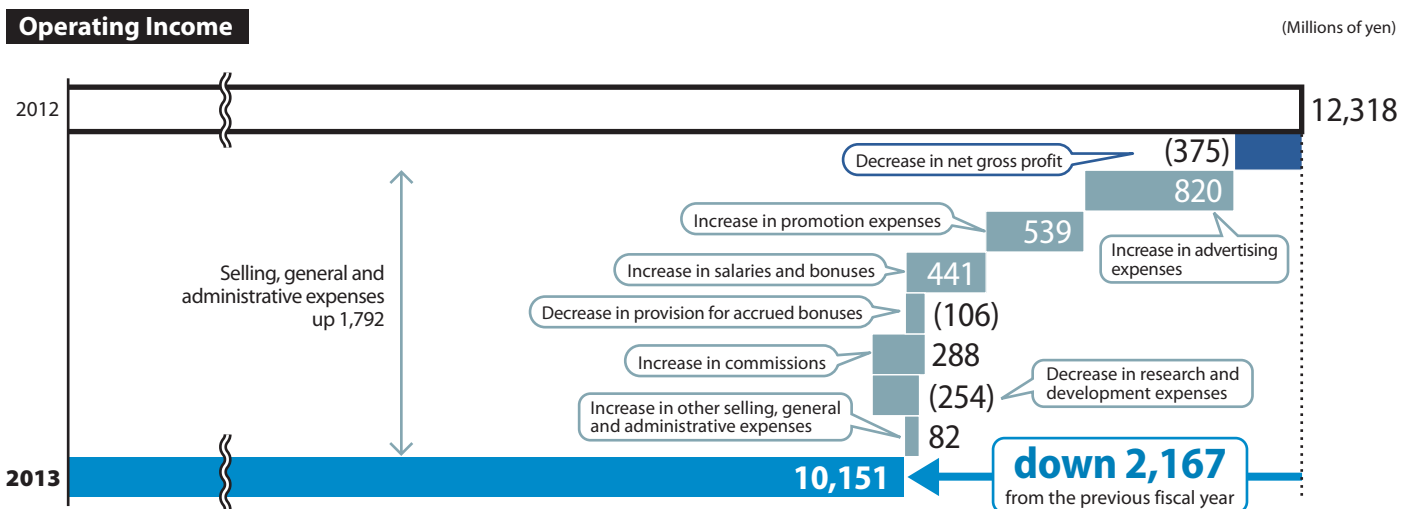
During this fiscal year, new arcade openings were postponed in consideration of the market environment. As three unprofitable arcades were closed down, the total number of arcades became 34 as of the end of the current period.

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).

**4. Analysis of Assets, Liabilities and Net Assets**

**(1) 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

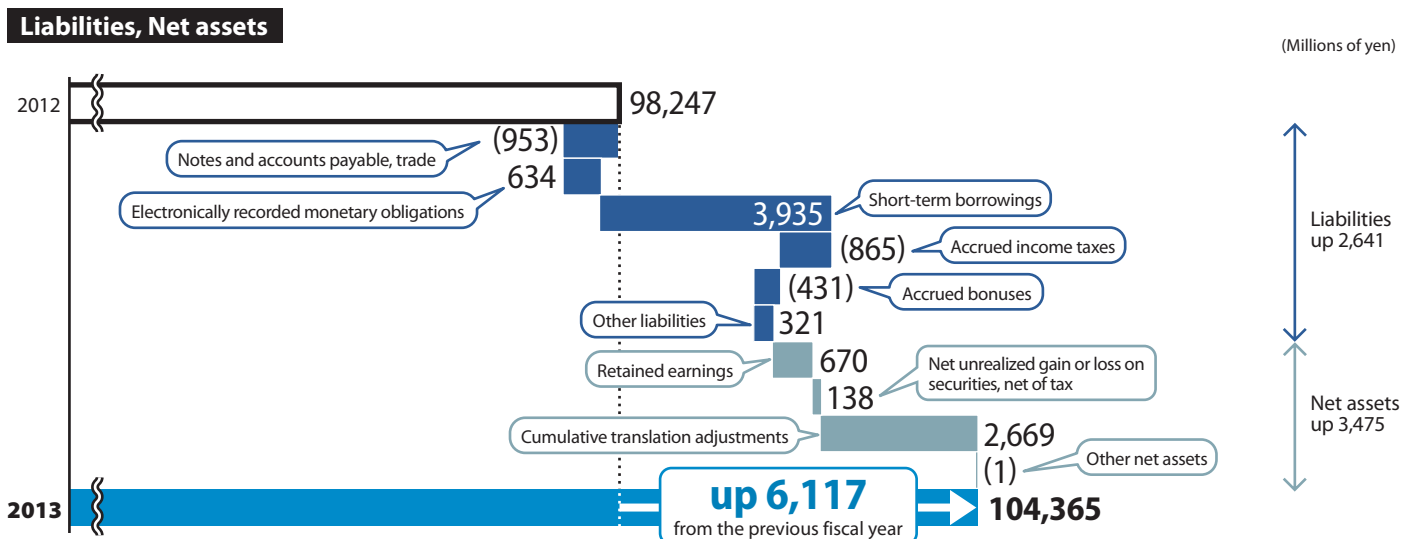
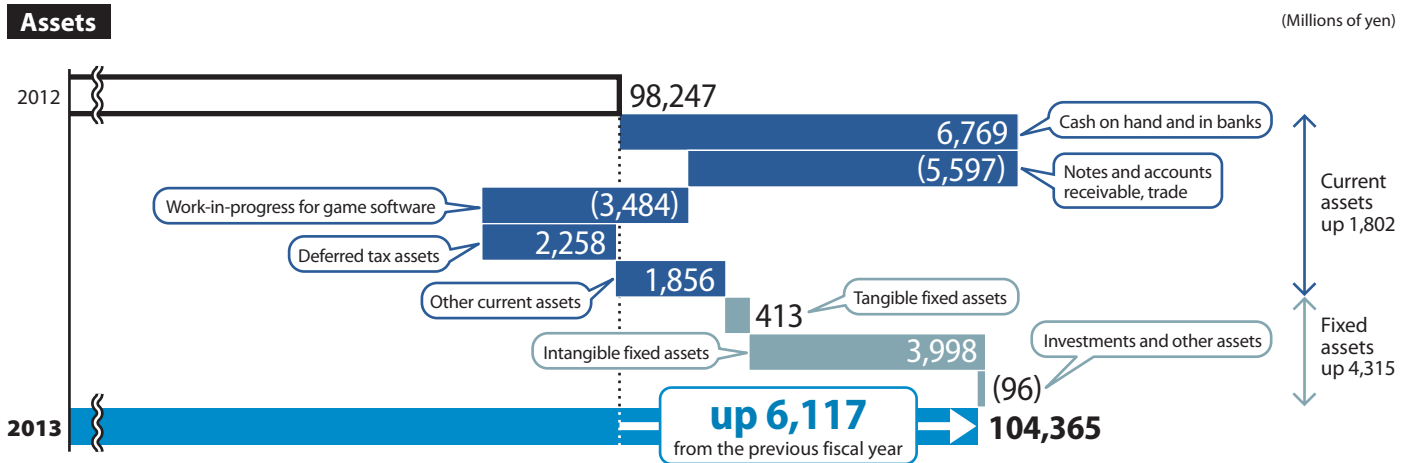
assets. Primary decrease was 5,597 million yen in notes and accounts receivable, trade.

**(2) 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.

**(3) 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.





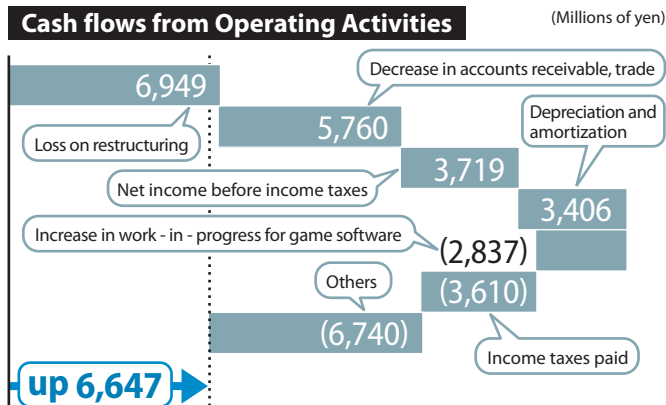
## 5. Analysis of Cash Flow

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.

### (1) 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).

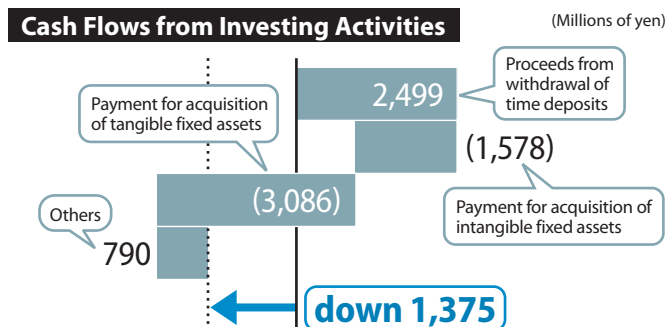
Primary increases gained were 5,760 million yen decrease in notes and accounts receivable, trade (increase of 5,550 million yen in the previous fiscal year) and 3,719 million yen in net income before income taxes (11,425 million yen in the previous fiscal year). Main decreases were the followings: 3,610 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).



### (2) 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).

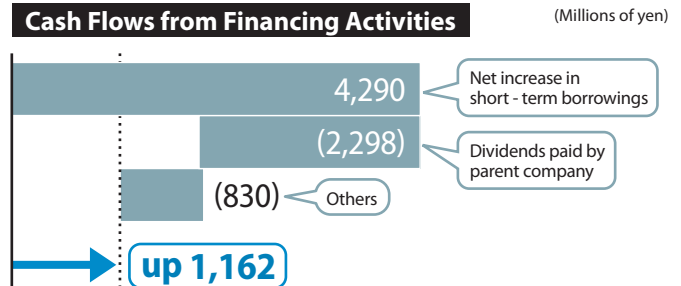
The primary increase used in were as follows: 3,086 million yen in payment for acquisitions of tangible fixed assets (2,153 million yen in the previous fiscal year); 1,578 million yen in payment for acquisitions of intangible fixed assets (527 million yen in the previous fiscal year). Primary decrease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



### (3) 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).



### Trends of Cash Flow Indicators

	Year ended March 2011	Year ended March 2012	Year ended March 2013
Shareholders' equity ratio to total assets (%)	64.2	60.4	<b>60.2</b>
Shareholders' equity ratio to total assets based on fair market value (%)	103.9	110.8	<b>81.4</b>
Debt amortization ratio to cash flows (%)	32.8	—	<b>258.7</b>
Interest coverage ratio (times)	155.8	—	<b>62.4</b>

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.

# Consolidated Balance Sheets

CAPCOM CO., LTD. AND ITS CONSOLIDATED SUBSIDIARIES. MARCH 31, 2013 AND 2012

	Previous fiscal year (As of March 31, 2012)	Current fiscal year (As of March 31, 2013)	Current fiscal year (As of March 31, 2013)
	Millions of yen	Millions of yen	Thousands of U.S. dollars
<b>(Assets)</b>			
<b>Current assets:</b>			
Cash on hand and in banks [Notes 9(1) and 11]	24,752	31,522	335,345
Notes and accounts receivable, trade [Notes 5(3) and 11]	17,285	11,687	124,338
Merchandise and finished goods	1,793	1,756	18,682
Work - in - progress	443	906	9,642
Raw materials and supplies	1,417	1,592	16,936
Work - in - progress for game software	22,373	18,888	200,946
Deferred tax assets [Note 15]	4,239	6,497	69,124
Other	2,791	4,054	43,131
Allowance for doubtful accounts	(58)	(64)	(684)
<b>Total current assets</b>	<b>75,038</b>	<b>76,841</b>	<b>817,462</b>
<b>Fixed assets:</b>			
<b>Tangible fixed assets, net of accumulated depreciation [Note 5(1)]</b>			
Buildings and structures, net [Note 5(2)]	5,125	4,907	52,211
Machinery and vehicles, net	21	34	368
Tools, fixtures and furniture, net	1,052	1,105	11,758
Equipment for amusement facilities, net	1,637	1,199	12,759
Land [Note 5(2)]	4,298	5,052	53,751
Leased assets, net [Note 10(2)]	709	849	9,037
Construction - in - progress	—	108	1,158
<b>Total tangible fixed assets</b>	<b>12,844</b>	<b>13,258</b>	<b>141,046</b>
<b>Intangible assets</b>			
Goodwill	291	200	2,128
Other	3,619	7,709	82,013
<b>Total intangible assets</b>	<b>3,911</b>	<b>7,909</b>	<b>84,142</b>
<b>Investments and other assets</b>			
Investments in securities [Notes 5(3) and 12]	368	515	5,487
Claim in bankruptcy and reorganization	265	66	708
Lease deposits [Note 11]	4,522	4,341	46,185
Deferred tax assets [Note 15]	908	733	7,808
Other	663	776	8,257
Allowance for doubtful accounts	(275)	(78)	(831)
<b>Total investments and other assets</b>	<b>6,452</b>	<b>6,355</b>	<b>67,615</b>
<b>Total fixed assets</b>	<b>23,208</b>	<b>27,523</b>	<b>292,803</b>
<b>Total assets</b>	<b>98,247</b>	<b>104,365</b>	<b>1,110,266</b>

The accompanying notes are an integral part of these financial statements.

	Previous fiscal year (As of March 31, 2012)	<b>Current fiscal year (As of March 31, 2013)</b>	<b>Current fiscal year (As of March 31, 2013)</b>
	Millions of yen	Millions of yen	Thousands of U.S. dollars
<b>(Liabilities)</b>			
<b>Current liabilities:</b>			
Notes and accounts payable, trade [Notes 5(4) and 11]	7,257	<b>6,304</b>	<b>67,064</b>
Electronically recorded monetary obligations [Note 11]	—	<b>634</b>	<b>6,748</b>
Short - term borrowings [Notes 5(2) and (5), 11 and 24]	7,259	<b>11,194</b>	<b>119,091</b>
Lease obligations [Notes 11 and 24]	322	<b>364</b>	<b>3,872</b>
Accrued income taxes	2,977	<b>2,111</b>	<b>22,465</b>
Deferred tax liabilities [Note 15]	7	—	—
Accrued bonuses	2,111	<b>1,679</b>	<b>17,870</b>
Allowance for sales returns	118	<b>187</b>	<b>1,994</b>
Asset retirement obligations [Notes 17 and 25]	19	<b>20</b>	<b>219</b>
Other	9,254	<b>9,409</b>	<b>100,096</b>
<b>Total current liabilities</b>	<b>29,327</b>	<b>31,905</b>	<b>339,424</b>
<b>Long - term liabilities:</b>			
Long - term borrowings [Notes 5(2) and (5), 11 and 24]	6,145	<b>6,000</b>	<b>63,837</b>
Lease obligations [Note 11 and 24]	429	<b>553</b>	<b>5,888</b>
Deferred tax liabilities [Note 15]	225	<b>2</b>	<b>24</b>
Accrued retirement benefits for employees [Note 14(2)]	1,509	<b>1,697</b>	<b>18,057</b>
Asset retirement obligations [Notes 17 and 25]	325	<b>329</b>	<b>3,502</b>
Other	932	<b>1,047</b>	<b>11,145</b>
<b>Total long - term liabilities</b>	<b>9,567</b>	<b>9,630</b>	<b>102,455</b>
<b>Total liabilities</b>	<b>38,895</b>	<b>41,536</b>	<b>441,880</b>
<b>(Net assets)</b>			
<b>Shareholders' equity:</b>			
Common stock	33,239	<b>33,239</b>	<b>353,609</b>
Capital surplus	21,328	<b>21,328</b>	<b>226,903</b>
Retained earnings	27,328	<b>27,998</b>	<b>297,854</b>
Treasury stock	(15,846)	<b>(15,848)</b>	<b>(168,598)</b>
<b>Total shareholders' equity</b>	<b>66,049</b>	<b>66,718</b>	<b>709,769</b>
<b>Accumulated other comprehensive income:</b>			
Net unrealized gain or loss on securities, net of tax	(46)	<b>91</b>	<b>971</b>
Cumulative translation adjustments	(6,650)	<b>(3,981)</b>	<b>(42,353)</b>
<b>Total accumulated other comprehensive income</b>	<b>(6,697)</b>	<b>(3,889)</b>	<b>(41,382)</b>
<b>Total net assets</b>	<b>59,352</b>	<b>62,828</b>	<b>668,386</b>
<b>Total liabilities and net assets</b>	<b>98,247</b>	<b>104,365</b>	<b>1,110,266</b>

The accompanying notes are an integral part of these financial statements.



## Consolidated statements of income

CAPCOM CO., LTD. AND ITS CONSOLIDATED SUBSIDIARIES. YEARS ENDED MARCH 31

	Previous fiscal year (From April 1, 2011 to March 31, 2012)	Current fiscal year (From April 1, 2012 to March 31, 2013)	Current fiscal year (From April 1, 2012 to March 31, 2013)
	Millions of yen	Millions of yen	Thousands of U.S. dollars
<b>Net sales</b>	82,065	<b>94,075</b>	<b>1,000,799</b>
<b>Cost of sales</b>	49,609	<b>61,911</b>	<b>658,633</b>
<b>Gross profit</b>	32,456	<b>32,163</b>	<b>342,166</b>
Reversal of allowance for sales returns	12	—	—
Provision of allowance for sales returns	—	<b>69</b>	<b>737</b>
Net gross profit	32,469	<b>32,094</b>	<b>341,429</b>
<b>Selling, general and administrative expenses [Notes 6(1) and (3)]</b>	20,150	<b>21,942</b>	<b>233,435</b>
<b>Operating income</b>	12,318	<b>10,151</b>	<b>107,993</b>
<b>Non - operating income:</b>			
Interest income	85	<b>92</b>	<b>988</b>
Dividend income	10	<b>9</b>	<b>96</b>
Settlement received	67	—	—
Exchange gains, net	—	<b>745</b>	<b>7,930</b>
Other	126	<b>257</b>	<b>2,744</b>
Total	289	<b>1,105</b>	<b>11,759</b>
<b>Non - operating expenses:</b>			
Interest expense	115	<b>107</b>	<b>1,139</b>
Exchange losses, net	456	—	—
Commission fee	66	<b>60</b>	<b>642</b>
Other	151	<b>144</b>	<b>1,541</b>
Total	788	<b>312</b>	<b>3,322</b>
<b>Ordinary income</b>	11,819	<b>10,944</b>	<b>116,430</b>
<b>Special gains:</b>			
Gain on sales of investments in securities	8	—	—
Total	8	—	—
<b>Special losses:</b>			
Loss on sales and/or disposal of fixed assets [Note 6(2)]	321	<b>216</b>	<b>2,301</b>
Impairment loss [Note 6(4)]	80	<b>58</b>	<b>620</b>
Loss on restructuring [Note 6(5)]	—	<b>6,949</b>	<b>73,935</b>
Total	402	<b>7,224</b>	<b>76,858</b>
Net income before income taxes	11,425	<b>3,719</b>	<b>39,572</b>
Income taxes - current [Note 15]	3,513	<b>2,968</b>	<b>31,582</b>
Income taxes - deferred [Note 15]	1,188	<b>(2,222)</b>	<b>(23,642)</b>
Total	4,701	<b>746</b>	<b>7,940</b>
Net income before minority interests	6,723	<b>2,973</b>	<b>31,632</b>
<b>Net income</b>	6,723	<b>2,973</b>	<b>31,632</b>

## Consolidated statements of comprehensive income

CAPCOM CO., LTD. AND ITS CONSOLIDATED SUBSIDIARIES. YEARS ENDED MARCH 31

	Previous fiscal year (From April 1, 2011 to March 31, 2012)	Current fiscal year (From April 1, 2012 to March 31, 2013)	Current fiscal year (From April 1, 2012 to March 31, 2013)
	Millions of yen	Millions of yen	Thousands of U.S. dollars
<b>Net income before minority interests</b>	6,723	<b>2,973</b>	<b>31,632</b>
Other comprehensive income [Note 7(1)]			
Net unrealized gain or loss on securities, net of tax	9	<b>138</b>	<b>1,470</b>
Cumulative translation adjustments	(344)	<b>2,669</b>	<b>28,395</b>
Total other comprehensive income	(334)	<b>2,807</b>	<b>29,865</b>
<b>Comprehensive income</b>	6,389	<b>5,780</b>	<b>61,497</b>
Comprehensive income attributable to:			
Owners of the parent	6,389	<b>5,780</b>	<b>61,497</b>
Minority interests	—	—	—

The accompanying notes are an integral part of these financial statements.

