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Chairman and
Chief Executive Officer (CEO)

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

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

From COO Our Strategy for Growth

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

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

The Game Market Expanded to 61.4 Billion Dollars in 2012

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

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

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

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

Focused Allocation of Management Resources to Ongoing Growth Strategy

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

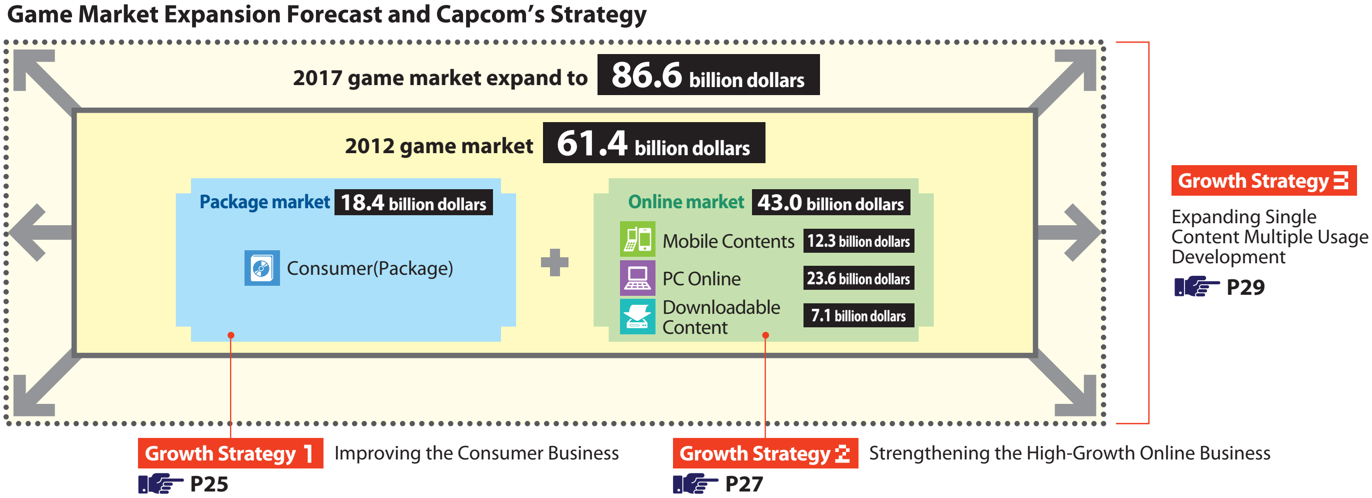
Also, in terms of organization, we will move forward with a new multiple platform development structure to support not only home video games, but also PC online, smartphone and all hardware, by strengthening the global link between next-generation console development and marketing, as well as attempting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

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

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

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

Game Market Expansion Forecast and Capcom's Strategy



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

Kenzo Tsujimoto
Chairman and
Chief Executive Officer (CEO)

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

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

Performance and Commitment

Q1 What caused the rise in sales and decline in profits in the fiscal year ended March 31, 2013? Was the decline in profits affected by escalating consumer console development costs?

A1 The decline in profits this year was due to major title sales that fell short of their targets or were postponed, as well as the recognition of restructuring expenses. Escalating development costs are mitigated through strict profit management for each title.

