Capcom achieved record net sales and a V-shaped recovery. Seeing opportunity in the rapidly changing game market, we implemented the second stage of structural reforms aimed at achieving further growth.

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 (the period ended March 31, 2011), 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. We hope this discussion will provide all our stakeholders with a deeper understanding of how the company is managed.

As I will be explaining some important points, I will be referring to other pages in this report. Please be sure to read all the pages referenced.

Kenzo Tsujimoto
Chairman and Chief Executive Officer (CEO)

Market Environment and Performance

Q1 The fiscal year ended March 31, 2011 closed on record net sales and was a very good year for Capcom. What factors contributed to this success?

A1 The challenge of our development and sales strategy has become a success and we produced five titles selling one million units or more. Almost all businesses were successful at increasing revenues and profits.

1. The Market Environment Surrounding Games

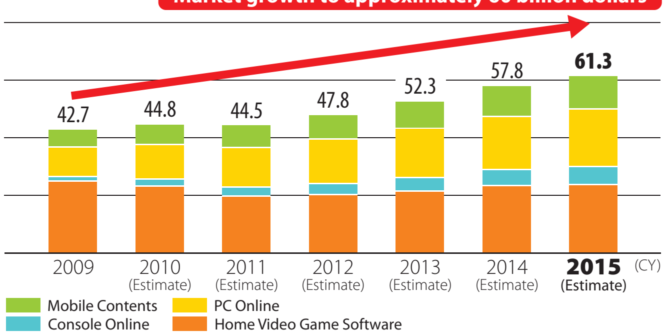
With last year's platform expansion, the definition of the environment surrounding the game market itself is changing. A game market is emerging that includes the traditional home video game software (package), the use of those contents for PC online and mobile contents, as well as the home video game digital download market. In 2010, this new game market demonstrated healthy growth and was worth 44.8 billion dollars (up 4.9% from the previous year) (See Diagram 1). This can be attributed to (1) being "in a transitional period" as a next generation game console is about to be released. Accordingly, sales of software are sluggish and unit prices are low, yet at the same time, (2) growth in the PC online and mobile markets was robust as the global adoption of mobile technology continued its rapid spread.

2. Factors Contributing to Increases in Sales and Profits

Given these conditions, Capcom's net sales were a record-breaking 97.716 billion yen (up 46.2% from the previous fiscal year), operating income was 14.295 billion yen (up 155.8% from the previous fiscal year), and ordinary income came to 12.861 billion yen (up 132.6% from the previous fiscal year), resulting in a net income of 7.75 billion yen (up 257.6% from the previous fiscal year).

There were two major factors behind these results. The first is that Consumer Online Games, one of our core businesses, created "Monster Hunter Freedom 3" amid a weak market environment, a franchise that spawned five separate million-unit selling titles, achieving record sales of 20.5 million units. The other factor was that almost all businesses (with the exception of the Arcade Operations Business affected by the disaster) actualized the effects of the growth strategies and structural reforms implemented from last year. I will discuss both in detail.

Diagram 1 Home Video Game/PC Online/Mobile Market



Source: Data based on that prepared by Capcom.

3. Fulfilling Our Commitment

At the beginning of the year, I promised to address three issues. The first was to pull off a V-shaped recovery. The second was to level earnings by distributing core software from our Consumer Online Games Business in the fourth quarter. The third was to improve poorly-earning gaming machine-related businesses. In terms of resolving these issues, first of all, with respect to rescheduling the release of large titles normally released in the fourth quarter that was definitely successful at eliminating the overemphasis on earnings during that time of year. In the Pachinko & Pachislo Business, new improvement measures were implemented through a business partnership with a major sales company, with a large jump in profitability. As a result, we achieved a V-shaped recovery and kept our promise, fulfilling our commitment to our stakeholders (See P29-40 "Overview of Capcom's Business and Outlook for the Future" for more details).