# Consolidated Statements of Changes in Net Assets

	Previous fiscal year (From April 1, 2011 to March 31, 2012)	Current fiscal year (From April 1, 2012 to March 31, 2013)	Current fiscal year (From April 1, 2012 to March 31, 2013)
	Millions of yen	Millions of yen	Thousands of U.S. dollars
<b>Shareholders' equity</b>			
Common stock			
Opening balance	33,239	<b>33,239</b>	<b>353,609</b>
Change of items during the fiscal year			
Total changes of items during the fiscal year	—	—	—
<b>Ending balance</b>	<b>33,239</b>	<b>33,239</b>	<b>353,609</b>
Capital surplus			
Opening balance	21,328	<b>21,328</b>	<b>226,903</b>
Change of items during the fiscal year			
Disposal of treasury stock	0	<b>0</b>	<b>0</b>
Total changes of items during the fiscal year	0	<b>0</b>	<b>0</b>
<b>Ending balance</b>	<b>21,328</b>	<b>21,328</b>	<b>226,903</b>
Retained earnings			
Opening balance	22,945	<b>27,328</b>	<b>290,726</b>
Change of items during the fiscal year			
Cash dividends [Note 8(3)]	(2,340)	<b>(2,303)</b>	<b>(24,503)</b>
Net income	6,723	<b>2,973</b>	<b>31,632</b>
Total changes of items during the fiscal year	4,383	<b>670</b>	<b>7,128</b>
<b>Ending balance</b>	<b>27,328</b>	<b>27,998</b>	<b>297,854</b>
Treasury stock			
Opening balance	(13,143)	<b>(15,846)</b>	<b>(168,582)</b>
Change of items during the fiscal year			
Repurchase of treasury stock	(2,703)	<b>(1)</b>	<b>(16)</b>
Disposal of treasury stock	0	<b>0</b>	<b>0</b>
Total changes of items during the fiscal year	(2,703)	<b>(1)</b>	<b>(15)</b>
<b>Ending balance</b>	<b>(15,846)</b>	<b>(15,848)</b>	<b>(168,598)</b>
<b>Total shareholders' equity</b>			
Opening balance	64,370	<b>66,049</b>	<b>702,656</b>
Change of items during the fiscal year			
Cash dividends	(2,340)	<b>(2,303)</b>	<b>(24,503)</b>
Net income	6,723	<b>2,973</b>	<b>31,632</b>
Repurchase of treasury stock	(2,703)	<b>(1)</b>	<b>(16)</b>
Disposal of treasury stock	0	<b>0</b>	<b>0</b>
Total changes of items during the fiscal year	1,679	<b>668</b>	<b>7,112</b>
<b>Ending balance</b>	<b>66,049</b>	<b>66,718</b>	<b>709,769</b>

The accompanying notes are an integral part of these financial statements.

CAPCOM CO., LTD. AND ITS CONSOLIDATED SUBSIDIARIES. YEARS ENDED MARCH 31

	Previous fiscal year (From April 1, 2011 to March 31, 2012)	Current fiscal year (From April 1, 2012 to March 31, 2013)	Current fiscal year (From April 1, 2012 to March 31, 2013)
	Millions of yen	Millions of yen	Thousands of U.S. dollars
<b>Accumulated other comprehensive income</b>			
Net unrealized gain or loss on securities, net of tax			
Opening balance	(56)	<b>(46)</b>	<b>(499)</b>
Change of items during the fiscal year			
Net changes of items other than shareholders' equity	9	<b>138</b>	<b>1,470</b>
Total changes of items during the fiscal year	9	<b>138</b>	<b>1,470</b>
<b>Ending balance</b>	<b>(46)</b>	<b>91</b>	<b>971</b>
Cumulative translation adjustments			
Opening balance	(6,305)	<b>(6,650)</b>	<b>(70,749)</b>
Change of items during the fiscal year			
Net changes of items other than shareholders' equity	(344)	<b>2,669</b>	<b>28,395</b>
Total changes of items during the fiscal year	(344)	<b>2,669</b>	<b>28,395</b>
<b>Ending balance</b>	<b>(6,650)</b>	<b>(3,981)</b>	<b>(42,353)</b>
Total accumulated other comprehensive income			
Opening balance	(6,362)	<b>(6,697)</b>	<b>(71,248)</b>
Change of items during the fiscal year			
Net changes of items other than shareholders' equity	(334)	<b>2,807</b>	<b>29,865</b>
Total changes of items during the fiscal year	(334)	<b>2,807</b>	<b>29,865</b>
<b>Ending balance</b>	<b>(6,697)</b>	<b>(3,889)</b>	<b>(41,382)</b>
Total net assets			
Opening balance	58,007	<b>59,352</b>	<b>631,407</b>
Change of items during the fiscal year			
Cash dividends	(2,340)	<b>(2,303)</b>	<b>(24,503)</b>
Net income	6,723	<b>2,973</b>	<b>31,632</b>
Repurchase of treasury stock	(2,703)	<b>(1)</b>	<b>(16)</b>
Disposal of treasury stock	0	<b>0</b>	<b>0</b>
Net changes of items other than shareholders' equity	(334)	<b>2,807</b>	<b>29,865</b>
Total changes of items during the fiscal year	1,344	<b>3,475</b>	<b>36,978</b>
<b>Ending balance</b>	<b>59,352</b>	<b>62,828</b>	<b>668,386</b>

The accompanying notes are an integral part of these financial statements.

# Consolidated Statements of Cash Flows

CAPCOM CO., LTD. AND ITS CONSOLIDATED SUBSIDIARIES. YEARS ENDED MARCH 31

	Previous fiscal year (From April 1, 2011 to March 31, 2012)	Current fiscal year (From April 1, 2012 to March 31, 2013)	Current fiscal year (From April 1, 2012 to March 31, 2013)
	Millions of yen	Millions of yen	Thousands of U.S. dollars
<b>Cash flows from operating activities:</b>			
Net income before income taxes	11,425	3,719	39,572
Depreciation and amortization	3,123	3,406	36,235
Impairment loss	80	58	620
Amortization of goodwill	112	132	1,406
Increase in allowance for doubtful accounts	9	1	13
Decrease in accrued bonuses	(362)	(474)	(5,042)
Increase (decrease) in allowance for sales returns	(12)	69	737
Increase in accrued retirement benefits for employees	126	185	1,972
Interest and dividend income	(95)	(101)	(1,084)
Interest expense	115	107	1,139
Exchange (gains) losses, net	424	(485)	(5,163)
Loss on sales and/or disposal of fixed assets	321	216	2,301
Gain on sales of investments in securities	(8)	—	—
Loss on restructuring	—	6,949	73,935
Decrease (increase) in accounts receivable, trade	(5,550)	5,760	61,281
Increase in inventories	(1,450)	(493)	(5,246)
Increase in work - in - progress for game software	(11,899)	(2,837)	(30,186)
(Decrease) increase in notes and accounts payable, trade	1,720	(474)	(5,050)
Increase in other current assets	(309)	(1,031)	(10,971)
(Decrease) increase in other current liabilities	202	(1,553)	(16,529)
Other	(1,419)	(2,901)	(30,862)
Subtotal	(3,447)	10,253	109,078
Interest and dividends received	86	109	1,170
Interest paid	(115)	(105)	(1,121)
Income taxes paid	(4,195)	(3,610)	(38,412)
<b>Net cash provided by (used in) operating activities</b>	<b>(7,672)</b>	<b>6,647</b>	<b>70,714</b>
<b>Cash flows from investing activities:</b>			
Payments into time deposits [Note 9(1)]	(2,465)	—	—
Proceeds from withdrawal of time deposits	—	2,499	26,591
Payment for acquisition of tangible fixed assets	(2,153)	(3,086)	(32,838)
Proceeds from sales of tangible fixed assets	434	659	7,013
Payment for acquisition of intangible assets	(527)	(1,578)	(16,792)
Payment for purchase of investments in securities	(12)	(12)	(135)
Proceeds from sales of investments in securities	47	—	—
Collection of loans receivable	0	—	—
Payment for other investing activities	(379)	(453)	(4,822)
Proceeds from other investing activities	260	597	6,355
<b>Net cash used in investing activities</b>	<b>(4,794)</b>	<b>(1,375)</b>	<b>(14,628)</b>
<b>Cash flows from financing activities:</b>			
Net increase in short - term borrowings	6,760	4,290	45,638
Proceeds from long - term borrowings	3,000	—	—
Repayments of long - term borrowings	(3,711)	(499)	(5,311)
Repayments of lease obligations	(418)	(327)	(3,488)
Payment for repurchase of treasury stock	(2,703)	(1)	(16)
Proceeds from sales of treasury stock	0	0	0
Dividends paid by parent company	(2,339)	(2,298)	(24,456)
<b>Net cash provided by financing activities</b>	<b>587</b>	<b>1,162</b>	<b>12,366</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b>	<b>(845)</b>	<b>2,800</b>	<b>29,794</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(12,724)</b>	<b>9,235</b>	<b>98,246</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>35,011</b>	<b>22,287</b>	<b>237,098</b>
<b>Cash and cash equivalents at end of year [Note 9(1)]</b>	<b>22,287</b>	<b>31,522</b>	<b>335,345</b>

The accompanying notes are an integral part of these financial statements.



**1. Major policies in preparing the consolidated financial statements:**

The accompanying consolidated financial statements of CAPCOM CO., LTD. ("Company") and its subsidiaries have been prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Act.

Each amount in the consolidated financial statements and notes is rounded down to the nearest 1 million yen (in the case of translation into U.S. dollars, it is rounded down to the nearest 1 thousand U.S. dollars).

The rate of ¥94=U.S.\$1.00, the approximate current rate of exchange prevailing on March 31, 2013, has been used for the purpose of presentation of the U.S. dollar amounts in the accompanying consolidated financial statements. These U.S. dollar amounts are included solely for convenience and should not be construed as representations that the Japanese yen amounts actually represent, have been or could be converted into U.S. dollars at this or any other rate.

**2. Summary of significant accounting policies:****(1) Principles of consolidation**

The consolidated financial statements consist of the accounts of the Company and its 16 majority - owned subsidiaries (the "Companies") at the relevant balance sheet date. All significant intercompany transactions and accounts have been eliminated.

The investments in 20% to 50% owned companies ("Affiliated companies") are, with minor exceptions, accounted for under the equity method.

The 16 subsidiaries are as follows:

CAPCOM U.S.A., INC. (U.S.A.)  
 CAPCOM GAME STUDIO VANCOUVER, INC. (Canada)  
 BEELINE INTERACTIVE, INC. (U.S.A.)  
 BEELINE INTERACTIVE CANADA, INC. (Canada)  
 BEELINE INTERACTIVE JAPAN, INC. (Japan)  
 BEELINE INTERACTIVE EUROPE LTD. (U.K.)  
 BEELINE INTERACTIVE THAILAND LTD. (Thailand)  
 CE EUROPE LTD. (U.K.)  
 CAPCOM ENTERTAINMENT GERMANY GmbH (Germany)  
 CAPCOM ENTERTAINMENT FRANCE SAS (France)  
 CAPCOM ASIA CO., LTD. (Hong Kong)  
 CAPCOM TAIWAN CO., LTD. (Taiwan)  
 CAPCOM ENTERTAINMENT KOREA CO., LTD. (South Korea)  
 CAPTRON CO., LTD. (Japan)  
 K2 CO., LTD. (Japan)  
 ENTERRISE CO., LTD. (Japan)

An Affiliated company accounted for under the equity method is as follows:

STREET FIGHTER FILM, LLC (U.S.A.)

**(2) Investments in securities**

Available - for - sale securities whose fair values are readily determinable are stated at fair value at the fiscal year end.

Net unrealized gains or losses on these securities are recorded as a separate component of "Net assets," at the net of tax amount.

The cost of securities sold is determined based on the average cost of all such securities held at the time of sale.

Other securities whose fair values are not readily determinable are stated at cost, cost being determined by the average cost method.

**(3) Inventories ("Merchandise and finished goods," "Work - in - progress," "Raw materials and supplies") and "Work - in - progress for game software"**

Inventories are stated at the acquisition cost, determined principally by the moving average cost method. Inventories are stated at cost with the book value reduction method based on a decline in profitability for balance sheet carrying amounts.

Work - in - progress for game software, including development costs incurred by subcontractors for game machines, is stated at accumulated cost on a specific project basis. Work - in - progress for game software is stated at cost with the book value reduction method based on a decline in profitability for balance sheet carrying amounts.

**(4) Tangible fixed assets, except for leased assets**

Tangible fixed assets are stated at cost. The Company and its domestic subsidiaries compute depreciation of tangible fixed assets using the declining balance method at rates based on the estimated useful life of the respective asset, except for buildings (excluding leasehold improvements and auxiliary facilities attached to buildings), for which depreciation is computed using the straight - line method. Foreign subsidiaries, except for some subsidiaries, compute depreciation on a straight - line basis.

The primary useful lives are as follows:

Buildings and structures	3-50 years
Equipment for amusement facilities	3-20 years

**(5) Intangible assets, except for leased assets**

Amortization of intangible assets is computed by the straight - line method. The amortization period, except for computer software and online game contents, is based upon the individual estimated useful life of the asset.

The amortization period for computer software and online game contents is based upon the estimated period of internal use (3 to 5 years) and the estimated period of online game services (2 to 3 years), respectively.

**(6) Leased assets**

Leases that do not transfer ownership of the leased assets to the lessee. Depreciation of such leased assets is computed by the straight - line method with the lease term regarded as useful life and the residual value at zero.

If there is a contract on guaranteed residual value for the lease, such guaranteed residual value is used as accounting residual one.

Leases that do not transfer ownership of the leased assets to the lessee as part of the lease, the contracts of which were made on or before March 31, 2008, are accounted for in a similar manner as ordinary rental transactions.

Leases that transfer ownership of the leased assets to the lessee. Depreciation methods for such leased assets are the same with those applied to the tangible fixed assets owned by the Companies.

**(7) Allowance for doubtful accounts**

The allowance for doubtful accounts is calculated based on the prior loss experience and the estimated amount of probable individual bad debts at the fiscal year end.

This amount is considered sufficient to cover possible losses on collection.

**(8) Accrued bonuses**

Accrued bonuses are stated at the estimated amount of the bonus to be paid to employees based on their services provided during the fiscal year.

**(9) Accrued retirement benefits for employees**

The accrual for retirement benefits for employees is calculated based on the estimated amount of projected benefit obligations at the year - end.

The unrecognized net transition obligation (¥552 million (\$5,877 thousand)) is amortized over 15 years.

Unrecognized prior service liabilities are amortized over 8 years, the average remaining service period, commencing from the date on which they are incurred.

Unrecognized actuarial net gains or losses are amortized over 8 to 14 years, the average remaining service period, commencing from the following year in which they arise.

**(10) Allowance for sales returns**

The allowance for sales returns is provided for estimated losses resulting from sales returns subsequent to the balance sheet date and is based on prior loss experience.

**(11) Amortization of goodwill**

Goodwill is amortized by the straight - line method over 4 years. In the case in which its amount is insignificant, it is amortized at one time.

**(12) Cash and cash equivalents in the consolidated statements of cash flows**

Cash and cash equivalents include all highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and are so near maturity that they present an insignificant risk of change in value.

**(13) Other**

Accounting for consumption taxes

Consumption taxes on goods and services are not included in the revenue and expense amounts in the accompanying consolidated statements of income.

**5. Notes to consolidated balance sheets****(1) Accumulated depreciation of tangible fixed assets**

	Previous fiscal year (As of March 31, 2012)	Current fiscal year (As of March 31, 2013)	Current fiscal year (As of March 31, 2013)
	Millions of yen	Millions of yen	Thousands of U.S. dollars
Accumulated depreciation of tangible fixed assets	16,712	<b>16,890</b>	<b>179,683</b>

(Note) The above balances include the accumulated impairment loss on tangible fixed assets.

**(2) Pledged assets and secured debts**

	Previous fiscal year (As of March 31, 2012)	Current fiscal year (As of March 31, 2013)	Current fiscal year (As of March 31, 2013)
	Millions of yen	Millions of yen	Thousands of U.S. dollars
① Pledged assets			
Buildings	3,817	<b>3,806</b>	<b>40,489</b>
Land	3,314	<b>3,314</b>	<b>35,255</b>
Total	7,131	<b>7,120</b>	<b>75,745</b>
② Secured debts			
Short - term borrowings	260	<b>1,050</b>	<b>11,170</b>
Long - term borrowings due within one year	490	<b>140</b>	<b>1,489</b>
Long - term borrowings	140	—	—
Total	890	<b>1,190</b>	<b>12,659</b>

**3. Changes in accounting policies pursuant to amendments in respective laws and regulations that are not distinguishable from changes in accounting estimates:**

Effective from the fiscal year ended March 31, 2013, the Company and its domestic subsidiaries have changed their depreciation method for tangible fixed assets in accordance with the amendments of the corporate tax law.

Accordingly, assets acquired on or after April 1, 2012 are depreciated using the method prescribed in the amended corporate tax law.

The impact of this change on the consolidated statement of income for the fiscal year ended March 31, 2013 is insignificant.

**4. Unapplied accounting standards, etc.:**

“Accounting Standard for Retirement Benefits” (Accounting Standard Board of Japan (ASBJ) Statement No. 26, May 17, 2012) and “Guidance on Accounting Standard for Retirement Benefits (ASBJ Guidance No. 25, May 17, 2012)

**(1) Outline**

The purpose of the revision of this accounting standard and its guidance is to improve Japanese financial reporting and to better follow the international accounting trend, centering around treatment of unrecognized actuarial differences and past service liabilities, determination of retirement benefit obligations and current service costs, and enhancement of disclosures.

**(2) Effective date**

Except for amendments relating to the determination of retirement benefit obligations and current service costs, all amendments shall be applied to the fiscal year ending on or after March 31, 2014. Amendments relating to the determination of retirement benefit obligations and current service costs shall be applied to the fiscal year ending on or after March 31, 2015.

**(3) Impact of application of new accounting standard**

The Companies are currently in the process of determining the impact of the new accounting standard and its guidance on the consolidated financial statements.

## (3) Notes that matured on the balance sheet day of the fiscal year

Although the balance sheet day for the current fiscal year was not a business day, the notes that matured on this day were treated as if they were settled on the date.

	Previous fiscal year (As of March 31, 2012)	Current fiscal year (As of March 31, 2013)	Current fiscal year (As of March 31, 2013)
	Millions of yen	Millions of yen	Thousands of U.S. dollars
Notes receivable	1	2	27
Notes payable	41	39	425

## (4) Credit line

The Company has entered into a line of credit agreement with some banks by syndicate financing for the purpose of efficient and sustainable financing, improvement of efficiency of funds operations and the Company's financial flexibility.