1. The Market Environment Surrounding Video Games

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

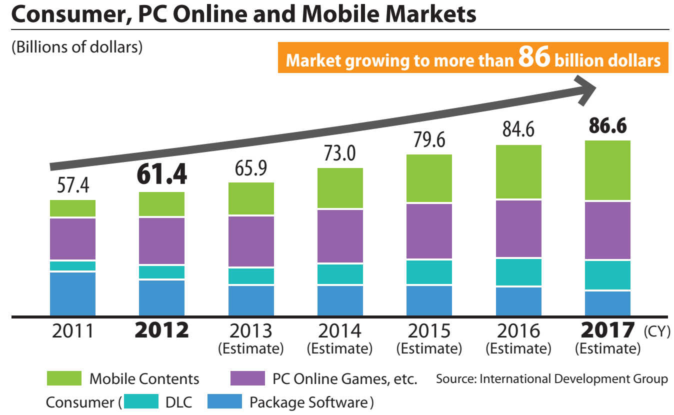
Together, these four components drove expansion in the 2012 game market to 61.4 billion dollars (up 7.0% from the previous year). Diagram 1 This can be attributed to (1) delayed purchases in the package game market ahead of the release of next-generation consoles (transitional period), resulting in declining unit sales and lower average unit sales prices; despite contraction (2) growing sales of DLC and (3) a jump in the mobile and PC online markets driven by the global adoption of digital devices.

✓ Rising Development Costs

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

Diagram 1

Consumer, PC Online and Mobile Markets



2. Factors Influencing Performance Results and Missed Targets

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

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

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

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

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

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

Core Title Targets and Achievements (As of March 31, 2013) (Units)

	Target	Achieved
1. Resident Evil 6	7 million	4.9 million
2. DMC Devil May Cry	2 million	1.15 million
3. Monster Hunter 4	2 million	release postponed

3. Fulfilling Our Commitment

At the beginning of the year, I promised to address four issues. Although consolidated performance failed to break previous records due to core title "Resident Evil 6" falling short of its sales target, it nevertheless sold 4.9 million units globally, making it our top-selling title. Also, the successful establishment of the Capcom brand transformed Mobile Contents into a highly profitable core business. Hit titles were also created in the P&S business.

Achievement of This Fiscal Year's Commitments

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

* ○ Achieved △ Somewhat achieved × Not achieved

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

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

1. Macro Analysis (Market Environment)

(1) Rapid changes in the consumer market

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

(2) Oligopoly by overseas competitors

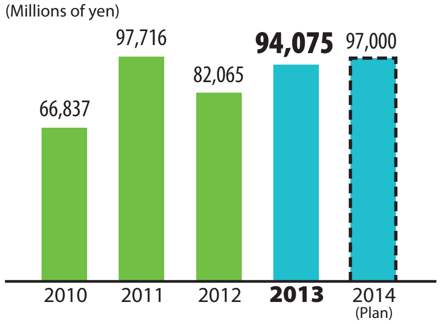
We analyzed unit sales between 2007 and 2012. In terms of trends, competitor AAA title (titles allocated a large portion of the overall budget) package sales alone are increasingly flat. In addition, although the number of titles selling 5 million or more units was the same in 2011 as in 2007 (11 titles),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

2. Micro Analysis (Capcom Business Strategy)

(1) Late DLC response in consumer segment

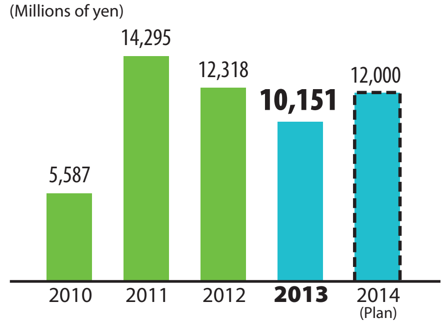
In 2012, DLC accounted for 27.8% of the consumer game market but

Diagram 2
Net Sales
(Millions of yen)



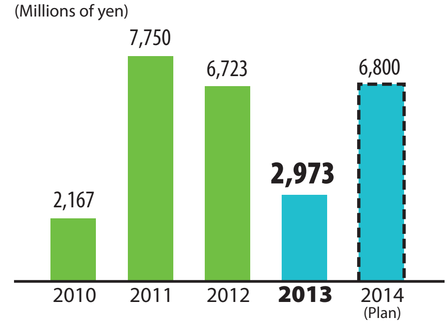
(YEARS ENDING MARCH 31)

Diagram 3
Operating Income
(Millions of yen)



(YEARS ENDING MARCH 31)

Diagram 4
Net Income
(Millions of yen)



(YEARS ENDING MARCH 31)

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

(2) Quality issues related to titles outsourced overseas

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

3. Countermeasures

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

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

Q3 What is the basis for the forecasted increase in sales and profits in the fiscal year ending March 31, 2014? And is the consumer market facing pressure from the social games market?