Achievement of this fiscal year's commitments

		Achieved
1	Achieve a V-shaped recovery of the Company's performance	◎
2	Realize smooth performance resulting from quarterly distribution of core software in the Consumer Online Games Business	◎
3	Improve poor profitability of gaming machine-related business	◎

Q2 The fiscal year ending March 31, 2012 is expected to be another year of reversal, one of lower sales and profits. What do you think the primary drivers of these conditions will be?

A2 Although we are on a growth track, we are in a transitional period in terms of title sales planning. The impact of the Great East Japan Earthquake is the other obvious factor.

1. Market Outlook

At 44.5 billion dollars (down 0.6% from the previous year), the 2011 game market looks to be leveling off. This can be attributed to (1) continued high growth resulting from further network developments in the PC online and mobile markets causing (2) a prolonged "transitional period" phenomenon for three straight years in the package market as consumers postpone purchases and waited for the release of next generation game consoles such as the Nintendo 3DS (See Diagram 1).

2. Factors Contributing to Declines in Sales and Profits

In terms of the earnings forecast for the next fiscal year (the period ending March 31, 2012), net sales are forecast to be 86 billion yen (down 12% from the previous fiscal year), operating income at 12.1 billion yen (down 15.4% from the previous fiscal year), ordinary income at 12 billion yen (down 6.7% from the previous fiscal year) and net income at 7 billion yen (down 9.7% from the previous fiscal year) (See Diagram 2, 3 and 4).

There are three main factors that can be attributed to the decline in sales and profits. The first is the transitional period in terms of title sales planning in the Consumer Online Games Business. In the year ended March 31, 2011, we did not prepare a major title lineup that surpassed previous sales records, and our sales plan of 18 million units was only 87.8% of the previous fiscal year's sales. The other factor is that, in addition to the impact of the disaster on the Arcade Operations Business, the popularity of social games on the Mobile Content Business has given rise to costs as we struggle to learn how to retain new players at the initial stages of game play.

3. A New Year, A New Commitment

Issues faced in the fiscal year ending March 31, 2012 are clear. They are (1) retain profitability in the face of lower sales and profits with thorough cost management, (2) strengthen single year major title lineup investment while creating an organization that delivers stable earnings each year and (3) strengthen Mobile Contents Business development to create content with high growth and profitability potential, achieve growth rate higher than that of market.

To fulfill our commitment and achieve these goals, we will make proactive use of overseas developers to secure development resources while at the same time constructing new development facilities to enhance our number of SNS titles and strive to surpass our earnings forecast. I go on to talk about this in more detail here (See P21 "Growth Strategy 1" and P23 "Growth Strategy 3" for more details).

Commitment

1	Improve profit margins through thorough cost management
2	Strengthen major title lineup and create structure to stabilize earnings each year
3	Strengthen development of Mobile Contents Business and achieve growth that outpaces market growth rate

Diagram 2 Net Sales (Millions of yen)

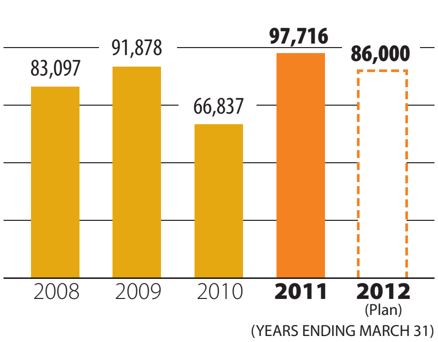


Diagram 3 Operating Income (Millions of yen)

