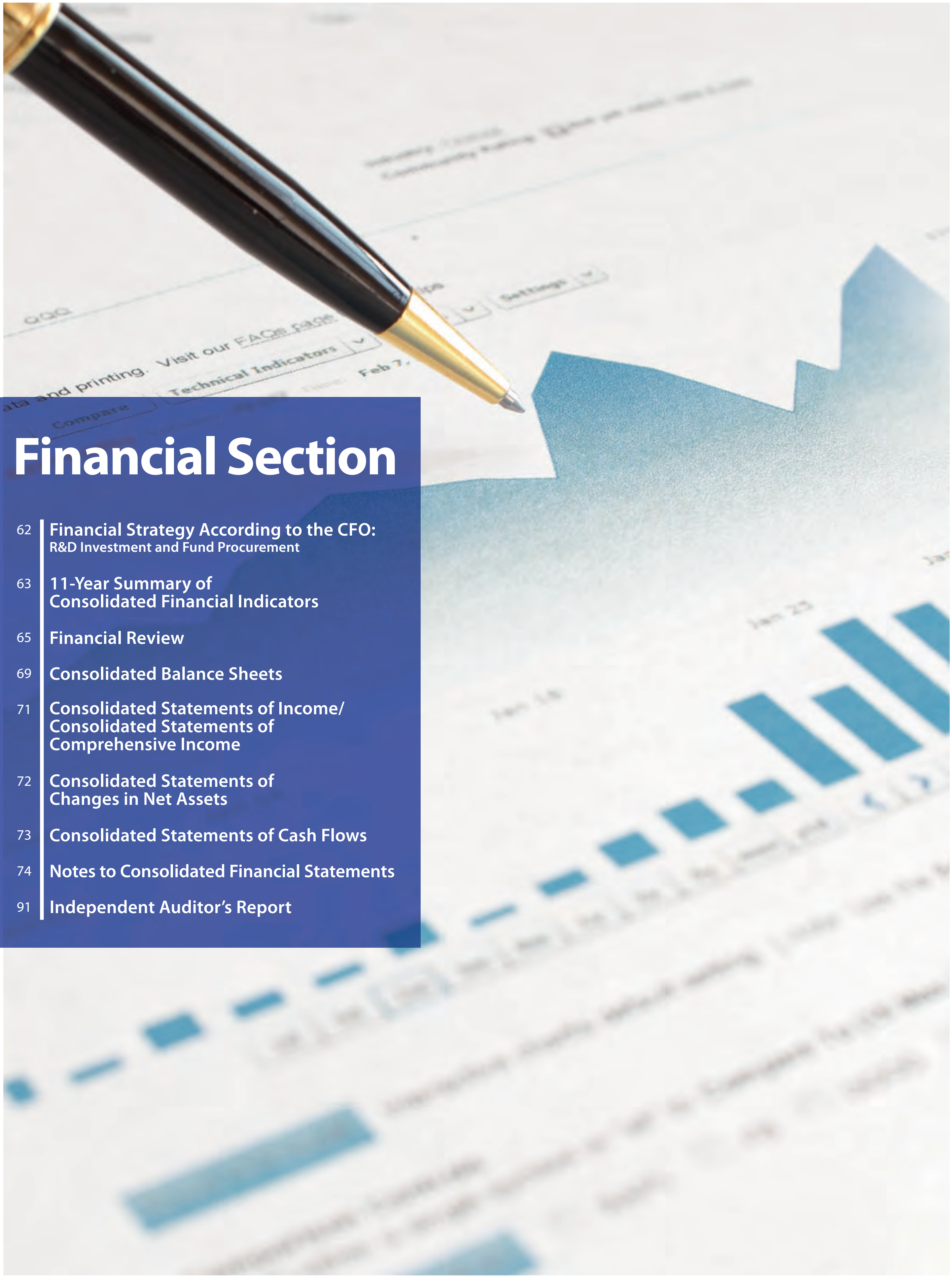



# Financial Section

# 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

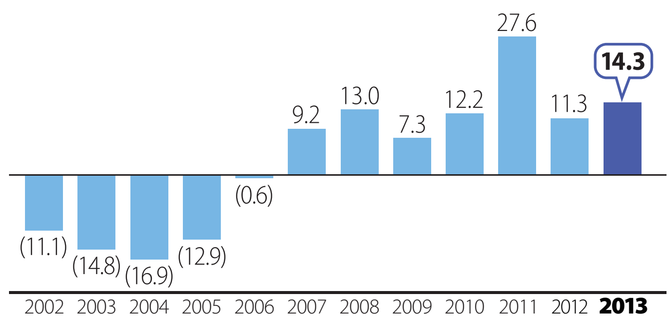
Capcom believes it is important to provide returns to shareholders and seeks to: (1) enhance corporate value by achieving growth through investments and other means and (2) maintain stable dividend payments commensurate with business performance.

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** (Billions of yen)




(YEARS ENDED MARCH 31)

## 11–Year Summary of Consolidated Financial Indicators

| | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|
| **For the Year:** | | | 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 |