The credit line under this contract and the unexercised balance at the end of the fiscal year are as follows:

	Previous fiscal year (As of March 31, 2012)	Current fiscal year (As of March 31, 2013)	Current fiscal year (As of March 31, 2013)
	Millions of yen	Millions of yen	Thousands of U.S. dollars
Total credit line	26,500	26,500	281,914
Borrowings	6,500	10,000	106,382
Unexercised balance	20,000	16,500	175,531

**6. Notes to consolidated statements of income**

## (1) Major items and the amounts under "Selling, general and administrative expenses"

	Previous fiscal year (From April 1, 2011 to March 31, 2012)	Current fiscal year (From April 1, 2012 to March 31, 2013)	Current fiscal year (From April 1, 2012 to March 31, 2013)
	Millions of yen	Millions of yen	Thousands of U.S. dollars
Advertising expenses	4,105	4,907	52,212
Promotion expenses	1,601	2,140	22,765
Salaries and bonuses	4,589	5,030	53,511
Depreciation and amortization	795	865	9,202
Provision for accrued bonuses	848	742	7,902
Commission fee	1,055	1,343	14,296
Research and development expenses	2,236	1,982	21,086

## (2) The breakdown of "Loss on sales and / or disposal of fixed assets"

	Previous fiscal year (From April 1, 2011 to March 31, 2012)	Current fiscal year (From April 1, 2012 to March 31, 2013)	Current fiscal year (From April 1, 2012 to March 31, 2013)
	Millions of yen	Millions of yen	Thousands of U.S. dollars
Buildings and structures	33	34	365
Tools, fixtures and furniture	11	56	596
Equipment for amusement facilities	5	7	75
Land	117	101	1,082
Other	153	17	181
Total	321	216	2,301

## (3) Research and development expenses included in general and administrative expenses

	Previous fiscal year (From April 1, 2011 to March 31, 2012)	Current fiscal year (From April 1, 2012 to March 31, 2013)	Current fiscal year (From April 1, 2012 to March 31, 2013)
	Millions of yen	Millions of yen	Thousands of U.S. dollars
Research and development expenses	2,236	1,982	21,086



## (4) Impairment loss

The assets, for which the impairment losses were recognized, are as follows:

Usage	Account	Previous fiscal year	Current fiscal year	Current fiscal year
		(From April 1, 2011 to March 31, 2012)	(From April 1, 2012 to March 31, 2013)	(From April 1, 2012 to March 31, 2013)
		Millions of yen	Millions of yen	Thousands of U.S. dollars
Assets to be disposed of	Equipment for amusement facilities	18	58	620
Assets to be disposed of	Buildings and structures	23	—	—
Assets to be disposed of	Land	37	—	—

## (Previous fiscal year)

To measure an impairment, assets are principally grouped based on business segments such as "Digital contents," "Arcade operations," etc.  
Whereas, rental assets, idle assets, assets to be disposed of and online game contents are evaluated as separate groups.  
The Companies made a decision to change some business policies and dispose of some assets. As a result of the decision, the Companies did not make sure of the recoverability of the book value of the assets to be disposed of and recognized the impairment loss as shown above.  
The recoverable value for the assets to be sold was computed based on their net realizable value, which was appraised by a real estate appraiser, and that for those to be otherwise disposed of was estimated at zero.

## (Current fiscal year)

To measure an impairment, assets are principally grouped based on business segments such as "Digital contents," "Arcade operations," etc.  
Whereas, rental assets, idle assets, assets to be disposed of and online game contents are evaluated as separate groups.  
The Companies made a decision to dispose of some assets. As a result of the decision, the Companies did not make sure of the recoverability of the book value of the assets to be disposed of and recognized the impairment loss as shown above.

## (5) Loss on restructuring

## ① Previous fiscal year (From April 1, 2011 to March 31, 2012)

Not applicable

## ② Current fiscal year (From April 1, 2012 to March 31, 2013)

The Companies restructured the developmental organization of the digital contents business.

As a result, the Companies booked a loss on restructuring after reviewing its future profitability.

## 7. Notes to consolidated statements of comprehensive income

## (1) Amount of recycling and income tax effect associated with other comprehensive income

	Previous fiscal year	Current fiscal year	Current fiscal year
	(From April 1, 2011 to March 31, 2012)	(From April 1, 2012 to March 31, 2013)	(From April 1, 2012 to March 31, 2013)
		Millions of yen	Thousands of U.S. dollars
Net unrealized gain or loss on securities			
Amount arising during the current fiscal year	18	138	1,470
Amount of recycling	(8)	—	—
Net gain before income tax effect	9	138	1,470
Income tax effect	—	—	—
Net unrealized gain or loss on securities, net of tax	9	138	1,470
Cumulative translation adjustment			
Amount arising during the current fiscal year	(344)	2,669	28,395
Total other comprehensive income	(334)	2,807	29,865

## 8. Notes to consolidated statements of changes in net assets

Previous fiscal year (From April 1, 2011 to March 31, 2012)

## (1) Number of outstanding shares

Type of shares	Number of shares as of April 1, 2011	Increase in the number of shares	Decrease in the number of shares	Number of shares as of March 31, 2012
Common stock (thousand shares)	67,723	—	—	67,723

(Note) No change in the number of shares during the previous fiscal year

## (2) Number of treasury stocks

Type of shares	Number of shares as of April 1, 2011	Increase in the number of shares	Decrease in the number of shares	Number of shares as of March 31, 2012
Common stock (thousand shares)	8,637	1,501	0	<b>10,138</b>

(Note) The reason for the increase in the number of shares are as follows:

Increase due to purchase of treasury stocks	1,500 thousand shares
Increase due to purchase of less-than-one-unit shares	1 thousand shares

## (3) Dividend

## ① Amount of dividends paid

Resolution	Type of shares	Amount of dividends	Dividend per share (yen)	Record date	Effective date
General shareholders' meeting held on June 17, 2011	Common stock	¥1,477 million	25	March 31, 2011	June 20, 2011
Board of directors' meeting held on October 26, 2011	Common stock	¥863 million	15	September 30, 2011	November 17, 2011

## ② Dividends whose effective date was to be after the end of current fiscal year and record date was included in the previous fiscal year.

Resolution	Type of shares	Amount of dividends	Source of dividends	Dividend per share (yen)	Record date	Effective date
General shareholders' meeting held on June 15, 2012	Common stock	¥1,439 million	Retained earnings	25	March 31, 2012	June 18, 2012

**Current fiscal year (From April 1, 2012 to March 31, 2013)**

## (1) Number of outstanding shares

Type of shares	Number of shares as of April 1, 2012	Increase in the number of shares	Decrease in the number of shares	Number of shares as of March 31, 2013
Common stock (thousand shares)	67,723	—	—	<b>67,723</b>

(Note) No change in the number of shares during the current fiscal year

## (2) Number of treasury stocks

Type of shares	Number of shares as of April 1, 2012	Increase in the number of shares	Decrease in the number of shares	Number of shares as of March 31, 2013
Common stock (thousand shares)	10,138	0	0	<b>10,139</b>

(Note) The reasons for the increase or decrease in the number of shares are as follows:

Increase due to purchase of less-than-one-unit shares	0 thousand shares
Decrease due to request for purchase of less-than-one-unit shares by shareholders	0 thousand shares

## (3) Dividend

## ① Amount of dividends paid

Resolution	Type of shares	Amount of dividends	Dividend per share (yen)	Record date	Effective date
General shareholders' meeting held on June 15, 2012	Common stock	¥1,439 million	25	March 31, 2012	June 18, 2012
Board of directors' meeting held on October 31, 2012	Common stock	¥863 million	15	September 30, 2012	November 19, 2012

Resolution	Type of shares	Amount of dividends	Dividend per share (U.S. dollars)	Record date	Effective date
General shareholders' meeting held on June 15, 2012	Common stock	\$15,314 thousand	0.27	March 31, 2012	June 18, 2012
Board of directors' meeting held on October 31, 2012	Common stock	\$9,188 thousand	0.16	September 30, 2012	November 19, 2012

② Dividends whose effective date was to be after the end of current fiscal year and record date was included in the current fiscal year.

Resolution	Type of shares	Amount of dividends	Source of dividends	Dividend per share (yen)	Record date	Effective date
General shareholders' meeting held on June 18, 2013	Common stock	¥1,439 million	Retained earnings	25	March 31, 2013	June 19, 2013

Resolution	Type of shares	Amount of dividends	Source of dividends	Dividend per share (U.S. dollars)	Record date	Effective date
General shareholders' meeting held on June 18, 2013	Common stock	\$15,314 thousand	Retained earnings	0.27	March 31, 2013	June 19, 2013

## 9. Notes to consolidated statements of cash flows

(1) Cash and cash equivalents at end of year

	Previous fiscal year (As of March 31, 2012)	Current fiscal year (As of March 31, 2013)	Current fiscal year (As of March 31, 2013)
	Millions of yen	Millions of yen	Thousands of U.S. dollars
Cash on hand and in banks	24,752	<b>31,522</b>	<b>335,345</b>
Time deposits with maturities over three months	(2,465)	—	—
Cash and cash equivalents	22,287	<b>31,522</b>	<b>335,345</b>

## 10. Accounting for leases

(1) Capital leases that do not transfer ownership of the leased assets to lessees, the contracts of which were made on or before March 31, 2008.

The note is omitted due to the insignificance of the total amount.

(2) Capital leases, the contracts of which were made on or after April 1, 2008.

① Capital leases that transfer ownership of the leased assets to lessees

• Leased assets:

Intangible assets

Major assets are software for the business segment of "Amusement equipments."

• Depreciation method:

See Note 2(6), "Summary of significant accounting policies - Leased assets."

② Capital leases that do not transfer ownership of the leased assets to lessees

• Leased assets:

Tangible fixed assets

Major assets are equipment for amusement facilities for the business segment of "Arcade operations."

• Depreciation method:

See Note 2(6), "Summary of significant accounting policies - Leased assets."

(3) Operating leases

① Future lease payments

	Previous fiscal year (From April 1, 2011) (to March 31, 2012)	Current fiscal year (From April 1, 2012) (to March 31, 2013)	Current fiscal year (From April 1, 2012) (to March 31, 2013)
	Millions of yen	Millions of yen	Thousands of U.S. dollars
Due within one year	272	<b>388</b>	<b>4,134</b>
Due over one year	876	<b>2,347</b>	<b>24,975</b>
Total	1,148	<b>2,736</b>	<b>29,110</b>

(For impairment loss)

No impairment loss was recognized for leased assets.

## 11. Financial instruments

① Conditions of financial instruments

(1) Management policy

The Companies' fund management policy is to invest in financial instruments that have high levels of safety concerning the repayment of the principal and the receipt of the interest, taking safety, liquidity (negotiability, marketability) and profitability into consideration.

The Companies raise funds through borrowings from financial institutions, such as banks, etc.

The Companies also utilize derivative financial instruments in order to hedge foreign currency exchange risk and interest fluctuation rate risk, and do not enter into derivative financial instruments for speculative purposes.



## (2) Financial instruments, risks, and risk management

Notes and accounts receivable, trade are exposed to credit risk of customers. To minimize such risk, the Companies regularly monitor the credit status of major customers as well as perform due date control and balance control for each customer according to importance of business in accordance with credit exposure management rules.

The investments in securities the Company holds consist mainly of listed equity securities of its business partners. These securities are exposed to stock price volatility risk. To minimize such risk, the Company states the fair value of these securities on a quarterly basis to report it to the board of directors' meeting.

As for notes and accounts payable, trade, due date of payment is within one year.

Short - term borrowings are mainly for normal operating activities, and long - term borrowings are mainly for capital investments.

Notes and accounts payable, trade and borrowings are exposed to liquidity risk.

The Companies minimize such risk by forecasting cash flows on a monthly basis.

## (3) Supplemental information on fair value of financial instruments

Not applicable

## ② Fair value of financial instruments

The carrying value on the consolidated balance sheets, fair value, and any differences between the two are as follows:

## (1) Previous fiscal year (As of March 31, 2012)

	Millions of yen		
	Carrying value	Fair value	Difference
(1) Cash on hand and in banks	24,752	24,752	—
(2) Notes and accounts receivable, trade	17,285	17,285	—
(3) Lease deposits	4,522	4,470	(52)
<b>Total</b>	<b>46,561</b>	<b>46,508</b>	<b>(52)</b>
(1) Notes and accounts payable, trade	7,257	7,257	—
(2) Electronically recorded monetary obligations	—	—	—
(3) Short - term borrowings	7,259	7,259	—
(4) Long - term borrowings	6,145	6,151	6
<b>Total</b>	<b>20,662</b>	<b>20,668</b>	<b>6</b>

## (2) Current fiscal year (As of March 31, 2013)

	Millions of yen			Thousands of U.S. dollars		
	Carrying value	Fair value	Difference	Carrying value	Fair value	Difference
(1) Cash on hand and in banks	<b>31,522</b>	<b>31,522</b>	—	<b>335,345</b>	<b>335,345</b>	—
(2) Notes and accounts receivable, trade	<b>11,687</b>	<b>11,687</b>	—	<b>124,338</b>	<b>124,338</b>	—
(3) Lease deposits	<b>4,341</b>	<b>4,325</b>	<b>(16)</b>	<b>46,185</b>	<b>46,013</b>	<b>(171)</b>
<b>Total</b>	<b>47,551</b>	<b>47,535</b>	<b>(16)</b>	<b>505,868</b>	<b>505,697</b>	<b>(171)</b>
(1) Notes and accounts payable, trade	<b>6,304</b>	<b>6,304</b>	—	<b>67,064</b>	<b>67,064</b>	—
(2) Electronically recorded monetary obligations	<b>634</b>	<b>634</b>	—	<b>6,748</b>	<b>6,748</b>	—
(3) Short - term borrowings	<b>11,194</b>	<b>11,194</b>	—	<b>119,091</b>	<b>119,091</b>	—
(4) Long - term borrowings	<b>6,000</b>	<b>6,024</b>	<b>23</b>	<b>63,837</b>	<b>64,091</b>	<b>253</b>
<b>Total</b>	<b>24,133</b>	<b>24,157</b>	<b>23</b>	<b>256,742</b>	<b>256,996</b>	<b>253</b>

(Note 1) Fair value measurement of financial instruments

**Assets**

- (1) Cash on hand and in banks and (2) Notes and accounts receivable, trade  
The fair value is assumed to be the same as the carrying value as it approximates fair value because of the short maturity of these instruments.
- (3) Lease deposits  
The fair value is measured at the present value of future cash flows discounted using the yield of a national government bond according to periods until repayment.

**Liabilities**

- (1) Notes and accounts payable, trade, (2) Electronically recorded obligations and (3) Short - term borrowings  
The fair value is assumed to be the same as the carrying value as it approximates fair value because of the short maturity of these instruments.
- (4) Long - term borrowings  
The fair value of long - term borrowings with variable interest rates is measured at the carrying value as it approximates fair value.  
(The market interest rate fluctuation is reflected in the variable interest rates in short term and the credit status of the Company does not change remarkably after raising funds through long-term borrowings with variable interest rates.)  
The fair value of long - term borrowings with fixed rates is measured at the present value of future cash flow (principal plus interest) discounted using the assumed interest rate of similar new borrowings.

(Note 2) Redemption schedule for monetary assets with maturity dates subsequent to the consolidated balance sheets date

(1) Previous fiscal year (As of March 31, 2012)

	Millions of yen			
	April 1, 2012 to March 31, 2013	April 1, 2013 to March 31, 2017	April 1, 2017 to March 31, 2022	April 1, 2022 and thereafter
(1) Cash on hand and in banks	24,752	—	—	—
(2) Notes and accounts receivable, trade	17,285	—	—	—
(3) Lease deposits	1,552	2,531	434	4
<b>Total</b>	<b>43,591</b>	<b>2,531</b>	<b>434</b>	<b>4</b>

(2) Current fiscal year (As of March 31, 2013)

	Millions of yen				Thousands of U.S. dollars			
	April 1, 2013 to March 31, 2014	April 1, 2014 to March 31, 2018	April 1, 2018 to March 31, 2023	April 1, 2023 and thereafter	April 1, 2013 to March 31, 2014	April 1, 2014 to March 31, 2018	April 1, 2018 to March 31, 2023	April 1, 2023 and thereafter
(1) Cash on hand and in banks	<b>31,522</b>	—	—	—	<b>335,345</b>	—	—	—
(2) Notes and accounts receivable, trade	<b>11,687</b>	—	—	—	<b>124,338</b>	—	—	—
(3) Lease deposits	<b>1,290</b>	<b>2,774</b>	<b>274</b>	<b>2</b>	<b>13,726</b>	<b>29,511</b>	<b>2,925</b>	<b>22</b>
<b>Total</b>	<b>44,500</b>	<b>2,774</b>	<b>274</b>	<b>2</b>	<b>473,409</b>	<b>29,511</b>	<b>2,925</b>	<b>22</b>

(Note 3) Repayment schedule for long - term borrowings and lease obligations with maturity dates subsequent to the consolidated balance sheets date

(1) Previous fiscal year (As of March 31, 2012)

	Millions of yen						
	April 1, 2012 to March 31, 2013	April 1, 2013 to March 31, 2014	April 1, 2014 to March 31, 2015	April 1, 2015 to March 31, 2016	April 1, 2016 to March 31, 2017	April 1, 2017 and thereafter	April 1, 2017 and thereafter
(1) Short - term borrowings		7,259	—	—	—	—	—
(2) Long - term borrowings		—	144	3,000	3,000	—	—
(3) Lease obligations		322	230	128	48	21	—
<b>Total</b>		<b>7,582</b>	<b>375</b>	<b>3,129</b>	<b>3,048</b>	<b>21</b>	<b>—</b>

(2) Current fiscal year (As of March 31, 2013)

	Millions of yen					
	April 1, 2013 to March 31, 2014	April 1, 2014 to March 31, 2015	April 1, 2015 to March 31, 2016	April 1, 2016 to March 31, 2017	April 1, 2017 to March 31, 2018	April 1, 2018 and thereafter
(1) Short - term borrowings	<b>11,194</b>	—	—	—	—	—
(2) Long - term borrowings	—	<b>3,000</b>	<b>3,000</b>	—	—	—
(3) Lease obligations	<b>364</b>	<b>261</b>	<b>175</b>	<b>79</b>	<b>35</b>	<b>1</b>
<b>Total</b>	<b>11,558</b>	<b>3,261</b>	<b>3,175</b>	<b>79</b>	<b>35</b>	<b>1</b>

	Thousands of U.S. dollars					
	April 1, 2013 to March 31, 2014	April 1, 2014 to March 31, 2015	April 1, 2015 to March 31, 2016	April 1, 2016 to March 31, 2017	April 1, 2017 to March 31, 2018	April 1, 2018 and thereafter
(1) Short - term borrowings	<b>119,091</b>	—	—	—	—	—
(2) Long - term borrowings	—	<b>31,922</b>	<b>31,914</b>	—	—	—
(3) Lease obligations	<b>3,872</b>	<b>2,777</b>	<b>1,867</b>	<b>846</b>	<b>377</b>	<b>18</b>
<b>Total</b>	<b>122,964</b>	<b>34,699</b>	<b>33,782</b>	<b>846</b>	<b>377</b>	<b>18</b>

**12. Investments in securities**

(1) Available - for - sale securities with a readily determinable fair value

① Previous fiscal year (As of March 31, 2012)

Classification	Millions of yen		
	Carrying value	Acquisition cost	Difference
Securities with book value exceeding their acquisition cost			
(1) Equity securities	55	39	15
(2) Bonds	—	—	—
(3) Others	—	—	—
Subtotal	55	39	15
Securities with book value not exceeding their acquisition cost			
(1) Equity securities	271	334	(62)
(2) Bonds	—	—	—
(3) Others	—	—	—
Subtotal	271	334	(62)
Total	326	373	(46)

② Current fiscal year (As of March 31, 2013)

Classification	Millions of yen			Thousands of U.S. dollars		
	Carrying value	Acquisition cost	Difference	Carrying value	Acquisition cost	Difference
Securities with book value exceeding their acquisition cost						
(1) Equity securities	<b>477</b>	<b>386</b>	<b>91</b>	<b>5,081</b>	<b>4,110</b>	<b>971</b>
(2) Bonds	—	—	—	—	—	—
(3) Others	—	—	—	—	—	—
Subtotal	<b>477</b>	<b>386</b>	<b>91</b>	<b>5,081</b>	<b>4,110</b>	<b>971</b>
Securities with book value not exceeding their acquisition cost						
(1) Equity securities	—	—	—	—	—	—
(2) Bonds	—	—	—	—	—	—
(3) Others	—	—	—	—	—	—
Subtotal	—	—	—	—	—	—
Total	<b>477</b>	<b>386</b>	<b>91</b>	<b>5,081</b>	<b>4,110</b>	<b>971</b>

(2) Investments in securities sold during the fiscal year

① Previous fiscal year (From April 1, 2011 to March 31, 2012)

Classification	Millions of yen		
	Amount of sales	Total gain on sales	Total loss on sales
(1) Equity securities	47	8	—
(2) Bonds	—	—	—
(3) Others	—	—	—
Total	47	8	—

② Current fiscal year (From April 1, 2012 to March 31, 2013)

Not applicable

**13. Derivatives**

Not applicable as the Companies had no derivative contracts.