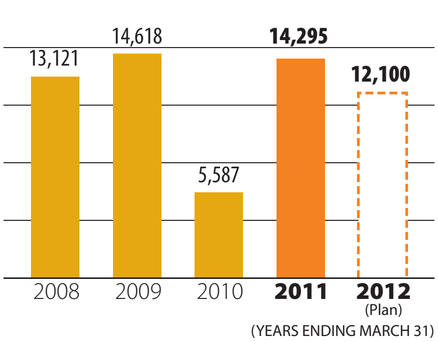
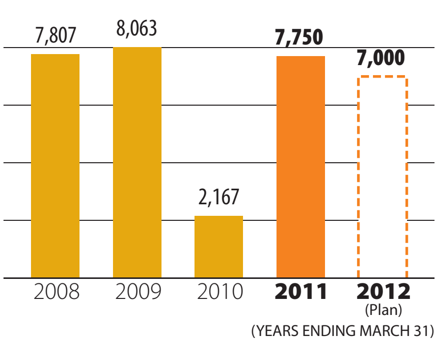


Diagram 4 Net Income (Millions of yen)



Summary of Medium-Term Goals

Q3 Please give your opinion of your level of achievement of the medium-term business goals "increase sales by 10% each year" and "maintain an operating margin of 15%" since the fiscal year ended March 31, 2007.

A3 As far as the "each year" is concerned, we fell short of that goal only one year. I think "an average sales growth rate of 7.0%" and "an average operating margin of 14.9%" speaks for itself.

1. Capcom's 5-Year Management

First, I'd like to explain what we mean by Capcom's 5-year management.

The environment surrounding the contents industry is constantly changing, and for that reason I take a look at the state of the company every five years. Of course, looking at single-year, sales decrease compared to previous years, product sales often appear to fall short of forecasts, but the important thing is that you learn to see when times are changing.

We create a report with calculations in five-year increments then compare current numbers with numbers from five years ago and rates of change become apparent. When times are changing growth has stopped in one area, while changes are clearly taking place in another area where new elements are emerging, indicating new opportunities. In this way, five years is a very important time frame for Capcom management.

2. Issues and Status Regarding Medium-Term Goal Achievement

Regarding the status of the goals to "increase sales by 10% each year" and "maintain an operating margin of 15%" established in the fiscal year ended March 31, 2007, as Diagram 5 shows, with the exception of the fiscal year ended March 31, 2010, we achieved the established goals in the other three years. The four-year average sales growth rate was 7.0%, the average operating margin was 14.9% and although we fell short of the "each year" goal by one year, I think we did a fine job of achieving the goals we set out to accomplish.

This achievement was made possible by the success of the first stage of our structural reforms conducted in 2003, centered on "development, sales and marketing" and "creating a more solid financial foundation", the lynchpin to realizing medium-term growth focused on rapidly growing overseas markets and quickly rising development costs associated with next-generation console titles.

During the past two years we have postponed or canceled title releases, announced downward earnings revisions because of the impact of yen appreciation, and we are cognizant of the concerns of investors regarding earnings volatility caused by the second half of our platform cycle (4th-5th year after game console sales).

To overcome these issues, we strengthened our developmental and organizational framework, as I discuss in detail in Q4. On P19, the COO explains "Our Strategy for Growth" and how we will achieve stable growth in detail.

Status of former medium-term business goals

		Achieved
1	Maintain an annual sales growth rate of 10% and achieve an operating margin of 15%	○

Second Stage of Structural Reforms

Q4 For the past four years, you have maintained an average sales growth rate of 7.0%, an average operating margin of 14.9% and pursued sustainable growth. Can you please talk about the background and details involved in the second stage of your structural reforms?

A4 We strengthened our developmental and organizational framework to achieve growth in this volatile market. At present, we are entering the final stages.

1. Second Stage of Structural Reforms

Capcom has responded to changes that occur in the contents industry approximately every ten years with continued growth, but the global economy of late and the advent of cloud computing, ubiquitous services, etc., indicate an era of unprecedented change whose impact will completely change the market landscape.

For the game industry—including Capcom—this period of dramatic change means that the time has come for us also to change our business model.

Rapid growth in the mobile phone and SNS game markets, as well as the combining of formerly independent package sales areas of home video game and PC software, has led to a merging of platforms. Capcom already provides content in the SNS market, and we see an opportunity in these latest market changes. We must respond quickly organizationally and strategically to the changing market to maintain a stable growth track and transform Capcom into a company that can compete globally.