| **At Year-End:** | | | 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 |
| **Cash Flows:** | | | 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 |
| **Per Share Data:** | | | 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 |
| **Financial Index:** | | | | | |
| 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 |
| **Stock Information:** | | | | | |
| 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 |

See page 7

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

## 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 expantion 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%.

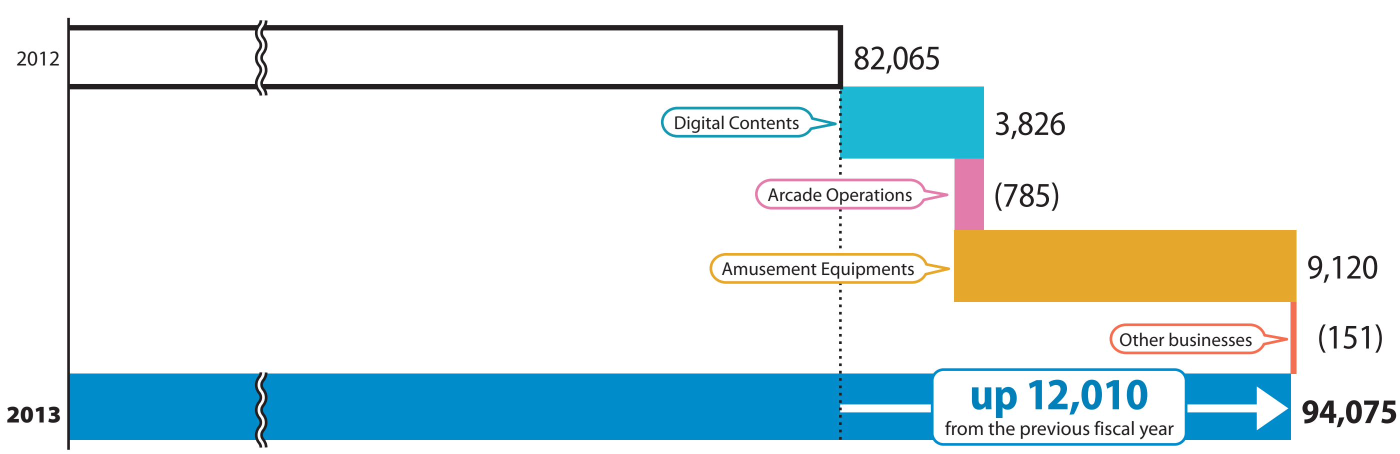
**3. Status of Each Operational Department**