**14. Retirement benefits for employees**

## (1) Summary of retirement benefit plans

The Company and its domestic subsidiaries have unfunded lump - sum benefit plans and defined contribution pension plans. Some foreign subsidiaries have defined contribution pension plans.

## (2) Accrued retirement benefits

	Previous fiscal year	Current fiscal year	Current fiscal year
	(As of March 31, 2012)	(As of March 31, 2013)	(As of March 31, 2013)
	Millions of yen	Millions of yen	Thousands of U.S. dollars
A. Projected benefit obligations	(1,798)	(1,973)	(20,996)
B. Fair value of plan assets	—	—	—
C. Unfunded benefit obligations (A+B)	(1,798)	(1,973)	(20,996)
D. Unrecognized transition obligations	47	31	335
E. Unrecognized actuarial differences	321	314	3,345
F. Unrecognized prior service liabilities	(80)	(69)	(742)
G. Accrued pension liabilities recognized in the consolidated balance sheet (C+D+E+F)	(1,509)	(1,697)	(18,057)
H. Prepaid pension expenses	—	—	—
I. Accrued retirement benefits for employees (G - H)	(1,509)	(1,697)	(18,057)

(Note) Some subsidiaries apply a simplified method of computing pension liabilities.

## (3) Retirement and pension cost

	Previous fiscal year	Current fiscal year	Current fiscal year
	(From April 1, 2011 to March 31, 2012)	(From April 1, 2012 to March 31, 2013)	(From April 1, 2012 to March 31, 2013)
	Millions of yen	Millions of yen	Thousands of U.S. dollars
A. Service costs	123	160	1,703
B. Interest costs	16	21	228
C. Expected return on plan assets	—	—	—
D. Amortization of transition obligations	15	15	167
E. Amortization of actuarial differences	15	28	298
F. Amortization of prior service liabilities	(13)	(10)	(115)
G. Net periodic benefit costs (A+B+C+D+E+F)	157	214	2,283
H. Other	193	242	2,578
I. Total (G+H)	350	457	4,862

(Note) 1. Retirement cost for some subsidiaries which have adopted the simplified method are included in the "Service costs".

2. "Other" means the contribution to the defined contribution pension plans.

## (4) Assumptions used in calculation of retirement benefits for employees

	Previous fiscal year	Current fiscal year
	(From April 1, 2011 to March 31, 2012)	(From April 1, 2012 to March 31, 2013)
A. Method of attributing projected benefits to periods of service	Straight - line	Straight - line
B. Discount rate	1.5%	1.5%
C. Long - term rate of return on plan assets	—	—
D. Amortization period for prior service liabilities	8 years (based on the straight - line method over the average estimated service years of employees)	8 years The same method as the previous fiscal year
E. Amortization period for actuarial differences	8 to 9 years (based on the straight - line method over the average estimated service years of employees from the next fiscal period of year when the differences are computed)	8 to 14 years The same method as the previous fiscal year
F. Amortization period for transition obligations	15 years	15 years

**15. Accounting for income taxes**

## (1) Significant components of deferred tax assets and liabilities

	Previous fiscal year (As of March 31, 2012)	Current fiscal year (As of March 31, 2013)	Current fiscal year (As of March 31, 2013)
	Millions of yen	Millions of yen	Thousands of U.S. dollars
(Deferred tax assets)			
Allowance for doubtful accounts	14	21	226
Accrued bonuses	754	640	6,817
Accrued retirement benefits for employees	534	599	6,379
Accrued retirement benefits for directors	141	141	1,505
Inventories	2,247	4,677	49,757
Prepaid expenses	118	44	468
Tax loss carryforwards in the subsidiaries	252	25	269
Investments in subsidiaries and affiliated companies	196	176	1,880
Depreciation	445	524	5,578
Impairment loss	108	44	476
Unearned revenue	440	545	5,803
Other	1,565	1,731	18,422
Subtotal	6,819	9,173	97,586
Valuation allowance	(1,527)	(1,574)	(16,747)
Total deferred tax assets	5,291	7,598	80,839
(Deferred tax liabilities)			
Taxdeductible inventories for a foreign subsidiary	(367)	(186)	(1,988)
Other	(9)	(182)	(1,943)
Total deferred tax liabilities	(377)	(369)	(3,931)
Net deferred tax assets	4,914	7,229	76,907
Net deferred tax assets are reflected in the consolidated balance sheets as follows:			
Current assets—deferred tax assets	4,239	6,497	69,124
Non current assets—deferred tax assets	908	733	7,808
Current liabilities—deferred tax liabilities	(7)	—	—
Non current liabilities—deferred tax liabilities	(225)	(2)	(24)
Total	4,914	7,229	76,907

## (2) Reconciliation of the difference between the statutory tax rate and the effective income tax rate

	Previous fiscal year (As of March 31, 2012)	Current fiscal year (As of March 31, 2013)
	%	%
Statutory income tax rate	—	37.9
(Reconciliation)		
Change in valuation allowance	—	(1.7)
Tax credit	—	(16.1)
Amortization of goodwill	—	1.4
Different tax rates applied to foreign subsidiaries	—	(4.1)
Permanent difference (meals and entertainment, etc.)	—	1.0
Unappropriated retained earnings of foreign subsidiaries	—	2.5
Tax adjustments resulting from consolidation elimination entries, etc.	—	7.5
Others	—	(8.2)
Effective income tax rate	—	20.1

(Note) The note for the previous fiscal year was omitted due to the insignificance of the difference between the two rates.

**16. Business combinations**

The note is omitted due to the insignificance of the total amount.

**17. Asset retirement obligations**

Asset retirement obligations on the balance sheet.

## ① Outline of asset retirement obligations

Obligations to restore business offices and amusement facilities in the business of "Arcade operations" to their original state, which are specified in the real estate lease agreements.

## ② Calculation of asset retirement obligations

Asset retirement obligations are calculated with the future cash flows discounted.

For the business offices, their depreciation periods (mainly 15 years) are regarded as their estimated periods of use and the yields of the national government bonds, which correspond to respective depreciation periods are used as their discount rates (mainly 1.885%).

For the amusement facilities, their lease periods (mainly 6 to 10 years) are regarded as their estimated periods of use and the yields of the national government bonds, which corresponds to respective lease periods are used as their discount rates (mainly 0.723 to 1.395%).

## ③ Increase or decrease in the asset retirement obligations

	Previous fiscal year (From April 1, 2011 to March 31, 2012)	Current fiscal year (From April 1, 2012 to March 31, 2013)	Current fiscal year (From April 1, 2012 to March 31, 2013)
	Millions of yen	Millions of yen	Thousands of U.S. dollars
Opening balance	340	<b>344</b>	<b>3,667</b>
Increase due to purchase of tangible fixed assets	—	<b>19</b>	<b>210</b>
Adjustment due to passage of time	4	<b>4</b>	<b>48</b>
Decrease due to settlement of asset retirement obligations	(0)	<b>(19)</b>	<b>(204)</b>
Ending balance	344	<b>349</b>	<b>3,721</b>

**18. Investment and rental property**

The note is omitted due to the insignificance of the total amount.

**19. Segment information**

## 1. Outline of reportable segments

## (1) Classification of reportable segments

The reportable segments the Company reports are the business units for which the Company is able to obtain individual financial information separately in order for the board of directors to conduct periodic investigations to determine the distribution of operational resources and evaluate their business performance.

The Company has several operational headquarters, which plan comprehensive business strategies in the domestic and overseas markets for their products and services, and develop its business activities.

Therefore the Company's reportable segments are based on the products and services its operational headquarters deal in and are composed of the following 3 segments: "Digital contents," "Arcade operations" and "Amusement equipments."

## (2) Product and service line

The "Digital contents" develops and distributes video and mobile games for consumers.

The "Arcade operations" operates amusement stores which install amusement equipments.

The "Amusement equipments" manufactures arcade game machines and pachinko gambling machines, etc. to be distributed to arcade operators and pachinko parlors.

## (3) Information on change in reportable segments

Effective from the fiscal year ended 31 March, 2013, the Company has integrated the "Mobile contents" business into "Consumer online games" business.

This is because the Company needs to arrange an efficient development and management system to respond to rapidly changing business environments in recent years and wants to pursue its multi-platform strategy.

With this change, the name "Consumer online games" has changed into "Digital contents."

The segment information for the same period of the previous fiscal year has been prepared based on the latest segmentation as shown on "3. Information on net sales and operating income (loss), identifiable assets and liabilities and other items by reportable segment"

## 2. Method of calculating sales and income (loss), identifiable assets and liabilities and other items by reportable segment

The accounting procedures for the reportable segment are based on "Summary of significant accounting policies."

Income by reportable segment is calculated based on operating income on the consolidated statements of income.

## 3. Information on net sales and operating income (loss), identifiable assets and liabilities and other items by reportable segment



## ① Previous fiscal year (From April 1, 2011 to March 31, 2012)

	Millions of yen							
	Reportable segment				Other (Note 1)	Total	Adjustment (Note 2)	Consolidated total (Note 3)
	Digital contents	Arcade operations	Amusement equipments	Total				
Net sales								
(1) Customers	59,810	11,729	7,663	79,202	2,862	82,065	—	82,065
(2) Intersegment	—	—	—	—	—	—	—	—
Total	59,810	11,729	7,663	79,202	2,862	82,065	—	82,065
Segment income	12,888	1,787	890	15,566	877	16,444	(4,125)	12,318
Segment assets	51,543	8,006	8,294	67,844	2,931	70,776	27,471	98,247
Other items								
Depreciation	747	1,380	114	2,242	276	2,518	605	3,123
Increase in tangible and intangible fixed assets	2,331	936	232	3,500	509	4,009	143	4,153

(Note) 1. "Other" incorporates operations not included in reportable segments, including character contents business, etc.

2. Adjustments are as follows:

(1) Adjustments of segment income of (¥4,125) million include unallocated corporate operating expenses of (¥4,125) million. The corporate operating expenses, which do not belong to any reportable segments mainly consist of administrative expenses.

(2) Adjustments of segment assets of ¥27,471 million include unallocated corporate identifiable assets of ¥27,471 million.

(3) Adjustments of increase in tangible and intangible fixed assets of ¥143 million are capital investments by headquarters.

3. Segment income is adjusted on operating income of the consolidated statements of income.

## ② Current fiscal year (From April 1, 2012 to March 31, 2013)

	Millions of yen							
	Reportable segment				Other (Note 1)	Total	Adjustment (Note 2)	Consolidated total (Note 3)
	Digital contents	Arcade operations	Amusement equipments	Total				
Net sales								
(1) Customers	<b>63,636</b>	<b>10,944</b>	<b>16,783</b>	<b>91,363</b>	<b>2,711</b>	<b>94,075</b>	—	<b>94,075</b>
(2) Intersegment	—	—	—	—	—	—	—	—
Total	<b>63,636</b>	<b>10,944</b>	<b>16,783</b>	<b>91,363</b>	<b>2,711</b>	<b>94,075</b>	—	<b>94,075</b>
Segment income	<b>7,062</b>	<b>1,709</b>	<b>4,892</b>	<b>13,664</b>	<b>740</b>	<b>14,405</b>	<b>(4,253)</b>	<b>10,151</b>
Segment assets	<b>44,950</b>	<b>7,046</b>	<b>13,054</b>	<b>65,051</b>	<b>4,236</b>	<b>69,288</b>	<b>35,076</b>	<b>104,365</b>
Other items								
Depreciation	<b>1,067</b>	<b>1,186</b>	<b>235</b>	<b>2,489</b>	<b>253</b>	<b>2,743</b>	<b>663</b>	<b>3,406</b>
Increase in tangible and intangible fixed assets	<b>6,091</b>	<b>698</b>	<b>278</b>	<b>7,068</b>	<b>1,458</b>	<b>8,526</b>	<b>197</b>	<b>8,724</b>

	Thousands of U.S. dollars							
	Reportable segment				Other (Note 1)	Total	Adjustment (Note 2)	Consolidated total (Note 3)
	Digital contents	Arcade operations	Amusement equipments	Total				
Net sales								
(1) Customers	<b>676,983</b>	<b>116,426</b>	<b>178,545</b>	<b>971,955</b>	<b>28,843</b>	<b>1,000,799</b>	—	<b>1,000,799</b>
(2) Intersegment	—	—	—	—	—	—	—	—
Total	<b>676,983</b>	<b>116,426</b>	<b>178,545</b>	<b>971,955</b>	<b>28,843</b>	<b>1,000,799</b>	—	<b>1,000,799</b>
Segment income	<b>75,132</b>	<b>18,181</b>	<b>52,048</b>	<b>145,363</b>	<b>7,882</b>	<b>153,246</b>	<b>(45,252)</b>	<b>107,993</b>
Segment assets	<b>478,199</b>	<b>74,957</b>	<b>138,881</b>	<b>692,038</b>	<b>45,068</b>	<b>737,106</b>	<b>373,159</b>	<b>1,110,266</b>
Other items								
Depreciation	<b>11,358</b>	<b>12,626</b>	<b>2,501</b>	<b>26,486</b>	<b>2,694</b>	<b>29,181</b>	<b>7,054</b>	<b>36,235</b>
Increase in tangible and intangible fixed assets	<b>64,805</b>	<b>7,428</b>	<b>2,966</b>	<b>75,200</b>	<b>15,510</b>	<b>90,711</b>	<b>2,099</b>	<b>92,811</b>

(Note) 1. "Other" incorporates operations not included in reportable segments, including character contents business, etc.

2. Adjustments are as follows:

(1) Adjustments of segment income of (¥4,253) million ((\$45,252) thousand) include unallocated corporate operating expenses of (¥4,253) million ((\$45,252) thousand). The corporate operating expenses, which do not belong to any reportable segments mainly consist of administrative expenses.

(2) Adjustments of segment assets of ¥35,076 million (\$373,159 thousand) include unallocated corporate identifiable assets of ¥35,076 million (\$373,159 thousand).

(3) Adjustments of increase in tangible and intangible fixed assets of ¥197 million (\$2,099 thousand) are capital investments by headquarters.

3. Segment income is adjusted on operating income of the consolidated statements of income.

**[Related information]**

## 1. Information by product and service line

The information is omitted as the same kind of information is disclosed in Note 19, "Segment information."

## 2. Information by country or region

## (1) Net sales

## ① Previous fiscal year (From April 1, 2011 to March 31, 2012)

Millions of yen				
Japan	North America	Europe	Other regions	Total
56,311	17,334	5,623	2,796	82,065

## ② Current fiscal year (From April 1, 2012 to March 31, 2013)

Millions of yen					Thousands of U.S. dollars				
Japan	North America	Europe	Other regions	Total	Japan	North America	Europe	Other regions	Total
<b>63,531</b>	<b>19,012</b>	<b>8,312</b>	<b>3,218</b>	<b>94,075</b>	<b>675,865</b>	<b>202,257</b>	<b>88,434</b>	<b>34,241</b>	<b>1,000,799</b>

(Note) 1. The sales amounts are classified by country or region where customers are located.

2. Countries or regions that are not in Japan.

(1) North America.....United States of America

(2) Europe.....European countries

(3) Other regions.....Asia and others

## (2) Tangible fixed assets

The information is omitted as the balance of tangible fixed assets in Japan exceeded 90% or more of the total balance of tangible fixed assets of the consolidated balance sheet.

## 3. Information by major customer

## ① Previous fiscal year (From April 1, 2011 to March 31, 2012)

The information is omitted as the Companies did not have any major customers for whom the sales amount accounted for 10% or more of the total sales amount of the consolidated statement of income.

## ② Current fiscal year (From April 1, 2012 to March 31, 2013)

Millions of yen			Thousands of U.S. dollars		
Customer	Amount of net sales	Reportable segment	Customer	Amount of net sales	Reportable segment
<b>Fields Corporation</b>	<b>12,513</b>	<b>Amusement equipments</b>	<b>Fields Corporation</b>	<b>133,119</b>	<b>Amusement equipments</b>

**[Impairment loss by reportable segment]**

## (1) Previous fiscal year (From April 1, 2011 to March 31, 2012)

	Millions of yen				
	Reportable segment		Other	Corporate or elimination	Total
	Arcade operations	Subtotal			
Impairment loss	80	80	—	—	80

## (2) Current fiscal year (From April 1, 2012 to March 31, 2013)

	Millions of yen					Thousands of U.S. dollars				
	Reportable segment		Other	Corporate or elimination	Total	Reportable segment		Other	Corporate or elimination	Total
	Arcade operations	Subtotal				Arcade operations	Subtotal			
Impairment loss	<b>58</b>	<b>58</b>	—	—	<b>58</b>	<b>620</b>	<b>620</b>	—	—	<b>620</b>

**[Amortization and balance of goodwill by reportable segment]**

(1) Previous fiscal year (From April 1, 2011 to March 31, 2012)

	Millions of yen				
	Reportable segment		Other	Corporate or elimination	Total
	Digital contents	Subtotal			
Amortization	112	112	—	—	112
Balance	291	291	—	—	291

**(2) Current fiscal year (From April 1, 2012 to March 31, 2013)**

	Millions of yen						Thousands of U.S. dollars					
	Reportable segment			Other	Corporate or elimination	Total	Reportable segment			Other	Corporate or elimination	Total
	Digital contents	Amusement equipments	Subtotal				Digital contents	Amusement equipments	Subtotal			
Amortization	118	14	132	—	—	132	1,257	148	1,406	—	—	1,406
Balance	200	—	200	—	—	200	2,128	—	2,128	—	—	2,128

**[Negative goodwill by reportable segment]**(1) Previous fiscal year (From April 1, 2011 to March 31, 2012)  
Not applicable(2) Current fiscal year (From April 1, 2012 to March 31, 2013)  
Not applicable**20. Related party transactions**(1) Previous fiscal year (From April 1, 2011 to March 31, 2012)  
Not applicable(2) Current fiscal year (From April 1, 2012 to March 31, 2013)  
Not applicable**21 . Per share information**

	Previous fiscal year	Current fiscal year	Current fiscal year
	(From April 1, 2011 to March 31, 2012)	(From April 1, 2012 to March 31, 2013)	(From April 1, 2012 to March 31, 2013)
	Yen	Yen	U.S. dollars
Net assets per share	1,030.70	1,091.08	11.61
Net income per share	116.10	51.64	0.55

(Note) 1. The diluted net income per share for the current fiscal year is omitted as the Companies have no residual securities.

2. The basis for computation of net assets per share is as follows:

	Previous fiscal year	Current fiscal year	Current fiscal year
	(As of March 31, 2012)	(As of March 31, 2013)	(As of March 31, 2013)
	Millions of yen	Millions of yen	Thousands of U.S. dollars
Total amount of net assets	59,352	62,828	668,386
Amounts to be deducted from total amount of net assets	—	—	—
Ending balance of net assets attributable to common stock	59,352	62,828	668,386
Number of shares of common stocks used for computation of net assets per share (thousand shares)	57,584	57,583	57,583

3. The basis for computation of net income per share is as follows:

	Previous fiscal year	Current fiscal year	Current fiscal year
	(From April 1, 2011 to March 31, 2012)	(From April 1, 2012 to March 31, 2013)	(From April 1, 2012 to March 31, 2013)
	Millions of yen	Millions of yen	Thousands of U.S. dollars
Net income	6,723	2,973	31,632
Amount not allocated to common stock	—	—	—
Net income allocated to common stock	6,723	2,973	31,632
Average number of shares of common stock outstanding during the fiscal year (thousand shares)	57,913	57,584	57,584



**22. Significant subsequent events**

The Company made a resolution to repurchase treasury stock through the board of directors' meeting held on April 18, 2013 in accordance with the articles of incorporation applied under the Section 1 of Article 156 and Section 3 of Article 165 of the Companies Act.