A3 Our forecast for a 3.1% increase in sales and an 18.2% increase in operating income is based on the release of major titles and online business growth. Furthermore, I think it is possible for the consumer and social games markets to coexist.

✓ Consumer and Social Games Market

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

1. Market Outlook

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

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

2. Factors Contributing to Increases in Sales and Profits

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

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

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

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

3. A New Year, A New Commitment

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

Diagram 5

Capcom Online Contents Sales

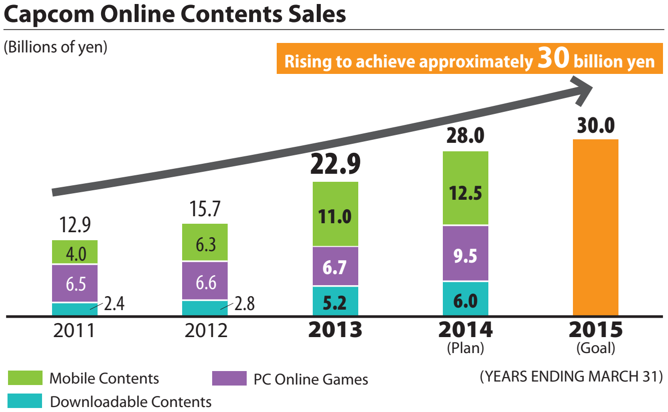
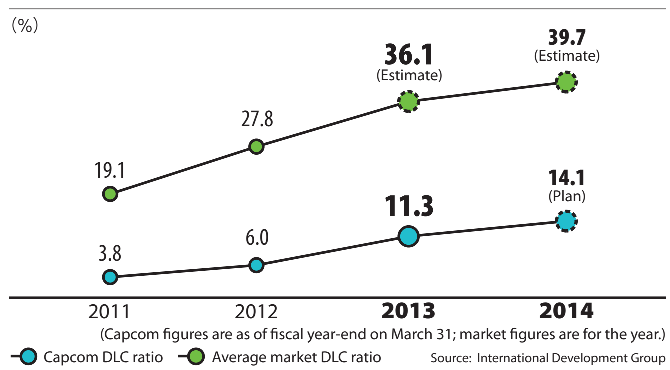


Diagram 6

Ratio of DLC to consumer Sales



(Capcom figures are as of fiscal year-end on March 31; market figures are for the year.)

Source: International Development Group

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

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

✓ Commitment

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

New Medium-Term Business Goals

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

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

1. Corporate Philosophy and the Direction of Management

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

As our content is developed for a variety of entertainment areas, we are able to provide enjoyment to a wide range of users while expanding our fan base in an aim to become a comprehensive entertainment company with a commanding presence in all business lines able to realize stable growth based on our five-year management plan.

✓ Five-Year Management Plan

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

2. Summary of Previous Medium-Term Management Goals

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

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

3. New Medium-term Business Goals and Rationale

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

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

4. Medium- and Long-Term Strategies

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

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

Diagram 7

Former Medium-Term Business Goals Summary

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

■ Progress

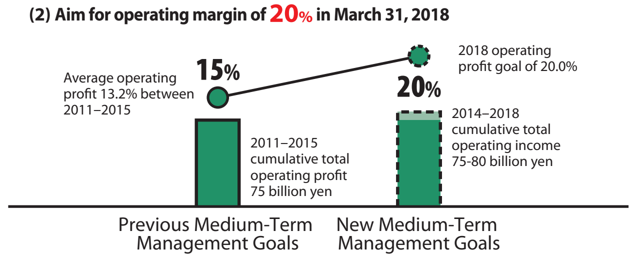
	Planned (five-year cumulative total)	Achieved (three-year cumulative total)	Progress rate
Sales	500 billion yen	273.8 billion yen	55%
Operating income	75 billion yen	36.7 billion yen	49%
Operating margin	15%	13.4%	