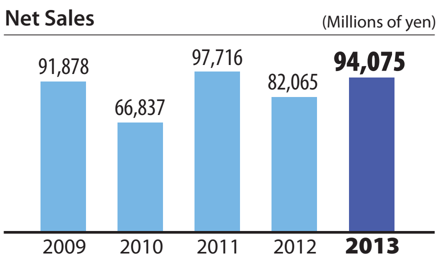
**(1) Digital Content business**

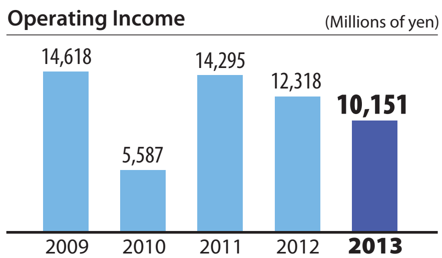
In the Digital Contents business, which constitutes our core competence, the flagship title "Resident Evil 6" (for PlayStation 3 and Xbox 360) sold at a brisk pace initially when it was launched. Its sales, however, subsequently plateaued. As a result, it did not meet with our projection and thus was 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

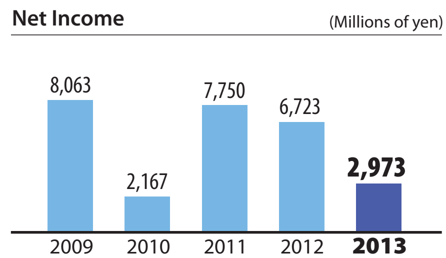
**Net Sales**

(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.

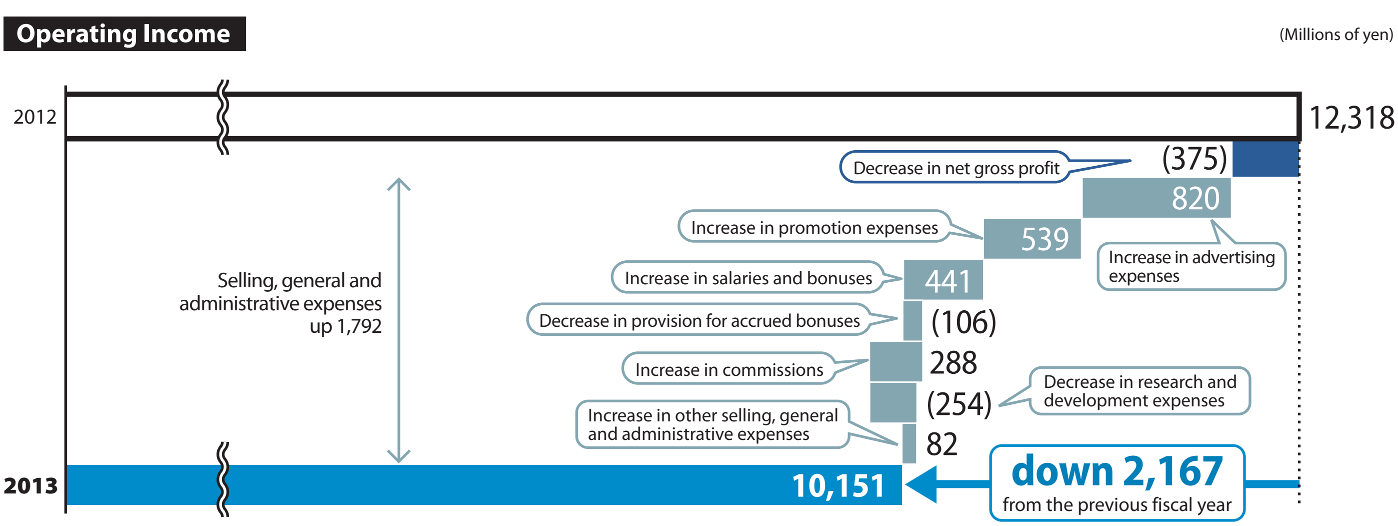
During this fiscal year, new arcade openings were postponed in consideration of the market environment. As three unprofitable arcades were closed down, the total number of arcades became 34 as of the end of the current period.