(1) Purpose	To flexibly implement capital policies to meet with changes in the business environment.	(4) Amount of shares repurchased	2,281,065,100 yen (24,266,650 U.S. dollars)
(2) Type of shares	Common stock	(5) Repurchase period	From April 22, 2013 to May 31, 2013
(3) Number of shares repurchased	1,347,200 shares	(6) Method of repurchase	Repurchase in the market

**23. Supplemental schedule of bonds**

Not applicable

**24. Supplemental schedule of borrowings**

Category	Balance as of April 1, 2012 (¥ million)	Balance as of March 31, 2013 (¥ million)	Average interest rate (%)	Date of maturity
Short - term borrowings	6,760	11,050	0.5	—
Current portion of long - term borrowings due within one year	499	144	0.9	—
Current portion of lease obligations	322	364	1.3	—
Long - term borrowings (Excluding current portion)	6,145	6,000	0.7	From 2014 to 2015
Lease obligations (Excluding current portion)	429	553	1.3	From 2014 to 2019
Other interest bearing debt	—	—	—	—
<b>Total</b>	<b>14,156</b>	<b>18,112</b>	<b>—</b>	<b>—</b>

Category	Balance as of April 1, 2012 (\$ thousand)	Balance as of March 31, 2013 (\$ thousand)	Average interest rate (%)	Date of maturity
Short - term borrowings	71,914	117,553	0.5	—
Current portion of long - term borrowings due within one year	5,311	1,538	0.9	—
Current portion of lease obligations	3,434	3,872	1.3	—
Long - term borrowings (Excluding current portion)	65,376	63,837	0.7	From 2014 to 2015
Lease obligations (Excluding current portion)	4,566	5,888	1.3	From 2014 to 2019
Other interest bearing debt	—	—	—	—
<b>Total</b>	<b>150,604</b>	<b>192,689</b>	<b>—</b>	<b>—</b>

(Note) 1. The average interest rate represents the weighted average rate applicable to the ending balance.

2. The following table shows the aggregate annual maturities of long - term borrowings and lease obligations for five years subsequent to March 31, 2014 (excluding the current portion).

	Due after 1 year but within 2 years (¥ million)	Due after 2 years but within 3 years (¥ million)	Due after 3 years but within 4 years (¥ million)	Due after 4 years but within 5 years (¥ million)
Long - term borrowings	3,000	3,000	—	—
Lease obligations	261	175	79	35

	Due after 1 year but within 2 years (\$ thousand)	Due after 2 years but within 3 years (\$ thousand)	Due after 3 years but within 4 years (\$ thousand)	Due after 4 years but within 5 years (\$ thousand)
Long - term borrowings	31,922	31,914	—	—
Lease obligations	2,777	1,867	846	377

## 25. Supplemental schedule of asset retirement obligations

The note is omitted because the balance of the asset retirement obligations as of the beginning and that as of the end of the current fiscal year were 1 % or less than the total balance of the liabilities and the net assets as of the beginning and that as of the end of the current fiscal year, respectively.

## 26. Supplemental schedule of other

Quarterly sales, etc. for the current fiscal year

	1st quarter (From April 1, 2012 to June 30, 2012)	2nd quarter ( From April 1, 2012 to September 30, 2012 )	3rd quarter ( From April 1, 2012 to December 31, 2012 )	4th quarter ( From April 1, 2012 to March 31, 2013 )
Net sales (¥ million)	18,620	45,538	72,699	94,075
Net income before income taxes (¥ million)	2,208	6,047	9,909	3,719
Net income (¥ million)	1,320	4,125	6,645	2,973
Net income per share (yen)	22.93	71.64	115.40	51.64

	1st quarter (From April 1, 2012 to June 30, 2012)	2nd quarter ( From April 1, 2012 to September 30, 2012 )	3rd quarter ( From April 1, 2012 to December 31, 2012 )	4th quarter ( From April 1, 2012 to March 31, 2013 )
Net sales (\$ thousand)	198,093	484,448	773,403	1,000,799
Net income before income taxes (\$ thousand)	23,491	64,338	105,421	39,572
Net income (\$ thousand)	14,047	43,885	70,694	31,632
Net income per share (U.S. dollars)	0.24	0.76	1.23	0.55

	1st quarter (From April 1, 2012 to June 30, 2012)	2nd quarter ( From July 1, 2012 to September 30, 2012 )	3rd quarter (From October 1, 2012 to December 31, 2012)	4th quarter (From January 1, 2013 to March 31, 2013)
Net income per share (yen)	22.93	48.71	43.76	(63.76)

	1st quarter (From April 1, 2012 to June 30, 2012)	2nd quarter ( From July 1, 2012 to September 30, 2012 )	3rd quarter (From October 1, 2012 to December 31, 2012)	4th quarter (From January 1, 2013 to March 31, 2013)
Net income per share (U.S. dollars)	0.24	0.52	0.47	(0.68)

To the Board of Directors of CAPCOM Co., Ltd .

We have audited the accompanying consolidated financial statements of CAPCOM Co., Ltd. ("the Company") and its consolidated subsidiaries, which comprise the consolidated balance sheets as at March 31, 2013, and the consolidated statements of income and, consolidated statements of comprehensive income, consolidated statements of changes in net assets and consolidated statements of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatements, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, while the objective of the financial statement audit is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company and its consolidated subsidiaries as at March 31, 2013, and their financial performance and cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

### Other matters

The consolidated financial statements of the Company as at and for the year ended March 31, 2012 were audited by another auditor who expressed an unmodified opinion on those statements on July 30, 2012.

### Convenience Translation

The U.S. dollars amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2013 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollars amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA LLC

July 31, 2013  
Osaka, Japan





Head Office



Tokyo Branch



R&amp;D Building

### Corporate Profile

Name of Company	CAPCOM CO., LTD.
Date of Establishment	May 30, 1979
Date of Initiation	June 11, 1983
Business Segments	Planning, development, manufacture and sale of home video games, online games, mobile games and arcade games as well as management of amusement arcades.
Paid-in Capital	¥ 33,239 million
End of Term	March 31
Number of Employees	2,476 (Including consolidated subsidiaries) 1,820 (Capcom CO., LTD.)

### Capcom's Subsidiaries

- CAPTRON CO., LTD.**  
 3-1-3 Uchihirano-machi, Chuo-ku, Osaka, 540-0037, Japan  
 PHONE: 81-6-6920-3626 FAX: 81-6-6920-5126  
 Paid-in Capital: ¥ 1,640 million  
 Business Segment: Rent, lease and operation of real estate properties
- K2 CO., LTD.**  
 7th Floor, Shogyo Building, 5-6-10 Toyosaki, Kita-ku, Osaka, 531-0072, Japan  
 PHONE: 81-6-4802-4557 FAX: 81-6-4802-4559  
<http://www.kei-two.co.jp/>  
 Paid-in capital: ¥ 3 million  
 Business Segment: Development of home video games
- ENTERRISE CO., LTD.**  
 3rd Floor, Arcadia Ueno Building, 2-13-8 Higashi-ueno, Taitou-ku, Tokyo, 110-0015, Japan  
 PHONE: 81-3-5812-8725 FAX: 81-3-5812-8731  
<http://www.enterrise.co.jp/>  
 Paid-in Capital: ¥ 30 million  
 Business Segment: Sale and Manufacture of amusement equipment
- BEELINE INTERACTIVE JAPAN, CO., LTD.**  
 2-2-14 Awaji-cho, Chuo-ku, Osaka, 541-0047, Japan  
 PHONE: 81-6-6920-7011 FAX: 81-6-6223-8007  
<http://www.beeline-i.info/bij/index.html>  
 Paid-in Capital: ¥ 300 million  
 Business Segment: Development and distribution of mobile phone content
- CAPCOM U.S.A., INC.**  
 800 Concar Drive, Suite 300 San Mateo, California 94402 U.S.A.  
 PHONE: 1-650-350-6500 FAX: 1-650-350-6655  
<http://www.capcom.com/us/>  
 Paid-in Capital: US\$ 159,949 thousand  
 Business Segment: Development and sale of home video games
- CAPCOM ASIA CO., LTD.**  
 Unit 504-5, New East Ocean Centre, No.9 Science Museum Road, Tsimshatsui East, Kowloon, Hong Kong  
 PHONE: 852-2366-1001 FAX: 852-2366-1985  
<http://www.capcomasia.com.hk/>  
 Paid-in Capital: HK\$ 21,500 thousand  
 Business Segment: Sale of home video games
- CE EUROPE LTD.**  
 The Metro Building, 3rd Floor, 1 Butterwick, Hammersmith, London W6 8DL, U.K.  
 PHONE: 44-20-8600-6100 FAX: 44-20-8600-6197  
<http://www.capcom-europe.com/>  
 Paid-in Capital: £ 1 million  
 Business Segment: Sale of home video games
- CAPCOM ENTERTAINMENT GERMANY GmbH**  
 Nagelsweg 55, 20097 Hamburg, Germany  
 PHONE: 49-40-6965-620 FAX: 49-40-6965-6222  
 Paid-in Capital: € 25 thousand  
 Business Segment: Sale of home video games
- BEELINE INTERACTIVE, INC.**  
 10960 Wilshire Blvd. Suite 1500, Los Angeles, CA 90024 U.S.A.  
 PHONE: 1-310-943-5470 FAX: 1-310-943-5489  
<http://www.beeline-i.com/>  
 Paid-in Capital: US\$ 0 thousand  
 Business Segment: Distribution of mobile phone games
- BEELINE INTERACTIVE CANADA, INC.**  
 401 The West Mall, Suite 415, Toronto ON, Canada, M9C 5J5  
 PHONE: 1-647-788-1600 FAX: 1-647-788-1601  
 Paid-in Capital: Canada\$ 0 thousand  
 Business Segment: Development and distribution of mobile phone games
- CAPCOM ENTERTAINMENT KOREA CO., LTD.**  
 13F, Yeon-Bong Bldg, 416 Teheran-ro, Gangnam-gu, Seoul, Korea  
 PHONE: 82-2-525-2160 FAX: 82-2-525-2161  
<http://www.capcomkorea.com/>  
 Paid-in Capital: KRW 1,000 million  
 Business Segment: Sale of home video games, Operation and development of online games
- CAPCOM ENTERTAINMENT FRANCE, SAS**  
 30 bis, rue du Viel Abrevoir 78100 SAINT GERMAIN EN LAYE France  
 PHONE: 33-1-30-61-86-61 FAX: 33-1-39-73-16-15  
 Paid-in Capital: € 37 thousand  
 Business Segment: Sale of home video games
- CAPCOM GAME STUDIO VANCOUVER, INC.**  
 4401 Still Creek Drive, Suite200, Burnaby, BC, Canada V5C 6G9  
 PHONE: 1-604-299-5626 FAX: 1-604-299-5653  
<http://capcomvancouver.com/>  
 Paid-in Capital: Canada\$ 4,760 thousand  
 Business Segment: Development of home video games
- BEELINE INTERACTIVE EUROPE LTD.**  
 The Metro Building 3rd Floor, 1 Butterwick, Hammersmith, London W6 8DL, U.K.  
 PHONE: 00-44-208-600-6100 FAX: 00-208-600-6197  
 Paid-in Capital: € 2,500 thousand  
 Business Segment: Development and distribution of mobile phone games
- BEELINE INTERACTIVE (THAILAND) CO., LTD.**  
 9th Floor 1016 Sri-Fueng-Fung Bld., Rama IV Road, Silom Bangrak, Bangkok 10500 Thailand  
 PHONE: 66-2-633-8612 FAX: 66-2-633-8614  
 Paid-in Capital: THB 15 million  
 Business Segment: Development of mobile phone games
- CAPCOM TAIWAN CO., LTD.**  
 4F.-3, No.129, Sec. 2, Zhongshan N. Rd., Zhongshan Dist., Taipei City 10448, Taiwan (R.O.C.)  
 PHONE: 886-2-2563-7790 FAX: 886-2-2563-7972  
 Paid-in Capital: NT\$ 80 million  
 Business Segment: Operation and development of online games

### Major Offices

Head Office	3-1-3 Uchihirano-machi, Chuo-ku, Osaka, 540-0037, Japan PHONE: 81-6-6920-3600 FAX: 81-6-6920-5100
R&D Building	3-2-8 Uchihirano-machi, Chuo-ku, Osaka, 540-0037, Japan PHONE: 81-6-6920-7600 FAX: 81-6-6920-7698
Tokyo Branch	Shinjuku Mitsui Building 2-1-1 Nishi Shinjuku, Shinjuku-ku, Tokyo, 163-0448, Japan PHONE: 81-3-3340-0710 FAX: 81-3-3340-0711
Ueno Facility	3902 Hatta, Iga, Mie, 518-1155, Japan PHONE: 81-595-20-2030 FAX: 81-595-20-2044

## A-D

### Amusement arcades

Amusement arcades are operated in many types of formats. Two frequent formats are arcades within shopping centers and arcades in separate buildings along highways.

### Amusement equipment (commercial use)

These arcade machines that are used at amusement arcades and other locations allow visitors to enjoy games in a manner that is not possible at home. Categories of these machines include medal games, prize games, video games and other types of games.

### Cannibalization

When user movement between different genres, such as home video games, online games and mobile games, causes erosion and competition in the market.

### Casual users

Beginning game players who usually do not play video games for a long time.

### CERO

The Computer Entertainment Rating Organization, which is a non-profit organization located in Japan, issues age-appropriateness ratings for computer games as the selection of these games becomes more diverse along with the increasing popularity of computer entertainment. These ratings provide information that is required to select game software. The objectives are to contribute to the sound development of young people and to maintain a proper level of social ethical standards. (from CERO website) Capcom receives a CERO rating before launching new home video game titles.

### 'Complete Gacha'

Based on capsule toy machines common in Japan, 'complete gacha' involves purchasing single random items needed to collect complete sets of specific items in social games. Collecting complete sets enables the player to acquire even rarer prize items. In May 2012, the Japan Consumer Affairs Agency announced that 'complete gacha' mechanics violate laws regarding prize representation.

### Consumer (Consumer business)

This is the collective designation for Package Games and Digitally Distributed Content (DLC). These are games for stationary consoles.

### Core users (Heavy users)

Core users are people who are very knowledgeable about video games and have become experts regarding specific games by playing these games for a long time.

### Developer

A company or organization that develops game content.

### Downloadable content (DLC)

Downloadable content is an intangible form of game content that is sold (distributed) through the Internet and thus requires no physical packaging. This content is available on networks linked to home video game consoles, such as PlayStation Network, Xbox Live and Wii Ware. This content can also be downloaded to a computer and obtained in other ways.

## F-H

### Feature phone

A feature phone is a conventional cell phone of the type that was used before the emergence of smartphones. Capcom has for some time been distributing relatively simple games based on its game content, ring tones, stand-by screen images and other content for these phones.

### First party

A company or organization that supplies game hardware or platforms.

### Freemium

Freemium is a business model in which users can download a basic game or service at no charge and then pay for additional components and special functions. Freemium is also a generic name of games played in this fashion. It is rapidly increasing market share as game content for mobile phones and smartphones.

### Game content

Game content encompasses game software along with the game's characters, music, images and all other components. This is also called digital content when the content is stored digitally using an intangible format rather than on a physical object such as a disk.

### Handheld game console

This term refers to all game consoles that are small and light enough to be carried with ease.

### Hardware (home video game console)

A dedicated device that is required to operate game software.

### Home video games

Home video games are games being played on a specific type of console. These games are made for home consoles such as the PlayStation 3, Xbox 360 and Wii as well as handheld consoles such as the Nintendo 3DS and PlayStation Vita. Capcom has developed these games for a broad array of consoles.

## I-L

### Internally produced

The process of developing a product entirely within a single company, rather than outsourcing tasks to a third-party company or organization.

### Launch title

Launch title is either the introduction of a title simultaneously with the introduction of a new game console or the product that is launched simultaneously.

### License-out

Granting rights to a third-party company or organization for the use of a Capcom character, title logo or other item.

## M-P

### MT Framework

"MT Framework" is an integrated game development environment created by Capcom. In particular, this framework provides shared software development tools for about 80% of the development process for games used on the Xbox360, PlayStation 3 and PCs. Using this shared process greatly reduces game development expenses and cuts development time by two-thirds. In response to market needs, Capcom has made the MT Framework compatible with more types of consoles. Currently, the framework can also be used to develop games for the Nintendo 3DS, Wii and iPhone. "MT" stands for meta-tool, multi-thread, multi-target and other characteristics of this framework.

### Multi-platform

With the multi-platform approach, game content is supplied for a variety of platforms rather than only a single platform. This makes it possible to reach more people, maximize

profitability and reduce the time and cost needed to develop content. This is one of Capcom's core strategies. Furthermore, Capcom uses its exclusive MT Framework, an integrated game development environment, to make the development process more efficient.

### Next-generation console

New types of game consoles are usually released about every five years in the home video game market. These next-generation consoles offer users new functions along with new or additional ways to play games.

### Online (Online business)

This is the collective designation for three businesses within the Digital Contents business: Mobile Contents, PC Online and Digitally Distributed Content (DLC). The first pillar of our growth strategy is to strengthen the Online business, which has high-growth potential.

### Original content

Original content is content created by using completely original elements. There can be no other original story or third-party oversight. Capcom is able to use its content in many ways due to the ability to create a large volume of original game content.

### Outsourcing

Outsourcing is the process of placing an order to a third-party company or other organization to develop all or part of a particular product.

### Packaged software

This is generally software or media that is sold at stores or on the Internet for use with home video game consoles. Software is sold on DVDs, Blu-ray discs and other media depending on the format of each console.

### PC online games

These are games that can be played over the Internet on a PC because they do not require a dedicated game console. Players can play a game along with or against other players via a network of users established by accessing the portal site for that game.

### Platform

A platform is the environment required to operate game content. Capcom supplies game content for home video game consoles and PCs as well as for cell phones, smartphones and a steadily increasing number of other devices.

### Premium

A conventional generic name used to refer to mobile content service. It refers to a business model designed as a pay-service for a single content or other services, or a fixed monthly rate membership service for game content.

### Publisher

A company or organization that develops and sells game content.

### R-W

### Rating

Video games receive age-appropriateness ratings based on the characteristics of each game after undergoing an examination by the CERO (Computer Entertainment Rating Organization). In Japan, all home video games must undergo this examination and display the resulting rating (A, B, C, D or Z) along with the associated precaution icon.

### Remake

The process of updating an older game to utilize the advanced capabilities of a new game console or platform or the updated product itself.

### Series

A game series consists of number of titles based on the same content. This is also called a franchise. Capcom has created many very successful game franchises, including Street Fighter, Resident Evil, Monster Hunter and others.

### Single Content Multiple Usage

Single content multiple usage is a core Capcom strategy in which the company's popular original content is used for home video games as well as for character merchandise, movies and many other uses in order to maximize earnings.

### Smartphone

Smartphones are high-performance, multi-function cell phones that are similar to PCs and can access the Internet. Recent rapid progress with smartphone performance has made these devices a popular platform for playing games.

### Social games

Social games are online games that are played with others by communicating over a network rather than alone. These games are provided over social networking services (SNS) and each game incorporates a link to its respective SNS. The popularity of social games is increasing

rapidly on a global scale as people discover this new way to enjoy games.

### Software (Home video games, consumer games)

Software refers to game content that is either incorporated in a game console or installed separately on a computer, cell phone or other device. Software is sold mainly in packages or through Internet downloads.

### Spin-off titles

A title in a game series that, rather than being a pure sequel, uses selected components of the game to create a side story or other new elements.