Insufficient progress toward Medium-Term Business Goals

Diagram 8

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

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



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

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

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

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

Our Views on M&A and Business Partnerships

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

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

1. Thoughts on Acquisitions and Alliances up to Now

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

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

2. Reasons for Rethinking Business Alliance Strategy Performance

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

3. Thoughts on Future Acquisitions and Alliances

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

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

R&D Investment and Fund Procurement

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

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

Diagram 9

Overseas Sales

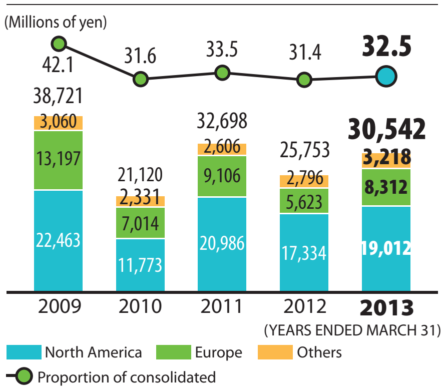


Diagram 10

Capital Expenditure and R&D Investment Costs

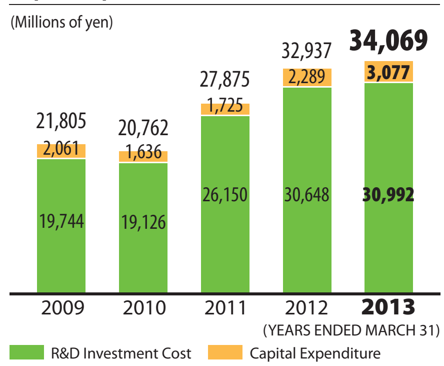
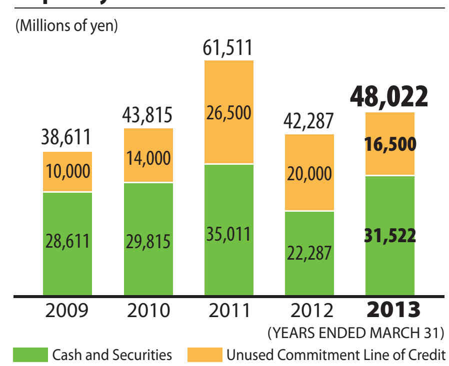


Diagram 11

Liquidity in Hand



1. Investment Size and Focus

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

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

2. Fund Procurement

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

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

Shareholder's Return

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

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

1. Basic Policy Regarding Dividends

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

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

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

2. Dividends for This Fiscal Year and the Next

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

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

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

Diagram 12

Dividend per share

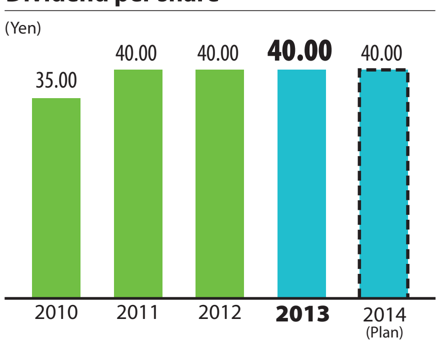


Diagram 13

Dividend Payout Ratio

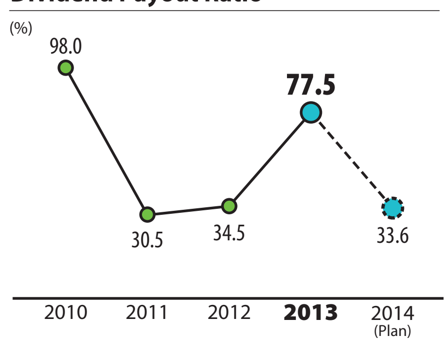


Diagram 14

Total Return Ratio