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**

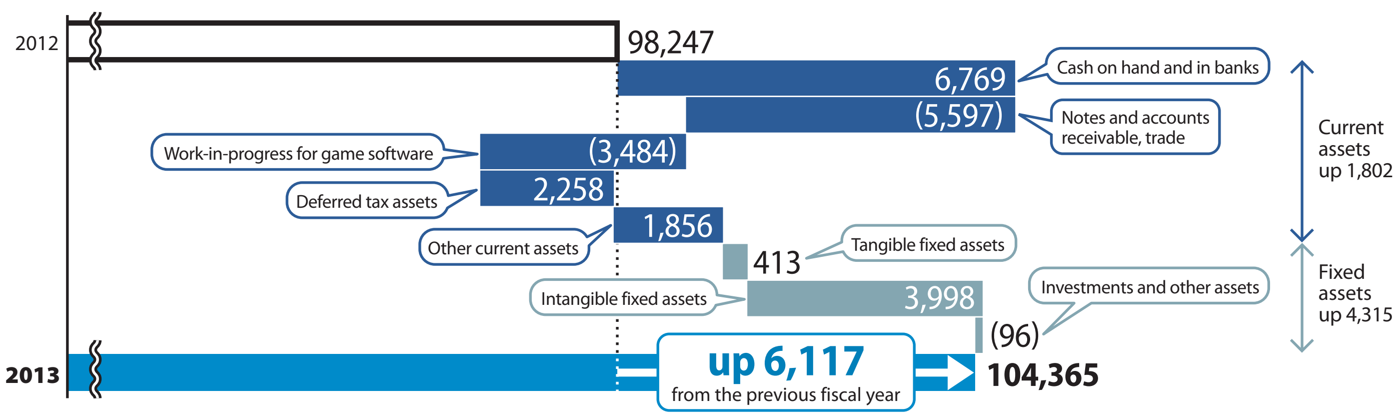
Total liabilities as of the end of the current fiscal year increased by 2,641 million yen from the end of the previous fiscal year to 41,536 million yen. Primary increase was 3,935 million yen in short-term borrowings. Primary decrease was 953 million yen in notes and accounts payable, trade.

**(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.

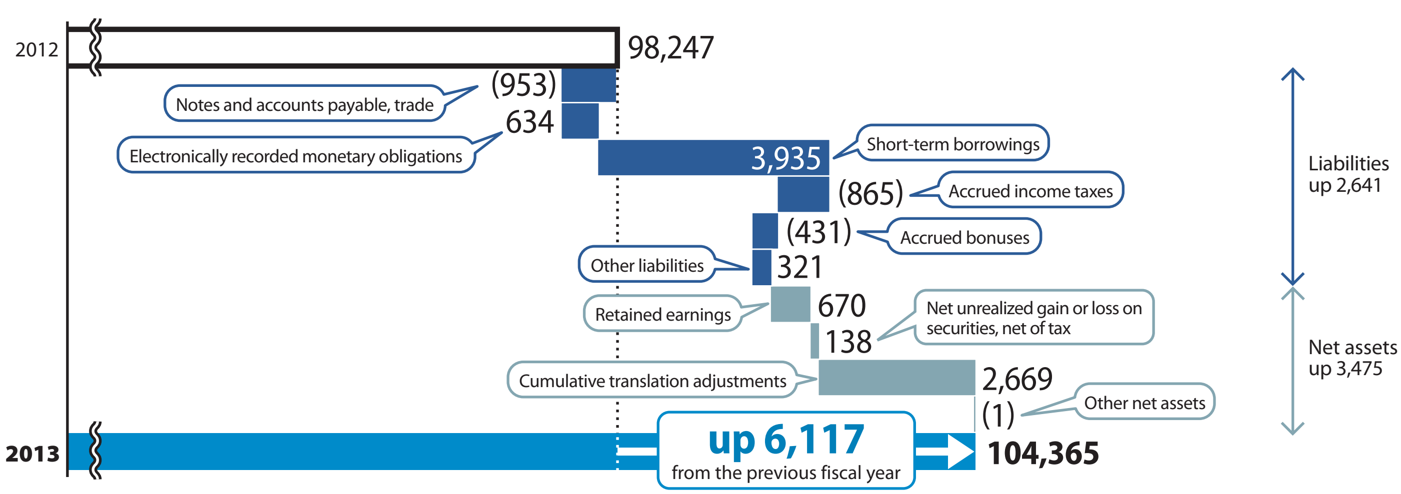
**Assets**

(Millions of yen)