### Standing console

Refers to game console hardware that is set up in a fixed location, usually connected to a TV or monitor.

### Third party

A third party is a company or organization that supplies software or game content to the first party.

### Title

A title is a particular game or the name of a particular game.

### Transition period

This is the transition period between a current game console and the launch of its next-generation version. Normally, sales of the current game console decrease during this transition period to the next generation.

### Transplanting

Transplanting is the process of altering specifications of the original game software so that it can be released again for use on a different platform (game console).

### Work-in-progress for game software

This accounting term refers to game software development expenses that are treated as future assets. These expenses are included in the assets section of the balance sheet until the game launch date.

## Stock Data

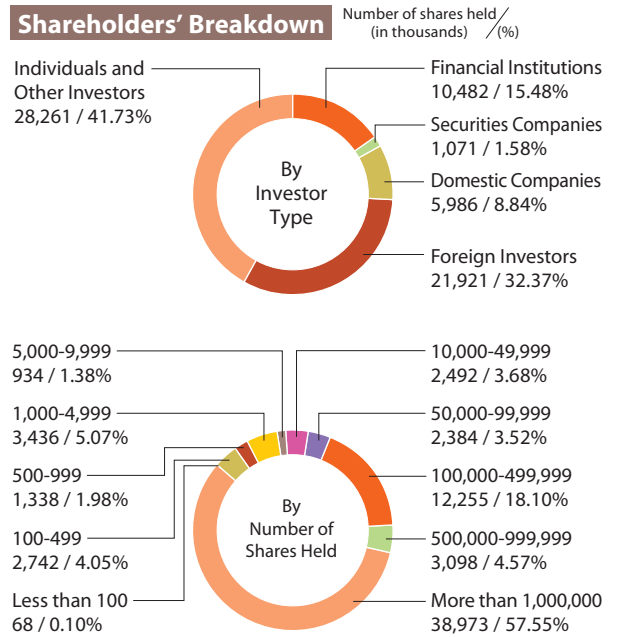
Number of Shares Authorized — 150,000,000 shares  
 Number of Shares Issued — 67,723,244 shares  
 Number of Shareholders — 22,350 shares

## Major Shareholders (Top 10)

Major Shareholders	Number of Shares Held (in thousands)	Percentage of Shareholding (%)
Crossroad Limited	5,276	9.16
The Master Trust Bank of Japan, Ltd. (Trust Account)	2,875	4.99
THE CHASE MANHATTAN BANK, N.A. LONDON SECS LENDING OMNIBUS ACCOUNT	2,874	4.99
NOMURA BANK (LUXEMBOURG) S.A. S/A NOMURA MULTI CURRENCY JP STOCK LEADERS FD	2,860	4.97
STATE STREET BANK AND TRUST COMPANY 505223	2,393	4.16
Kenzo Tsujimoto	2,008	3.49
Misako Tsujimoto	1,964	3.41
Yoshiyuki Tsujimoto	1,669	2.90
Japan Trustee Services Bank, Ltd.(Trust Account)	1,611	2.80
Haruhiro Tsujimoto	1,548	2.69

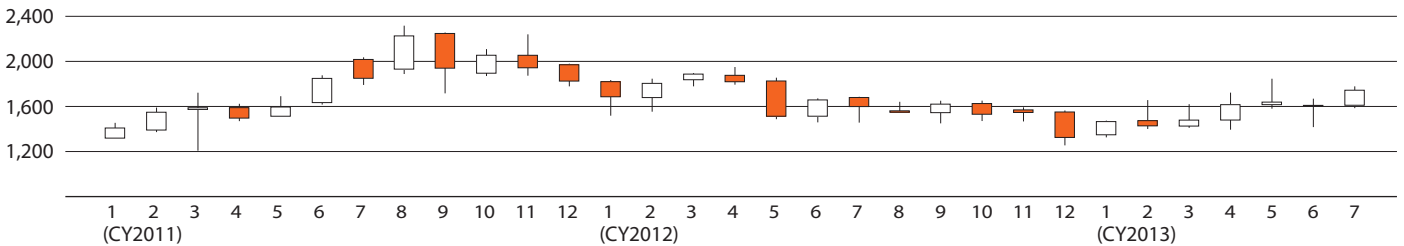
\* Capcom owns 10,139 thousand stocks as treasury stocks.  
 The stocks owned by the company are excluded from the above list.

## Shareholders' Breakdown



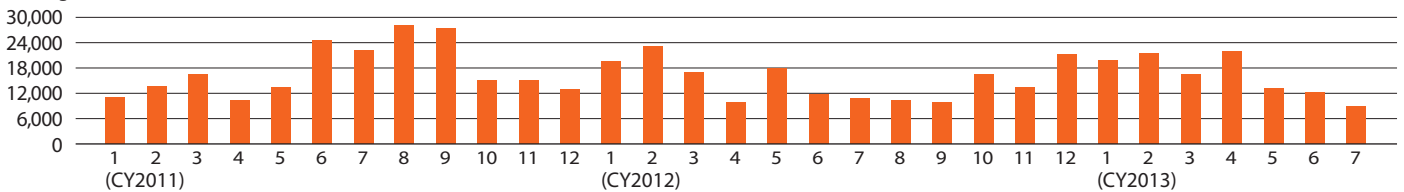
## Stock Price Range

### Stock Price (Yen)



## Trading Volume

### Trading Volume (thousand shares)



## 11-Year Trend of Stock Price and Trading Volume

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Stock Price	1,033	1,032	1,047	1,209	1,692	3,400	1,746	1,766	1,590	1,891	1,476
High	3,860	1,685	1,246	1,450	2,445	3,490	3,640	2,010	1,907	2,311	1,959
Low	999	857	880	1,000	1,102	1,660	1,475	1,297	1,145	1,473	1,250
Trading Volume	69,891,300	109,462,300	90,898,400	93,995,100	137,965,900	19,179,500	179,636,900	181,065,800	149,613,900	227,386,800	178,008,200

(YEARS ENDED MARCH 31)



# History

# CAPCOM of Japan Has Transformed Itself into CAPCOM of the World.

## Products History

### Jul. 1983

Released our first originally developed coin-op "Little League".



### May 1984

Released our first arcade video game "Vulgus".



### Dec. 1985

Released our first home video game "1942" for Nintendo Entertainment System (NES).



### Dec. 1987

Released "Mega Man" for NES.



### Mar. 1991

Released the arcade video game "Street Fighter II" and it triggered the "Street Fighter II" boom.

### Jul. 1993

Opened "CapcoCircus Nigata East", the largest arcade in Nigata.



### Dec. 1994

Premiere of the Hollywood movie "Street Fighter".

### Mar. 1996

Released "Resident Evil" for PlayStation, a long selling title which had record breaking sales, and established the genre of survival horror.

### Aug. 2001

Released "Devil May Cry" for PlayStation 2, and it was a mega-hit.

### Oct. 2001

Released "Phoenix Wright: Ace Attorney" for Game Boy Advance, and it drew public attention as a courtroom battle title.

### Jul. 2005

Released "Sengoku BASARA" for PlayStation 2, which enjoyed popularity especially among young gamers for its innovative worldview.

### Aug. 2006

Released "Dead Rising" for Xbox 360. More than 1 million units were sold, an extraordinary feat for a new title for a new game console.

### Dec. 2006

Released software "Lost Planet" for Xbox 360. Over 1 million units were sold following the trails of "Dead Rising", another exceptional accomplishment for a new title.



### Oct. 2009

"Sengoku BASARA" character Date Masamune used for PR activities in support of the Miyagi Prefecture gubernatorial elections.



### Nov. 2010

Distribution of social game "Smurfs' Village" for iPhone began. It became the top download in 80 countries around the world.

### Dec. 2011

Released "Monster Hunter 3 (Tri) G" for Nintendo 3DS, which became the Capcom's first title that sold one million units in Japan for Nintendo 3DS.



### May 2012

Released home video game "Dragon's Dogma". Sold over one million units, unprecedented for a totally new brand.



## Corporate History

### May 1979

Established I.R.M Corporation (capital of 10 million yen) with objectives of developing and selling electric applied game machines in Matsubara, Osaka.

### May 1981

Established the subsidiary JAPAN CAPSULE COMPUTER CO., LTD.

### Sep. 1981

Corporate name was changed to SAMBI CO., LTD., and the head office was moved to Habikino, Osaka.

### Jun. 1983

Established old CAPCOM CO., LTD., (capital of 10 million yen) in Hirano, Osaka for the purpose of selling software.

### Oct. 1983

Established Tokyo Branch in Shinjuku, Tokyo.

### Jan. 1989

Old CAPCOM CO., LTD., was merged with SANBI. Corporate name was changed to CAPCOM CO., LTD., and the head office was moved to Higashi-ku, Osaka.

### Oct. 1990

Stocks registered as OTC securities with the Japan Securities Dealers Association.

### Oct. 1993

Stock was listed on the second section of the Osaka Stock Exchange.

### Jul. 1994

Constructed head office, which was relocated to Uchihirano-machi, Chuo-ku, Osaka.

### Sep. 1999

Stock changed listing to the First Section of the Osaka Securities Exchange.

### Oct. 2000

Stock was listed on the First Section of the Tokyo Stock Exchange.

### separate volume

## The Latest Development Report 2013 IT'S NOT A GAME UNTIL YOU PLAY IT.

P1



### Development Management

Create new excitement by maximizing synergies

#### Katsuhiko Ichii

Director and Executive Corporate Officer in charge of Consumer Games Business

P3



### Digital Contents business (Home Video Games)

Add new appeal by constantly pursuing challenges

#### Ryozo Tsujimoto

Producer, General Manager of Division 3, Consumer Games Development

P5



### Digital Contents business

Game engine "Panta Rhei" for next-generation consoles specialized for Capcom production

#### Masaru Ijuin

Senior Manager of Technology Management, Technology Development, Consumer Games Development

P7



### Digital Contents business (Online)

Towards a new era when all games will be social

#### Kazunori Sugiura

General Manager of Division 2, Consumer Games Development

P9



### Digital Contents business (Online)

Provide excitement that meets regional characteristics and cultivate the global online market

#### Yoshinori Ono

Corporate Officer and Deputy Head of Consumer Games Development

P11



### Amusement Equipments business

Enhance development quality and generate results in both in-house development and outsourcing

#### Kentaro Ono

Senior Manager of Produce Section, P&S Software Development Department, P&S Business Division

P13



### Special Feature "Resident Evil" The Secret of Success

Yasuhiro Ampo, Director, Section 1, Division 1

Jun Takeuchi, Head of Consumer Games Production Management Division

Hiroyuki Kobayashi, Deputy Head of Consumer Games Development and General Manager of Division 1 and Division 4

Tsutomu Masuda, Senior Manager of Promotion Planning Section, Consumer Games Marketing Department

Hiroki Enomoto, Senior Director, Media and Consumer Product (MCP) Team, CAPCOM U.S.A., Inc.

Yoshiaki Hirabayashi, Producer, Production Planning and Administration, Division 1

Tsutomu Masuda, Senior Manager of Promotion Planning Section, Consumer Games Marketing Department

Hiroki Enomoto, Senior Director, Media and Consumer Product (MCP) Team, CAPCOM U.S.A., Inc.

Yoshiaki Hirabayashi, Producer, Production Planning and Administration, Division 1

Yoshiaki Hirabayashi, Producer, Production Planning and Administration, Division 1

Yoshiaki Hirabayashi, Producer, Production Planning and Administration, Division 1

Yoshiaki Hirabayashi, Producer, Production Planning and Administration, Division 1

## **C**apcom Investor Relations Website

<http://www.capcom.co.jp/ir/english/>

We have been focusing on IR activities by providing our shareholders and investors with timely and updated information through our website. The CAPCOM IR website provides a whole range of information, such as interviews with developers and analysts' consensus, in addition to stock information and management strategies.



## **M**obile Phone Access

<http://2mobile.jp/9697/>

In addition to financial result summaries and stock information, Capcom's closing stock price and latest press release information can be obtained by accessing the Capcom website from a mobile phone. If you have a mobile phone that reads QR codes (two-dimensional bar codes), scan the image on the right for easy access to the site.



\* See your mobile phone manual for information on how to scan QR codes.  
\* This service supports only Japanese.

## **CAPCOM CO., LTD.**

3-1-3 Uchihirano-machi, Chuo-ku,  
Osaka, 540-0037, Japan  
PHONE: 81-6-6920-3600  
FAX: 81-6-6920-5100

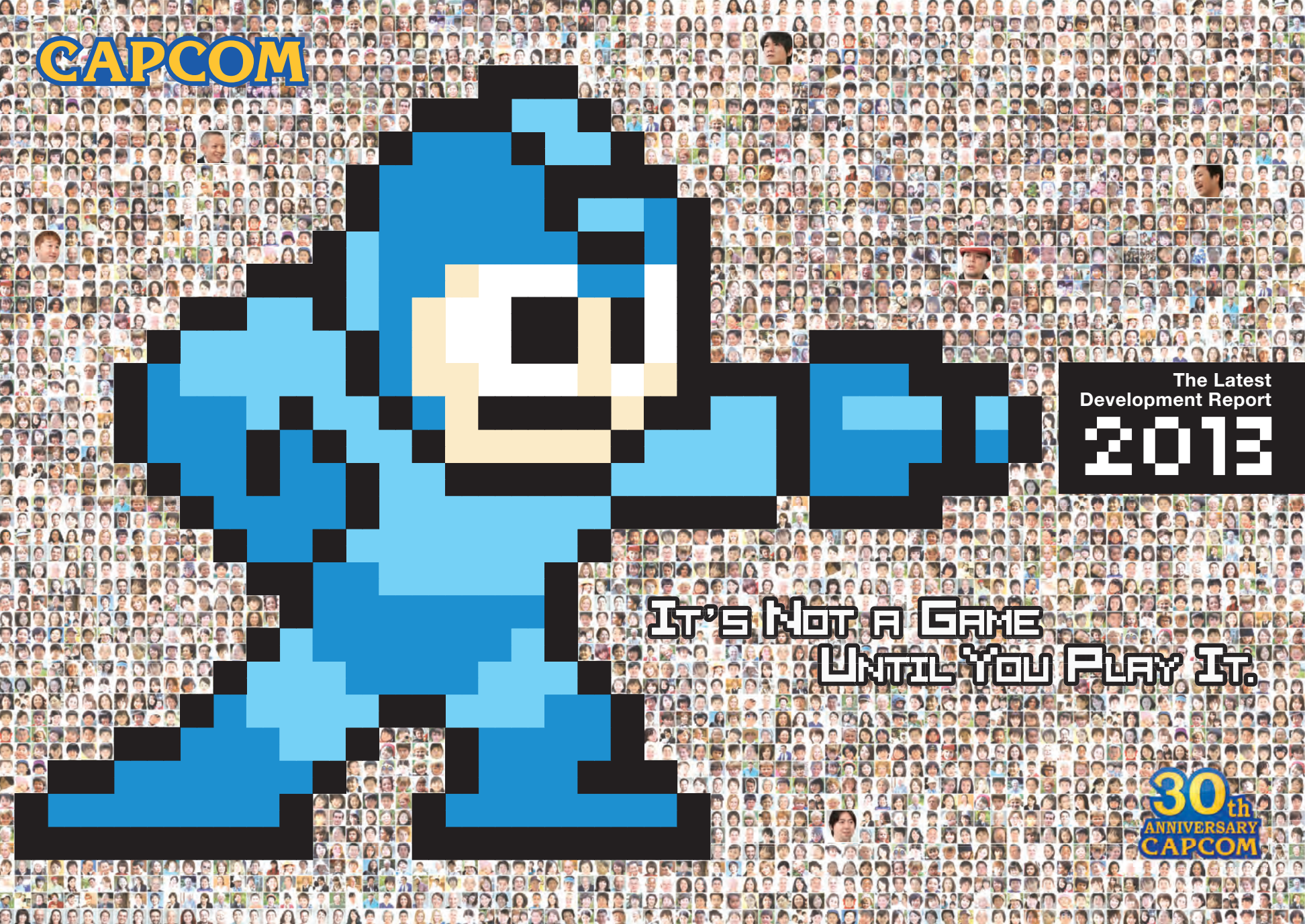
<http://www.capcom.co.jp/>



The print of this catalog uses  
environment-friendly vegetable oil ink.



**CAPCOM**



The Latest  
Development Report

**2013**

**IT'S NOT A GAME  
UNTIL YOU PLAY IT.**

**30<sup>th</sup>  
ANNIVERSARY  
CAPCOM**



# KATSUHIKO ICHII

The one thing that users demand of a game is to be able to spend an enjoyable time. Capcom continues to pursue challenges without compromise so as to provide excitement in different ways for each and every person.

### Deliver games that fit the environment the user is in

Capcom celebrated 30 years in business on June 11, 2013. Since our earliest days, we have continued to release original, standout content worldwide while anticipating the next generation of the game industry, which has changed time and time again, for example with the shift from arcade games to home video game consoles and the advent of the smartphone. And now we are entering a period of new change. Platforms for enjoying games have expanded to tablets, smartphones and other portable devices in addition to game consoles. Selling methods for games have also diversified from package sales to the idea of “freemium” where a game is provided free of charge but a premium is charged for additional items and other game content. This paradigm shift has driven an increase in the gaming population around the world as well as expansion of the game industry.

#### Personal Motto

**As there's no form of entertainment that people don't get tired of, we need to constantly challenge ourselves**

One of my seniors once told me for this reason in this industry we need to constantly challenge ourselves, and that's the truth. No matter how much of a hit something is, people will tire of it at some point. Always looking to provide something new is one of the preconditions of business at Capcom.

What should Capcom do with the advent of such an era? Simply put, I believe the answer is to provide unique and attractive games on a platform that users want to play with. Regardless of the platform, the path that Capcom should take as a contents provider is to keep delivering one-of-a-kind games that fit the lifestyles of users.

### Strengthen management system to make the most of the brand

A strong brand is more important than anything to get users to choose Capcom titles from the plethora of games available. A strong brand has the power to draw users in and make them think that they simply must have a certain title. A clear vision, originality and service are the elements that make up a brand and technology is the tool that can realize these elements. Capcom will integrate the know-how accumulated at respective business locations and strengthen its brand management system for each title in order to make the most effective use of its strong brand.

Besides reinforcing existing brands, Capcom will focus on the development of fresh, new brands too. We are currently developing “deep down”, which integrates the latest state-of-the-art technology for next-generation non-portable consoles such as the soon-to-be-released PlayStation 4. Users, who are eagerly awaiting the next-generation console, are always looking for new excitement, and game fans want to get as much enjoyment as they can out of the game industry. In order to satisfy these fans, we aim to drive further innovation in



Capcom titles have been designed so that users can enjoy them on various platforms depending on the situation and time.

technology so that we can provide a whole new range of fresh surprises.

### Maximize synergies to generate results in the market of each region

Strategic management that combines content, platform and region is essential for Capcom to make headway in the global market. Preferences differ in each region, so there's no way a single title is going to be taken up in equal measure by people all over the world.

The experience we have amassed over the last 30 years is an important factor we will use to succeed in the global market. Beginning with Osaka and Tokyo, Capcom has also rolled out marketing campaigns and executed development initiatives at subsidiaries in North America, Europe, Korea, Hong Kong, Taiwan and Thailand. Leveraging the know-how that has been built up over the years at these bases, we select titles and platforms befitting regional characteristics and release games that are localized (language-wise) and with content that has been adapted to fit the culture of the area.

The times are changing, which makes things even more challenging. But this makes now the perfect time for us to release unique products that are infused with our own originality by making the most of synergistic effects between each base. This fiscal year I hope you get to see the fruits of these efforts one-by-one as we release a number of different titles. There's a lot to look forward to, that's for sure.



A man with short grey hair, wearing a dark suit jacket over a light-colored shirt, is sitting at a dark desk. He is smiling and looking towards the camera. His hands are clasped in front of him. On the desk in front of him is a silver laptop. To the right of the laptop is a stack of CD/DVD cases. Further right is a black office telephone. In the background, there is a brick wall and a window with blinds. A printer is visible on a shelf behind him to the left.