2. Details Regarding Implementation of Second Stage of Structural Reforms

The second stage of structural reforms began in October 2009 and lasted for approximately a year and a half. Currently, they are entering the final phase (See Diagram 6).

Diagram 5 Capcom Performance during Past Five Years (Billions of yen)

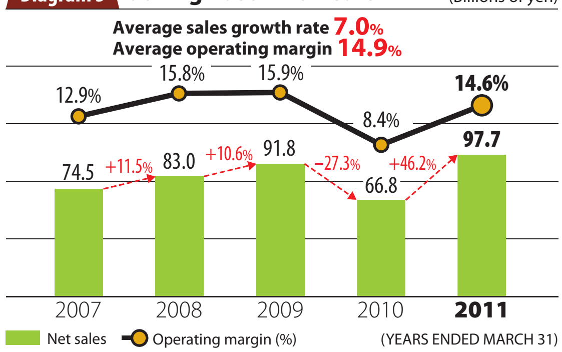


Diagram 6 Stages of Phase 2 of Structural Reforms

Started October 2009	Started November 2010	Started April 2011
Stage 1 Beginning of phase 2 of structural reforms	**Stage 2** Realigned development operations	**Stage 3** Integration of global organizational functions
• Reexaminations of underperforming businesses (AM, P&S). • Altered model for alliances with overseas development companies. • Streamlined the game development framework in Japan and strengthened the online game business.	• Realigned and integrated CS, MC, OL development organization. • Established a new multi-platform development framework. • Reexamined games under development.	• Integrate global functions of the organization. • Establish a second brand for social games. • Focus on markets in Asian countries. • Globalize head office activities and improve efficiency.

The first phase, launched in October 2009, began with a comprehensive review of poorly-earning businesses, such as the Arcade Games Sales and Pachinko & Pachislo Business, and included the change in business model to partnerships with overseas outsourcing companies in May 2010, the revamping of our domestic development framework, the upgrading and expanding of our downloadable content and the strengthening our Online Business.

The second phase, launched in November 2010, accomplished a major HR and organizational reshuffling after development management resigned. To respond immediately to changes in the game market in particular, we integrated our hitherto vertically structured consumer, mobile and online development organization. We also changed to a multi-platform development structure for compatibility with all hardware. Capcom is proactively engaged in keeping up with the latest trends for smartphones, social games.

In terms of the balance sheet, we also performed careful due diligence from the perspectives of asset health and domestic and overseas outsourcing projects, and conducted a review of our home and online game title lineups as of March 2011. As a result of this detailed check of work-in-progress game software, we recorded a special loss on asset depreciation and discontinuation of development of 1,453 million yen in the year ended March 31, 2011.

The third phase, launched in April 2011, is positioned as the completion phase. To enhance our organizational function, in April 2011 we established Beeline Interactive Japan Co., Ltd., and second brand "Beeline", which will not make use Capcom content. We have nearly completed preparations that will enable us to prioritize initiatives, invest and advance in the mobile market and grow our Online Game Business in Asia over the next five years.

New Medium-Term Goals

Q5 After the second stage of structural reforms, how do you see the company, and what are your new medium-term business goals? Please also discuss your specific strategy for achieving those goals.

A5 I see Capcom as a comprehensive entertainment company developing multifaceted content, with five-year cumulative operating margins of 15% or more as the priority, as well as net sales of 500 billion yen and operating profits of 75 billion yen.

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 realize this, our world-class R&D capabilities will serve as the basis for delivering globally popular titles and a multitude of content brimming with creativity in the home video game area. Furthermore, by developing our content further for various facets in a range of entertainment areas, we will be able to get more exposure and expand our fan base. We aim to become a comprehensive entertainment company that demonstrates steady growth and has a commanding presence in every business line in which we are involved. We will continue to pursue this ideal.