**Liabilities, Net assets**

(Millions of yen)



**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.

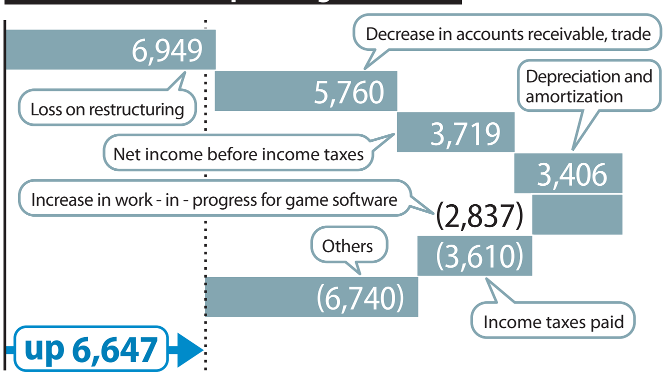
**(1) Cash flows from operating activities**

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(11,425million yen in the previous fiscal year). Main decreases were the followings: 3,610 million yen in income taxes paid (4,195 million in the previous fiscal year) and 2,837 million yen increase in work-in-progress for game software (11,899 million yen in the previous fiscal year).

**Cash flows from Operating Activities**

(Millions of yen)



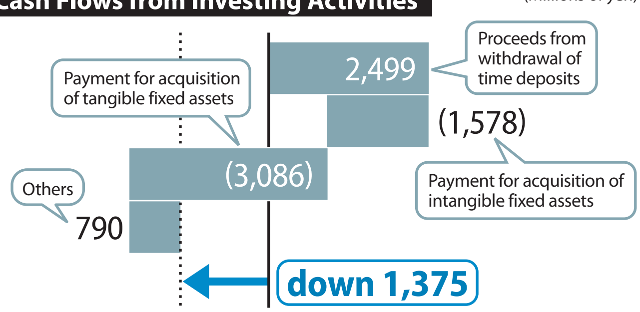

**(2) Cash flows from investing activities**

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).

**Cash Flows from Investing Activities**

(Millions of yen)



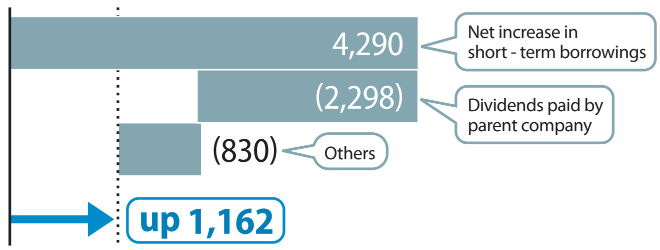

**(3) Cash flows from financing activities**

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).

**Cash Flows from Financing Activities**

(Millions of yen)




**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 | **60.2** |
| Shareholders' equity ratio to total assets based on fair market value (%) | 103.9 | 110.8 | **81.4** |
| Debt amortization ratio to cash flows (%) | 32.8 | — | **258.7** |
| Interest coverage ratio (times) | 155.8 | — | **62.4** |

Shareholders' equity ratio to total assets: Shareholders' equity / Total assets

Shareholders' equity ratio to total assets based on fair market value: Total of the capital stock at market price / Total assets

Debt amortization ratio to cash flows: Interest-bearing debt / Cash flows from operating activities

Interest coverage ratio: Cash flows from operating activities / Interest payments