**Create new excitement  
by maximizing synergies**

***Katsuhiko Ichii***

**Director and Executive Corporate Officer  
in charge of Consumer Games Business**

After integrating marketing, appointed as Managing Corporate Officer in 2006. From April 2011, appointed as General Manager of Consumer Entertainment Business Management Group and integrator of Consumer Games Development, focusing on restructuring development organization and global development. At current post since June 2011.



# RYOZO TSUJIMOTO

“Monster Hunter” has come to be known as a national game in Japan. This rise is thanks to the unstinting support of our fans. Existing users pull in new users and the circle gets bigger with the number of fans gradually increasing. A total of 23 million units have been sold since the first title in the series was released in 2004 (as of June 30, 2013).

## A game with a clear concept and flexible playing style

The idea of an action game that anyone can play permeates the “Monster Hunter” series. Over the years it has provided a “place to play” for experts and beginners alike that can experience their own unique style of fun and feel their progress. What has evolved with each title has been the fresh surprises and fun that can be had along with the features of the various game consoles. As an example, “Monster Hunter 4”, which is scheduled for release on September 14, 2013, has been designed for Nintendo 3DS. Users can carry it over to a friend’s place and play together or enjoy multiplayer gaming with other players in remote locations through the internet. Others can enjoy it when they’re alone on the move and have time on their hands. The elements of the game have been precisely designed with different playing situations in mind.

## Increase user options to increase the fun

“Monster Hunter 4” really brought out the challenging spirit in the development team to try and reach the next level while staying true to the essence of the games that have come before. The main logo has been revamped to

express this spirit.

The thing we focused on most this time was incorporating three-dimensional action using vertical interval, a first for the series, in order to expand “hunting” options for the user. Before, it was only possible to attack the monster from front to back and side to side. Now, you can use vertical interval to attack from above. Enabling attacks from new angles adds a real sense of speed to the gameplay.

Also, we placed emphasis on the element of “fluctuation (fortuity)” that we have incorporated throughout this series. This “fluctuation” further increases communication between players through the game, which we believe makes it more exciting.

## Finding ways to bring “Monster Hunter” into the everyday lives of users

We hold different events and plan collaborations so that fans can feel even closer to “Monster Hunter”. Notably, we hold the “Actual Gathering for Players”, and the “Monster Hunter Festival”, which aims to create a space where anyone, not just fans, can enjoy “Monster Hunter’s” quintessential charms. Aside from these, we ran a campaign at Seven-Eleven as well as a collaborative event with Universal Studios Japan (USJ). We put a massive movable monster at USJ and even



Designed for Nintendo 3DS, “Monster Hunter 4” also received a revamp of its title logo. The game has undergone quite an evolution, such that new players will get a fresh experience and veteran players will also be won over.



In addition to the action that users know and love with this series, “Monster Hunter 4” has enabled play that feels more realistic through the use of vertical interval such as with multi levels and slopes.

### Personal Motto

#### *Treasure every encounter, for it will never recur*

Although games are digital, it is people that create and enjoy them. I aim to value every encounter, both those that happen by chance and those that are out of necessity, so that I can create the ultimate game and provide the ultimate in entertainment.



A photograph of Ryozo Tsujimoto, a man with dark hair wearing a striped shirt, smiling and leaning over a wooden table. The table is covered with several Monster Hunter game cases for PlayStation 2, PlayStation 3, and Wii. In the foreground, there are two large plushies of the cat-like characters Kiriko and Puma. On a windowsill behind him are two smaller plushies of Kiriko and Puma. The background features a brick wall and a window with blinds.

**Add new appeal  
by constantly  
pursuing challenges**

## **Ryozo Tsujimoto**

**Producer,  
General Manager of Division 3,  
Consumer Games Development**

Engaged in development of arcade games and also in charge of planning for various home video games. Producer of the "Monster Hunter" series since the release of "Monster Hunter Freedom 2" in 2007.



## **Masaru Ijuin**

Senior Manager of Technology Management,  
Technology Development,  
Consumer Games Development

Appointed as Senior manager of Software & Tools Section after working as the main programmer on "Onimusha 2: Samurai's Destiny". Since then, has contributed to improving Capcom's technical capabilities as the leading authority on the game engines "MT Framework" and "Panta Rhei".

**Game engine "Panta Rhei"  
for next-generation  
consoles specialized for  
Capcom production**



# MASARU IJUIN

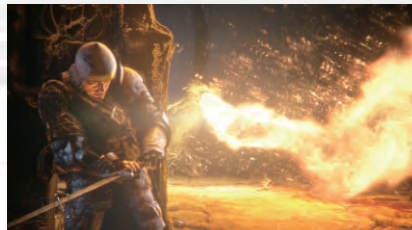
This game engine supports game production from a technical perspective. Capcom has always pursued innovation in providing unique engines along with research into state-of-the-art IT technology. We aim to take the next step toward next-generation consoles amid rising importance of game engines.

## Review development environment from the basics with a view to future game production

One of Capcom's unique game engines, "MT Framework" makes about 80% of its development process mutual for Xbox 360, PlayStation 3, Wii U, and PC games, which enables efficient production. Over the years, we have always sought to optimize development in response to the proliferation of portable game consoles and smartphones such as with the production of derived versions like "MT Framework Mobile".

However, we began to see limitations in the operation of "MT Framework" when we focused on development for next-generation consoles with more advanced technology set for future release. If we continue development based on current methods, workload will increase by 8 to 10-fold. We could take the route of overcoming this problem by making modifications to "MT Framework", but the easy path will leave nothing but simple results. If we don't review design from the basics, we have no future.

Although some people inside the company were hesitant on the idea of developing a new engine, the engine development team took the lead in thoroughly examining conventional development workflows and started developing the new game engine "Panta Rhei" targeting next-generation consoles.



"Panta Rhei" features real, beautiful video expression rivaling live action. It's worth paying particular attention to the way the flickering flames move and to the natural reflection of light.

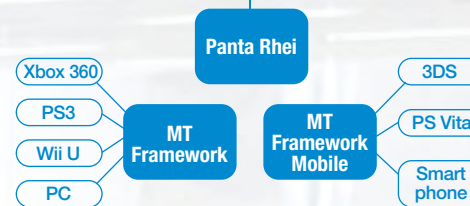
## Push forward with development of "Panta Rhei" in tandem with the title "deep down" for next-generation consoles

The counterpart in collaboration for the "Panta Rhei" game engine is the title "deep down" for next-generation consoles. We are pushing ahead with development in tandem with the title development team.

With "Panta Rhei", the workflow itself for the game development was changed based on the precondition of drawing out the potential of next-generation consoles as well as expressive capacity. The purpose is so that development staff can concentrate on making the game interesting. For example, the traditional flow was serial in nature for each process: From planning and design to data production followed by testing and possible reworking from the planning stage if it wasn't deemed interesting enough. With "Panta Rhei", each process was performed in parallel with mutual adjustments made along the way, which minimized work loss. Also, this meant that repetitive tasks (iterations) to sound out the best specifications could be handled in a short space of time. If a process that previously took 60 minutes can be completed in 10 minutes, a lot more challenges will become possible.

Development is progressing while improvements are made to the engine and game based on modifications to specifications from the engine development team and request for additional features from the title development team.

## Multi-platforms of next-generation consoles



Wielding "Panta Rhei", "MT Framework", and "MT Framework Mobile", we carry out title development customized to each title we are working on and performed with the right tools suited for each.

## Driving evolution as the new foundation of Capcom's game production

We also pay a good deal of attention to research and development into new technologies that support video expression unique to next-generation consoles. This includes fluid expression enabling automatic generation so that the flames that wisp into the air look realistic, global illumination enabling expression even of secondary reflected light from walls and physical bodies in addition to direct light, and tessellation where the automatic division of a polygon enables objects to take on a smooth sense of reality. By making possible expression that was previously very difficult to achieve, we can introduce new ideas and make video expression of a more realistic and higher quality nature. This has increased the possibility of providing a new style of enjoyment that reshapes conventional theories about games. This is indeed the foundation of Capcom's production.

"Panta Rhei" Ver. 1.0 will be completed to coincide with the release of "deep down". And we will drive further innovation so that it is compatible with the multi-platforms of next-generation consoles. As long as we continue to make new games, growth in the engine arena will not subside.

## Personal Motto

### Always look for challenges

Technology is constantly evolving. The results of today may be obsolete tomorrow. That's why only those people that consistently put their best foot forward will be able to advance. I always try not to let anything go to my head and try to never back down. The key is to keep pursuing challenges.



# KAZUNORI SUGIURA

Social games, which can be easily enjoyed by anyone on social networking services (SNS) or via apps, are continuing to grow rapidly in Japan and overseas. Capcom also established the social games development department and fully entered the social game market in 2011 and has been steadily achieving results.

## Communication among users is key to popularity of social games

In terms of social games, card battle games have boasted deeply rooted popularity over the years. While the outcome is determined quickly, people find that the games have depth when they try them. That's why they are popular. Game features and profitability are also a good match for game producers, and because it is easy to set up as a business, various companies have entered the market, which has become hotly contested. The power of the Capcom brand is a strength amidst the advance of excessive production because the confidence that "if it's a Capcom game, it will be good" underlies the selection of games by users. In fact, "Resident Evil: Outbreak Survive" continues to acquire popularity with member numbers topping two million and still has the support of many users.

On the other hand, there is also a trend for other types of social games. Popular social games share a common

### Persevere and act resolutely

Business involves timing. You hang on when you have to, and go on the attack without pausing once you decide, "This is it!" Decisions can be difficult, but speed is crucial. I make a conscious effort to act swiftly together with the members of my team.

Personal Motto



**Street Fighter Battle Combination**  
An easy card battle game that makes it possible for anyone to enjoy the excitement of the world of the fighting game "Street Fighter".

Street Fighter Battle Combination

Monhan Itsudemo Airou Life

Daikoukai Frontier

Street Fighter X All Capcom

Monster Hunter Hunting Quest

SOCIAL APP GAME LINEUP

point of cleverly linking communication among users with game features. The so-called social aspects of gaming, which includes e-mail and information sharing that brings users together, are increasingly in demand, and the key to producing a hit is how to utilize these features.

## Deliver "fun" to users through a clear concept and game features

At present, the Tokyo R&D Department is not only developing games for mobile devices but also for a range of various platforms through to PC and next-generation consoles. At the planning stage, we consider which is the best development platform based on the concept, which includes the idea and the game features, rather than "focusing on how to produce a social game". In addition to that, we seriously consider in what form to incorporate social aspects into the game and how we can make it enjoyable for users.

The concept of "Street Fighter Battle Combination" unveiled on August 1, 2013 is to also enable users who are not accustomed to playing fighting games to enjoy the "Street Fighter" world. While reproducing fighting scenes in the form of a card battle, it also adopts a ranking system to stimulate the combative urge. We designed it to allow users to feel the excitement of "Street Fighter" which was a hit in game centers in the late 1980s. In the future, we will concentrate our efforts

on the operational aspects of the game as well so that users go on enjoying the game for a long time.

## Toward the new era of network games for users to enjoy

There are two things we focus on when we are producing a game. These are how users currently play a game and our vision of how we want to get them to play games in the future. At the same time as continuing to satisfy existing users, we are promoting initiatives aimed at tomorrow's market.

Our new challenge here is "Breath of Fire 6", an authentic role-playing game (RPG) scheduled for release in summer 2014. This game can be played on three platforms: smartphone, tablet and PC. Because we will distribute it from the same server, it will be possible to use a smartphone to enjoy it on the move and continue playing on a PC after getting home. Obviously, we are linking it to a communication app to enable chat, creation of avatars, and other social aspects. This function will be incorporated into games that Capcom releases from October 2013, which will also make communication among users across titles possible. We want to broaden the circle of Capcom fans in the new era of network games to extend beyond the dividing lines between platforms with an advantage in the social aspect of gaming.



A man wearing a red flat cap and a grey polo shirt with a dark collar is standing on a balcony. He is looking at a white smartphone in his hands. The balcony has a silver metal railing. In the background, there are lush green trees and a building with large windows. The scene is outdoors and appears to be a pleasant day.

## Towards a new era when all games will be social

### ***Kazunori Sugiura***

**General Manager of Division 2,  
Consumer Games Development**

Served as producer of "Monster Hunter Frontier G", leading it to become one of the biggest titles in Japanese online gaming. At present, directs all online games and social applications as General Manager of the Tokyo R&D Department.



Provide excitement  
that meets regional  
characteristics and cultivate  
the global online market

**Yoshinori Ono**

Corporate Officer and  
Deputy Head of Consumer Games Development

In charge of sound on the "Street Fighter"  
series since joining the Company. Went on to  
become producer of "Monster Hunter Frontier  
Online" and "Street Fighter IV" series. At  
current post since April 2013.

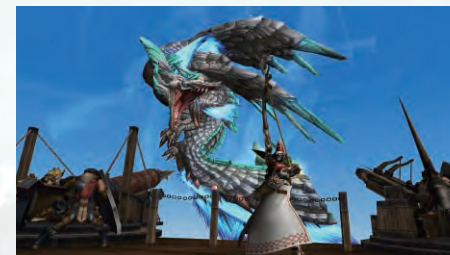


# YOSHINORI ONO

Capcom is promoting the Online business as a pillar of new growth. In April 2013, we released the largely updated “Monster Hunter Frontier G” in Japan and “Onimusha Soul” in Taiwan, a newly cultivated market for us.



**Taiwanese version of “Onimusha Soul”**  
As with the Japanese version of “Onimusha Soul”, players become a feudal lord of the 47 prefectures during the civil war period and aim to develop the country. Although the setting is Japan, it has captured the hearts of a great number of people and turned into a hit thanks to the clever development and management of Taiwanese staff.



**“Monster Hunter Frontier G”**  
Users can enjoy the game online anytime with a group of players. We added new elements as well to entertain users such as new fields, new monsters and a G Class Quest.

## Provide optimal service in individual markets

The global gaming market is expanding, driven by online games. Capcom is also focusing on its Online business and expanding sales in this area.

If we break down this business into regions, it can be broadly divided into three markets: Japan, North America/Europe and Asia. The key to growth for Capcom is determining how to provide service that meets the preferences of users in each market while adding in cultural features.

In the Japanese market, sales of “Monster Hunter Frontier G”, which can be played on a PC online or on Xbox 360, are solid. This can be attributed to the regular holding of events following the major update in April 2013 and continuing to provide excitement to fans of the series. Also, we will roll out “Monster Hunter Frontier G”

### Personal Motto

#### More haste, less speed

Sometimes things go well and other times they don't; that's the way of the world. But if you don't face up to the whole situation and understand the true nature of what's going on before giving an answer, you'll be left with nothing. As it is with proof in mathematics, the process is an important element of game development.

for PlayStation 3 (PS3) in November 2013 and for Wii U in December 2013. Our aim is to provide even more wide-reaching service for a greater range of customers in Japan to ensure satisfaction no matter what game console they play on.

## “Onimusha Soul” proves to be a hit in the newly entered Taiwan market

Recognizing Taiwan as the launching pad for online games in the Asia market, we opened CAPCOM TAIWAN CO., LTD. in August 2012. The reasons we chose Taiwan were the penetration of Japanese culture, from TV programs to food, and the high market affinity.

The first title we introduced, localized and adapted to fit the culture in Taiwan was “Onimusha Soul”. We worked hard to make sure local staff gained an insight into the nature of the title in order to provide service based on uniform cognition. As a result, “Onimusha Soul” attracted attention straight after we started the service in April 2013, and currently, it is so popular that it is rivaling sales in Japan.

Through the challenge of entering Taiwan, we realized that it is easy to localize a title by infusing redundancy at the time of development in Japan and enabling a design that allows additions where it is to be introduced. We will make the most of the know-how we have gained in the

next title and we are planning to start service of the Taiwanese version of “Monster Hunter Frontier G” in the summer of 2014 for PS3 and PC online use.

## Focus on the true nature of the game to deliver excitement to users

The changes that are occurring in the game market today are similar to the shift in style of enjoying music from records and CDs to portable digital players. With both music and games, it doesn't matter what hardware the user has, the feeling of wanting to have fun remains the same. The ability to provide excitement is more important than anything and that's the true nature of game production that Capcom must protect. We have arrived at an era in which users can play a diverse array of games on a variety of platforms, and that's why Capcom must create new excitement for this market.

It felt like we already had the answer to online and social business somewhat for the Japanese market. But that was just till 2012. As with other trends that year, what people find exciting also changes with the times. We must move forward with a close eye on what happens in the market on a global scale in 2013. In this context, we will challenge unexplored markets, making effective use of the know-how we have gained in opening the base in Taiwan.



Enhance development quality and generate results in both in-house development and outsourcing

**Kentaro Ono**

Senior Manager of Produce Section,  
P&S Software Development Department,  
P&S Business Division

Entered the P&S Business Division after developing home video game software. Currently in charge of conceiving of titles for development based on the medium-term plan, formulating budget and management as senior management of the Produce Section.





# KENTARO ONO

After entering the Pachinko & Pachislo business, Capcom enhanced both its video production capabilities and gaming machine development capabilities amassed in home video games, and established foundations so that these capabilities could be integrated. Following a takeoff period of a few years, now we have started producing popular machines that are well received by users.

## New machine with special attention given to frames, video imagery and game playability biggest ever hit

A total of 48,000 units of the Pachislo machine "Resident Evil 5" released in December 2012 had been shipped as of March 31, 2013, making it the biggest ever hit for Capcom-developed Pachislo machines.

First and foremost, this can be attributed to vigorous efforts to promote sales to Pachinko and Pachislo halls following the convening of a trade show in Tokyo announcing new machines organized by Fields Corporation, with whom we have a marketing alliance with. There, we were successful in impressing a worldview of "Resident Evil" that helped us promote sales.

We also got creative with an original new frame. We incorporated a sub liquid crystal screen "Movision" that moves up and down to deliver images linked to the main liquid crystal screen, as well as to occasionally project a making use of the fourth slot reel to render greater excitement. A winning chance calculation system for dispensing the balls that infuses a worldview of the game such as infection, spreading and variation coupled with video and scenario development that makes it even more exciting captured the hearts of users. As a result, the machine enjoys high popularity and continues to drive additional orders from halls. It has also maintained a high operating rate thanks to customer support, culminating in



The Pachislo machine "Resident Evil 5", which was developed in-house, was unveiled at a trade show in Tokyo announcing new machines in September 2012. The event was a hit with a large number of visitors coming to the venue, where Capcom presented an explanation of the product on a purpose-built stage and let people give it a try.



Full use of the special unique frame "Pandemic" and the industry's first moving liquid crystal screen "Movision" enables the faithful reproduction of the original game. The frightening and tension-filled imagery and rendition boost excitement for users.

first place in the category for non-standard type Pachislo machines at the Gaming Machines Awards for 2013.

## Division of labor and collaboration based on strategy enable the development of machines welcomed by the market

The machines that are well received among users in the market and that halls want to install are those machines that include popular content as well as built-in game playability and attractive winning system. Capcom achieves both of these elements.

In terms of content, Capcom has a number of hit titles like "Resident Evil" and "Monster Hunter", and machines can be developed by making use of this content. In terms of game playability, Enterrise Co., Ltd. was made a subsidiary in 2008 and system development was consolidated into Capcom. This has facilitated development that combines the image development and system development of both companies as well as the mutual conception of ideas. Although there were reservations at first, barriers between the two companies have been taken down over the years and an uninhibited exchange of ideas has led to a diverse array of video and chassis aesthetics as well as a style of winning system that gets the user excited trying to predict the outcome. We switched to a producer system for development too, which has enabled more clear-cut production for each project. The popularity of this latest machine is the manifestation of these elements.