(Note 1) Percentage figures are calculated on a consolidated basis.
(Note 2) Total market value of shares is calculated based on the number of shares as of the end of the fiscal year excluding treasury stock.
(Note 3) Cash flows are used for cash flows from operating activities.
(Note 4) The interest-bearing debt refers to the debts posted in the consolidated balance sheets for which we are paying interests.
(Note 5) As the cash flows from operating activities fell into red in fiscal year ended March 2009and 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 |
| **(Assets)** | | | |
| **Current assets:** | | | |
| 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)** |
| **Total current assets** | 75,038 | **76,841** | **817,462** |
| **Fixed assets:** | | | |
| Tangible fixed assets, net of accumulated depreciation [Note 5(1)] | | | |
| 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** |
| **Total tangible fixed assets** | 12,844 | **13,258** | **141,046** |
| Intangible assets | | | |
| Goodwill | 291 | **200** | **2,128** |
| Other | 3,619 | **7,709** | **82,013** |
| **Total intangible assets** | 3,911 | **7,909** | **84,142** |
| Investments and other assets | | | |
| 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)** |
| **Total investments and other assets** | 6,452 | **6,355** | **67,615** |
| **Total fixed assets** | 23,208 | **27,523** | **292,803** |
| **Total assets** | 98,247 | **104,365** | **1,110,266** |

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

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

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

## 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 |
| **Net income before minority interests** | 6,723 | **2,973** | **31,632** |
| Other comprehensive income [Note 7(1)] | | | |
| Net unrealized gain or loss on securities, net of tax | 9 | **138** | **1,470** |
| Cumulative translation adjustments | (344) | **2,669** | **28,395** |
| Total other comprehensive income | (334) | **2,807** | **29,865** |
| **Comprehensive income** | 6,389 | **5,780** | **61,497** |
| Comprehensive income attributable to: | | | |
| Owners of the parent | 6,389 | **5,780** | **61,497** |
| Minority interests | — | **—** | **—** |

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

# Consolidated Statements of Changes in Net Assets

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

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

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

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 |
| **Cash flows from operating activities:** | | | |
| 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)** |
| **Net cash provided by (used in) operating activities** | (7,672) | **6,647** | **70,714** |
| **Cash flows from investing activities:** | | | |
| 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** |
| **Net cash used in investing activities** | (4,794) | **(1,375)** | **(14,628)** |
| **Cash flows from financing activities:** | | | |
| 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)** |
| **Net cash provided by financing activities** | 587 | **1,162** | **12,366** |
| **Effect of exchange rate changes on cash and cash equivalents** | (845) | **2,800** | **29,794** |
| **Net increase (decrease) in cash and cash equivalents** | (12,724) | **9,235** | **98,246** |
| **Cash and cash equivalents at beginning of year** | 35,011 | **22,287** | **237,098** |
| **Cash and cash equivalents at end of year [Note 9(1)]** | 22,287 | **31,522** | **335,345** |

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.

**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.

**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 | **16,890** | **179,683** |

(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 | **3,806** | **40,489** |
| Land | 3,314 | **3,314** | **35,255** |
| Total | 7,131 | **7,120** | **75,745** |
| ② Secured debts | | | |
| Short - term borrowings | 260 | **1,050** | **11,170** |
| Long - term borrowings due within one year | 490 | **140** | **1,489** |
| Long - term borrowings | 140 | **—** | **—** |
| Total | 890 | **1,190** | **12,659** |

(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 (From April 1, 2011 to March 31, 2012) Millions of yen | **Current fiscal year (From April 1, 2012 to March 31, 2013) Millions of yen** | **Current fiscal year (From April 1, 2012 to March 31, 2013) 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 (From April 1, 2011 to March 31, 2012) Millions of yen | **Current fiscal year (From April 1, 2012 to March 31, 2013) Millions of yen** | **Current fiscal year (From April 1, 2012 to March 31, 2013) 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 | **10,138** |

(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

①Amount 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 |

②Dividends 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 | — | — | **67,723** |

(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 | **10,139** |

(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

①Amount 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 |

②Dividends 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 | **31,522** | **335,345** |
| Time deposits with maturities over three months | (2,465) | **—** | **—** |
| Cash and cash equivalents | 22,287 | **31,522** | **335,345** |

**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.

①Capital 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."

②Capital 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 of "Arcade operations."
- Depreciation method:
  See Note 2(6), "Summary of significant accounting policies - Leased assets."

(3) Operating leases

①Future 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 | **388** | **4,134** |
| Due over one year | 876 | **2,347** | **24,975** |
| Total | 1,148 | **2,736** | **29,110** |

(For impairment loss)
No impairment loss was recognized for leased assets.

**11. Financial instruments**

①Conditions 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

②Fair 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) |
| Total | 46,561 | 46,508 | (52) |
| (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 |
| Total | 20,662 | 20,668 | 6 |

**(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 | **31,522** | **31,522** | **—** | **335,345** | **335,345** | **—** |
| (2) Notes and accounts receivable, trade | **11,687** | **11,687** | **—** | **124,338** | **124,338** | **—** |
| (3) Lease deposits | **4,341** | **4,325** | **(16)** | **46,185** | **46,013** | **(171)** |
| Total | **47,551** | **47,535** | **(16)** | **505,868** | **505,697** | **(171)** |
| (1) Notes and accounts payable, trade | **6,304** | **6,304** | **—** | **67,064** | **67,064** | **—** |
| (2) Electronically recorded monetary obligations | **634** | **634** | **—** | **6,748** | **6,748** | **—** |
| (3) Short - term borrowings | **11,194** | **11,194** | **—** | **119,091** | **119,091** | **—** |
| (4) Long - term borrowings | **6,000** | **6,024** | **23** | **63,837** | **64,091** | **253** |
| Total | **24,133** | **24,157** | **23** | **256,742** | **256,996** | **253** |

(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 |
| Total | 43,591 | 2,531 | 434 | 4 |

**(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 | **31,522** | **—** | **—** | **—** | **335,345** | **—** | **—** | **—** |
| (2) Notes and accounts receivable, trade | **11,687** | **—** | **—** | **—** | **124,338** | **—** | **—** | **—** |
| (3) Lease deposits | **1,290** | **2,774** | **274** | **2** | **13,726** | **29,511** | **2,925** | **22** |
| Total | **44,500** | **2,774** | **274** | **2** | **473,409** | **29,511** | **2,925** | **22** |

(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 |
| (1) Short - term borrowings | 7,259 | — | — | — | — | — |
| (2) Long - term borrowings | — | 144 | 3,000 | 3,000 | — | — |
| (3) Lease obligations | 322 | 230 | 128 | 48 | 21 | — |
| Total | 7,582 | 375 | 3,129 | 3,048 | 21 | — |

**(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 | **11,194** | **—** | **—** | **—** | **—** | **—** |
| (2) Long - term borrowings | **—** | **3,000** | **3,000** | **—** | **—** | **—** |
| (3) Lease obligations | **364** | **261** | **175** | **79** | **35** | **1** |
| Total | **11,558** | **3,261** | **3,175** | **79** | **35** | **1** |

| | 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 | **119,091** | **—** | **—** | **—** | **—** | **—** |
| (2) Long - term borrowings | **—** | **31,922** | **31,914** | **—** | **—** | **—** |
| (3) Lease obligations | **3,872** | **2,777** | **1,867** | **846** | **377** | **18** |
| Total | **122,964** | **34,699** | **33,782** | **846** | **377** | **18** |

**12. Investments in securities**

(1) Available - for - sale securities with a readily determinable fair value

①Previous 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) |

**②Current 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 | **477** | **386** | **91** | **5,081** | **4,110** | **971** |
| (2) Bonds | — | — | — | — | — | — |
| (3) Others | — | — | — | — | — | — |
| Subtotal | **477** | **386** | **91** | **5,081** | **4,110** | **971** |
| Securities with book value not exceeding their acquisition cost | | | | | | |
| (1) Equity securities | — | — | — | — | — | — |
| (2) Bonds | — | — | — | — | — | — |
| (3) Others | — | — | — | — | — | — |
| Subtotal | — | — | — | — | — | — |
| Total | **477** | **386** | **91** | **5,081** | **4,110** | **971** |