## Making use of popular content and raising profitability through the two pillars of in-house development and outsourcing

In the Pachinko & Pachislo business, we set a goal of selling one new machine developed in-house each quarter under our Single Content Multiple Usage strategy and are pushing ahead with measures to make this a reality. However, we only have two titles scheduled for release for the fiscal year ending March 2014. We aim to devise a system that allows us to launch four machines to the market every year in a stable manner.

Along with the in-house development of the frames, we also focus on outsourcing development and are aiming to expand profitability through this two-pillar approach. We provided gorgeous imagery that has been highly praised for the Pachislo machine "Onimusha: Dawn of Dreams Sairin" by RODEO Co., Ltd. and the Pachinko machine "CR Sengoku BASARA 3 - Sekigahara Battle" by Bisty Co., Ltd.

We are planning to release new titles this fiscal year as well, so there is a lot to look forward to.

### Consider general consensus, not just preferences

Personal Motto

In order to outstrip the intensifying competition between gaming machine manufacturers, it is necessary to select the best elements for people based on a close examination of market trends. There's a tendency to emphasize one's own preferences in development, so I always place importance on objectivity.



Special Feature

# The Secret of Success

## “Resident Evil”

We present the tumultuous history of “Resident Evil”, the quintessential Capcom title which boasts 57 million in total sales for the series as of June 30, 2013 and is still loved today 17 years after the release of the first game.

### New Generation of Hit Stirring in the Shadows of Mega-Popular Titles

It is 17 years since the advent of “Resident Evil”, and the title has evolved in various directions, including Hollywood movies, amusement park attractions and restaurants, and boasts recognition even among non-gamers. However, the original “Resident Evil” was just a pilot developed for the PlayStation, the new hardware platform of the day. Nor were there any great expectations for “Resident Evil” within Capcom when its development started because of the existence of “Street Fighter”,\* which boasted absolute popularity.

While many veteran creators were brought together

for “Street Fighter”, which was highly anticipated within and outside the company, only young creators were assembled for the unproven “Resident Evil”. They included many novices creating their first game. Therefore, despite some feelings among employees assigned to “Resident Evil” that it was a kind of demotion, the novice creators were not worried about that kind of environment and created the games literally from one. Because the hardware was new, they suffered from a shortage of development tools, and “Resident Evil” was developed through repeated trial and error, which sometimes included disagreements and clashes of opinions within the team.

\* The landmark combat-based fighting game that came out on arcade machines in 1987, creating a boom mainly among the young.



The “Resident Evil” series is 17 years old this year with 86 titles sold worldwide.

### A Capcom First and a Personal First. Prototype 3D Game Development

Yasuhiro Ampo Director, Section 1, Division 1

My first assignment on joining Capcom was the “Resident Evil” development team. As a programmer, I was responsible for system peripherals, including engine creation. At the time, it was unprecedented as the first 3D game development at the company, so there were a lot of conversations which went something like, “Let’s actually create programs and try comparing them” because we couldn’t make any predictions about what would happen if we did a certain thing as there were no past results. At the time, I was new so I didn’t have experience or know-how. On the other hand, I can say that I was able to develop things without any preconceptions.





## “Resident Evil”: A Scary Game

“Resident Evil” went on sale in March 1996. It could not be said that expectations for the game were high by any standard. However, typified by expressionless zombie that turns his head towards the player and zombie dogs appearing as they broke through windows, the horrors which were packed into the game gradually fascinated gamers.

Additionally, a different operating technique was adopted for “Resident Evil” to increase the sense of horror. With ordinary games, the character moves right when you press the right button of the directional pad and left when you press the left button. However, with “Resident Evil” the character turns clockwise when you press the right button and anti-clockwise when you press the left button. This radio-control type of operating technique creates the shakiness of proceeding in fear, unable to move how you want.

Incidentally, even though “Resident Evil” is a Japanese-made game, the characters speak English, and the Japanese is shown in subtitles like it is at the movies. This Hollywood movie atmosphere also produces a sense of tension as a horror game. We did actually record Japanese voices as well, but they were shelved because they did not fit with the “horror set in a Western-style building”.

### Attention to “Resident Evil” Horror Adventure

**Jun Takeuchi** Head of Consumer Games Production Management Division

“Resident Evil” was being developed in my fourth year at Capcom, and I was made leader of graphics. As it was the first “Resident Evil” game, we felt our way, but we put in what we wanted to because of that. The fact that a “shell makes a noise when it flies out of a gun and it falls to the ground” is obvious in reality, but the attention “Resident Evil” paid to this kind of detail meant it was credited with being “a next-generation game”.



It was a time when the Internet and mobile phones were not as widespread as they are now, and the attention to this kind of detail spread by word of mouth. As a result, sales rose gradually from 200,000 – 300,000 units immediately after the launch to reach 1 million units in a year.

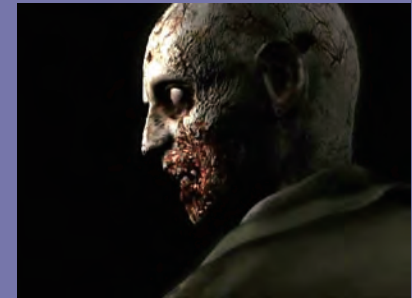
Based on this success, it was decided to produce the “Resident Evil 2” sequel. Although it was initially scheduled for release in 1997, we couldn’t produce a game that was of the expected quality, perhaps because of pressure from the success of its predecessor, and took the big decision during development to reset everything and re-make it from the beginning. Therefore, the release was delayed by a year to 1998, and features such as the increase in the number of zombies displayed on screen compared with its predecessor and the zapping system in which the actions taken by the players affect the storyline aroused interest, making it a major hit which has sold 4.96 million units\* up to the present.

Avant-guard experiments such as increased action elements and the appearance of new foes to pursue players also paid off in “Resident Evil 3: Nemesis”, produced based on the success of “2”, which has cumulative sales of 3.5 million units\*. The first three successive titles all achieved million-unit sales.

\* As of June 30, 2013.



“Resident Evil” released in 1996



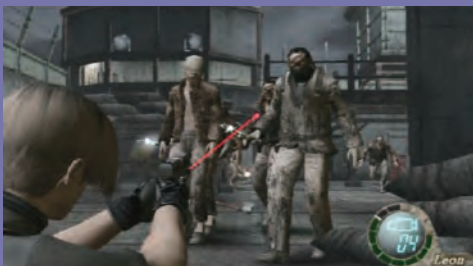
The first zombie encounter which terrorized all players



“Resident Evil 2”



“Resident Evil 3: Nemesis”



The previous top-down view was changed to the behind view, making it easy to aim shots.



"Resident Evil 4" accomplished a full model change, developed for the most hardware platforms of the series.



"Resident Evil 5" became the biggest hit of the series, recording 6.1 million units.

## Full Model Change to Break the Stereotype

"Resident Evil" appeared to have consolidated its brand value by achieving consecutive million-unit sellers up to the third game. However, ten years had passed since the series was created, and a downward trend was being observed in sales. The development team decided on a full model change for "Resident Evil 4", believing that "if the trend continued that way the brand would disappear".

Nevertheless, having said a full model change did not mean losing the basic "identity" of "Resident Evil". The search for the "identity" of "Resident Evil" to that point was extremely difficult with plans changing a number of times during development. Relying on horror meant no change from its predecessor, but if the horror element was reduced too much, it would not be "Resident Evil" any more. The development team was required to have this sense of balance.

What did change significantly as a result of trial and error was the perspective. The "behind view" looking ahead from behind the character was changed from the previous top-down view. Additionally, a "shooter element", which is popular overseas and allows players to aim at and shoot the

weak spots and specific areas of their opponents, was incorporated.

As a result of matching these big changes superbly with the horror elements of "Resident Evil", "4" is credited with being the standout success of the series. This is demonstrated by the fact that although it was originally only released on GameCube, it was subsequently released for PlayStation 2 and Wii as well as iPhone, iPad and other devices and is now the title in the "Resident Evil" series which has been developed for the most hardware platforms.

The elements that gained popularity in "4" were inherited by its sequel "Resident Evil 5". Breaking away from its previous dimly lit image with a concept of light and shadow opening out under the sun, it achieved sales of 6.1 million units\*, an all-time high for the series.

\* As of June 30, 2013.

## Pressure of the Full Model Change

### Hiroyuki Kobayashi

Deputy Head of Consumer Games Development and General Manager of Division 1 and Division 4

I was involved in "Resident Evil 4" as producer. In fact, prior the development of "4", I had developed the remake of "1" for GameCube, and I had confidence in my development know-how. But the goal in terms of pursuing the "Resident Evil" identity through a full model change of the popular series was completely invisible. The team constantly felt anxious over things like hearing the reaction of the press every time we made an announcement. However, in the end, receiving high evaluations from all the media gave us confidence in subsequent development.





## Promotion Strategies to Support Longevity

When we are discussing the popularity of game software, we must not forget the existence of promotion to support its success. For “Resident Evil”, which enjoys global popularity, a different approach is also taken for promotion in each region. We change the points that we showcase to match the culture and characteristics of the regions. For example, the North American version stresses the horror atmosphere, and the Japanese version stresses the characters. These regional differences are also reflected in packaging designs.

The longevity of the “Resident Evil” title also comes with problems. The main user group is now in their late-30s to 40s, and the average age is also going up as the series goes on with an increasing possibility that some percentage of the existing users will outgrow games altogether. Therefore, there is a constant need to gain new users, and the creation of opportunities for exposure in fashion magazines was carried out as an example. However, obviously game information is not carried by fashion magazines. Therefore, we have created opportunities for receiving coverage in fashion magazines by collaborating with fashion brands which are popular among young

people. We are also actively working on spreading name recognition among non-gamers through expansion in other industries, including the “Halloween Horror Night” event in alliance with Universal Studios Japan (USJ) and the opening of the “Resident Evil Café and Grill S.T.A.R.S.” (a “Resident Evil”-themed restaurant) in Shibuya PARCO, Tokyo. These collaborative events are opportunities to be enjoyed by non-gamers as well, so it is important to plan them so that anyone can enjoy them and not aim them at a section of our core gamers.

Moreover, while running events for these kinds of casual users, we launched “Club 96”, the official fan club for our core gamers. As a forum for the direct dissemination of information, including holding the annual members-only Premium Party, it serves as a bridge between developers and users.

“Resident Evil” has gained unwavering popularity through diverse expansion regardless of region and generation.



While the Japanese version stresses the characters, the North American version simply constitutes a logo only.



Initiatives with other industries, such as amusement arcades and restaurants, are helping to develop new fans.

## Strategies to Fuel the Minds of Users

**Tsutomu Masuda** Senior Manager of Promotion Planning Section, Consumer Games Marketing Department

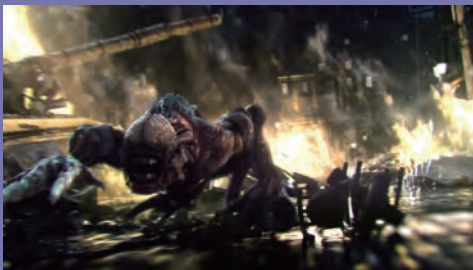
What we focus on when running promotions for “Resident Evil” is delivering a message that respects its 17-year story, which is a rarity in the game industry, and its world in a format that does not disappoint the expectations of users. It is important for us to analyze what customers want from “Resident Evil” and embark on strategies to successfully convert that into expected value. We launched strategies to get fans excited from the announcement of “Resident Evil 6” through to the release period, employing mechanisms to spread this excitement to casual users.







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"Resident Evil", released in 2002, achieved US\$102 million in global box office revenue.



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CG movie was first released in 2008. In view of its popularity, a sequel was released in 2012.



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The game character Jill (far right) appears in "Resident Evil: Apocalypse" released in 2004.

## "Resident Evil" Known Globally

A total of seven "Resident Evil" movies, with five Hollywood movies and two CG movies, have been produced, and these movies have also played a critical role in increasing the brand value of the franchise. Home video game consoles are only widespread in developed countries with established infrastructure. Consequently, Capcom cannot sell "Resident Evil" in regions where game consoles are not widespread. However, movies are a popular pastime, and there are movie theaters in many countries, so it is possible to make the content of "Resident Evil" known in regions without game consoles as well.

The original opportunity was an approach from Hollywood. It required time to achieve, but when the first film was released in 2002, it instantly became a major hit with global box office revenue of USD 102 million. Capcom's goal was to maximize the brand through promotional tie-ups, but it was also lucky that director Paul W.S. Anderson and lead Milla Jovovich were big fans of the original game and was able to achieve major success.

As stated at the beginning, five Hollywood movies have been produced to date, and there are not many movie series that go on this far. Based on

this success, Hollywood realized that Capcom owns outstanding content and offers of movie adaptations for series such as "Devil May Cry" and "Lost Planet" have contributed to boosting the brand not only of the series themselves but also of the company. To digress, there is an anecdote that when the production staff for "Biohazard 5" ("Resident Evil" is known as "Biohazard" in Japan) sounded out the Hollywood studios on producing a CG movie, they were flatly refused, but the studios' attitude changed 360 degrees to "we know it from the movie, please let us make it" when the inquiry was rephrased using the English title "Resident Evil". We can say from this that the movie adaptation has dramatically increased brand value and title name recognition.

## "Resident Evil": Content Creating a Complete World

**Taki Enomoto** Senior Director, Media and Consumer Product (MCP) Team, CAPCOM U.S.A., Inc.

I was responsible for a range of roles related to the movie adaptation from negotiating the terms of agreements, visiting locations and coordinating promotions. Our focus in the movie adaptations is whether the world of the game is faithfully replicated. Because the protagonist in the movie version of "Resident Evil" is a movie original, the appearance, personalities, clothing, behavior and other aspects of the game characters connected to her follow the game in the movie as well. Even though Hollywood is our partner, Capcom will not give the OK for depictions and worlds that are not in the game settings.



## Changing Creators, Constant World

As described earlier, "Resident Evil 5" recorded the highest sales in the series, but no game satisfies everyone in the world. The users who bought it made a number of requests for the sequel.

"Resident Evil 6", the latest game, released in October 2012, is what was created based on this feedback. What needed to be done in the development of "6" had been clearly decided. Although the brand was popular overseas, there is an awareness of the Hollywood movie-style of production, which has become the market trend in recent years mainly overseas, in order to repackage the game as a global title again. Additionally, Capcom provided seven main characters and four types of scenario to attract more diverse users, making it possible to enjoy horror for different tastes.

As a result, it sold 5 million units\* globally and succeeded in making its mark as a global title again. In addition, all the title numbers in the series have achieved sales over million units.

Why has "Resident Evil" been able to sustain this level of success for 17 years? The secret lies in its elaborate settings and world. Horror is a common entertainment genre around the world, but "Resident Evil" adopted

the setting of "epidemic disaster" that could be a reality rather than a wild fantasy in order to make the horror convincing. This sense of realism is smoothly incorporated into the story as well as feeding the fear as horror.

In addition, the attractive characters are also a feature of "Resident Evil". The main characters have made many appearances spanning all the titles and get older and more mature as the series goes on. A character who was a rookie police officer when he debuted is a member of an organization under the direct control of the president in the latest game, and a powerless young girl has matured into a U.S. agent. Rather than fading away over the 17 years, they have become even deeper characters. This character appeal has also helped to win firm fans.

In addition, the development team and producers in charge of "Resident Evil" change for every title. Therefore, each creator adds their own touch to the strong "Resident Evil" identity, constantly creating a new "Resident Evil" just like a relay.

From pilot to major title. The environment surrounding "Resident Evil" has changed significantly over the past 17 years. However, the "Resident Evil" identity is constant. In the future, it will discover new possibilities and progress as a title that can compete globally without disappointing any expectations.

\* As of June 30, 2013.

## Fun Games Come from the Environment. Production Using the Surroundings

**Yoshiaki Hirabayashi** Producer, Production Planning and Administration, Division 1

As producer of "Resident Evil 6", I was responsible for a variety of roles ranging from cost control through to promotion. In particular, I was conscious about providing an environment that allowed the creators to work in comfort as the foundation for creating a fun game. Being the producer, there was sometimes more pressure than necessary with results being everything and having to outdo the predecessor, but I managed to relax once I started to think that I could work with the people around me while expressing myself.



"Resident Evil 6", released in 2012, recorded Capcom's all-time high initial shipment sales.



Leon has grown up from a rookie police officer into a U.S. agent.

## Corporate Profile

(As of March 31, 2013)

Name of Company	CAPCOM CO., LTD.
Date of Establishment	May 30, 1979
Date of Initiation	June 11, 1983
Business Segments	Planning, development, manufacture and sale of home video games, online games, mobile games and arcade games as well as management of amusement arcades.
Paid-in Capital	¥ 33,239 million
End of Term	March 31
Number of Employees	2,476 (Including consolidated subsidiaries) 1,820 (Capcom CO., LTD.)
Head Office	3-1-3 Uchihirano-machi, Chuo-ku, Osaka, 540-0037, Japan PHONE: 81-6-6920-3600 FAX: 81-6-6920-5100
R&D Building	3-2-8 Uchihirano-machi, Chuo-ku, Osaka, 540-0037, Japan PHONE: 81-6-6920-7600 FAX: 81-6-6920-7698
Tokyo Branch	Shinjuku Mitsui Building 2-1-1 Nishi Shinjuku, Shinjuku-ku, Tokyo, 163-0448, Japan PHONE: 81-3-3340-0710 FAX: 81-3-3340-0711
Ueno Facility	3902 Hatta, Iga, Mie, 518-1155, Japan PHONE: 81-595-20-2030 FAX: 81-595-20-2044



Please see  
the Annual Report 2013.

## History

- Mar. 1991** Released the arcade video game "Street Fighter II" and it triggered the "Street Fighter II" boom.
- Jun. 1992** Released "Street Fighter II" for Super NES, and it was a mega-hit.
- Jul. 1993** Opened "CapcoCircus Nigata East", the largest arcade in Nigata.
- Dec. 1994** Premiere of the Hollywood movie "Street Fighter".
- Mar. 1996** Released "Resident Evil" for PlayStation, a long selling title which had record breaking sales, and established the genre of survival horror.
- Aug. 2001** Released "Devil May Cry" for PlayStation 2, and it was a mega-hit.
- Oct.** Released "Phoenix Wright: Ace Attorney" for Game Boy Advance, and it drew public attention as a courtroom battle title.
- Mar. 2002** Premiere of the Hollywood movie "Resident Evil" which recorded sales of 102 million dollars worldwide.
- Sep. 2004** Premiere of the Hollywood movie "Resident Evil: Apocalypse" and it grossed 100 million dollars worldwide.
- Jul. 2005** Released "Sengoku BASARA" for PlayStation 2, which enjoyed popularity especially among young gamers for its innovative worldview.
- Aug. 2006** Released "Dead Rising" for Xbox 360. More than 1 million units were sold, an extraordinary feat for a new title for a new game console.
- Dec.** Released software "Lost Planet" for Xbox 360. Over 1 million units were sold following the trails of "Dead Rising", another exceptional accomplishment for a new title.
- Mar. 2007** "Monster Hunter Freedom 2" becomes the first Japanese PSP software to exceed 1 million units shipped.
- Nov.** The Hollywood movie "Resident Evil: Extinction" was released. Its box-office revenue exceeded 147 million dollars.
- Feb. 2009** Takarazuka Revue Company launches theatrical performance of "Phoenix Wright: Ace Attorney - The Truth Comes Back to Life".
- Apr.** Began broadcasting the TV animation program "Sengoku BASARA".
- Jul.** Initial shipments of "Monster Hunter Tri", a third-party title for the Wii, surpass one million units.
- Oct.** "Sengoku BASARA" character Date Masamune used for PR activities in support of the Miyagi Prefecture gubernatorial elections.
- Nov. 2010** Distribution of social game "Smurfs' Village" for iPhone began. It became the top download in 80 countries around the world.
- Dec. 2011** Released "Monster Hunter 3 (Tri) G" for Nintendo 3DS, which became the Capcom's first title that was sold one million units in Japan for Nintendo 3DS.
- May 2012** Released home video game "Dragon's Dogma". Sold over one million units, unprecedented for a totally new brand.

## CAPCOM CO., LTD.

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