(2) Investments in securities sold during the fiscal year

①Previous 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 (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 |
| 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 (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 |
| 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 (From April 1, 2011 to March 31, 2012) | **Current fiscal year (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<br>(based on the straight - line method over the average estimated service years of employees) | 8 years<br>The same method as the previous fiscal year |
| E. Amortization period for actuarial differences | 8 to 9 years<br>(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<br>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 | **344** | **3,667** |
| Increase due to purchase of tangible fixed assets | — | **19** | **210** |
| Adjustment due to passage of time | 4 | **4** | **48** |
| Decrease due to settlement of asset retirement obligations | (0) | **(19)** | **(204)** |
| Ending balance | 344 | **349** | **3,721** |

**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 | **63,636** | **10,944** | **16,783** | **91,363** | **2,711** | **94,075** | **—** | **94,075** |
| (2) Intersegment | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **—** |
| Total | **63,636** | **10,944** | **16,783** | **91,363** | **2,711** | **94,075** | **—** | **94,075** |
| Segment income | **7,062** | **1,709** | **4,892** | **13,664** | **740** | **14,405** | **(4,253)** | **10,151** |
| Segment assets | **44,950** | **7,046** | **13,054** | **65,051** | **4,236** | **69,288** | **35,076** | **104,365** |
| Other items | | | | | | | | |
| Depreciation | **1,067** | **1,186** | **235** | **2,489** | **253** | **2,743** | **663** | **3,406** |
| Increase in tangible and intangible fixed assets | **6,091** | **698** | **278** | **7,068** | **1,458** | **8,526** | **197** | **8,724** |

| | 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 | **676,983** | **116,426** | **178,545** | **971,955** | **28,843** | **1,000,799** | **—** | **1,000,799** |
| (2) Intersegment | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **—** |
| Total | **676,983** | **116,426** | **178,545** | **971,955** | **28,843** | **1,000,799** | **—** | **1,000,799** |
| Segment income | **75,132** | **18,181** | **52,048** | **145,363** | **7,882** | **153,246** | **(45,252)** | **107,993** |
| Segment assets | **478,199** | **74,957** | **138,881** | **692,038** | **45,068** | **737,106** | **373,159** | **1,110,266** |
| Other items | | | | | | | | |
| Depreciation | **11,358** | **12,626** | **2,501** | **26,486** | **2,694** | **29,181** | **7,054** | **36,235** |
| Increase in tangible and intangible fixed assets | **64,805** | **7,428** | **2,966** | **75,200** | **15,510** | **90,711** | **2,099** | **92,811** |

(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

①Previous 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 |

**②Current 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 |
| **63,531** | **19,012** | **8,312** | **3,218** | **94,075** | **675,865** | **202,257** | **88,434** | **34,241** | **1,000,799** |

(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

①Previous 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.

**②Current 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 |
| **Fields Corporation** | **12,513** | **Amusement equipments** | **Fields Corporation** | **133,119** | **Amusement equipments** |

**[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 | **58** | **58** | **—** | **—** | **58** | **620** | **620** | **—** | **—** | **620** |

**[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 (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)** |
|---|---|---|---|
| | 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 (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 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 (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 |
| 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.

(2) Type of shares
Common stock

(3) Number of shares repurchased
1,347,200 shares

(4) Amount of shares repurchased
2,281,065,100 yen (24,266,650 U.S. dollars)

(5) Repurchase period
From April 22, 2013 to May 31, 2013

(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 | — | — | — | — |
| Total | 14,156 | 18,112 | — | — |

| 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 | — | — | — | — |
| Total | 150,604 | 192,689 | — | — |

(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) |

# Independent Auditor's Report

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