2. Medium- Term Business Goals

We established new medium-term business goals for the company from the perspectives of the achievement status of our previous goals and the Capcom five-year management approach I explained in Q3. These goals, cumulative for the five year period beginning in the fiscal year ended March 31, 2011 and ending in the fiscal year ending March 31, 2015, are (1) "operating margins of 15% or more" as the priority, as well as (2) net sales of 500 billion yen and (3) operating profits of 75 billion yen (See Diagram 7).

Up to now, business goals have too often been short-term in nature, such as "growing net sales by 10% every year", which has sometimes made priority investments in rapidly changing markets difficult. In fact, some investors are of the opinion that there is no need to adhere so strictly to such rigid annual plans. In consideration of these factors, we formulated the five-year timeframe for achieving growth. Our main priority is to gradually improve our operating margin until we consistently achieve 15% or higher, then we can focus on net sales of 500 billion yen (up 29.3% compared to the previous five years) and operating income of 75 billion yen (up 51.5% compared to the previous five years).

3. Medium- and Long-Term Strategies

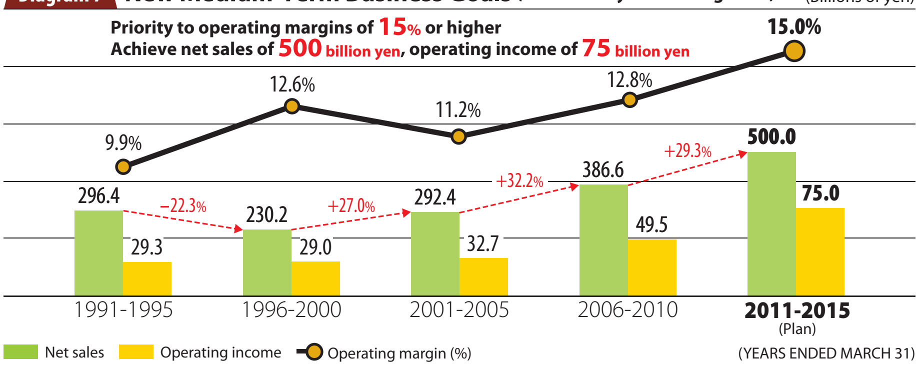
The key to achieving these goals lies in the continuation of our growth strategies of enhancing our Online Business and upgrading and expanding our development lineup.

The composition of the Online Business is going to change so fundamentally that the idea of product cost will virtually disappear as it will become so remarkably profitable.

By promoting strengthened development of the PC Online Game Business in Asia, increasing titles for smartphones and SNS games and providing more downloadable content for home video games in the highly profitable Online Business, Capcom will grow net sales from 13 billion yen at end of the this year to 30 billion yen by the fiscal year ending March 31, 2015 (See Diagram 8).

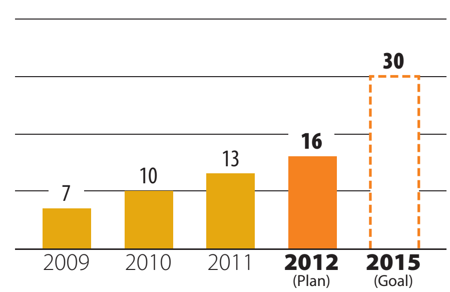
By increasing the Online Business sales composition ratio, we can

Diagram 7 New Medium-Term Business Goals (for the five years ending 2015) (Billions of yen)



(YEARS ENDED MARCH 31)

Diagram 8 Growth in Sales of Online Contents (Billions of yen)



(YEARS ENDED MARCH 31)

gradually improve the consolidated earnings operating margin higher than 15%.

In the Consumer Online Games Business, we have expanded and upgraded our title lineup, securing development resources that "make use of overseas developers" and "shorten the sales cycle of popular series". We allocate 90% of management resources to these two growth businesses, which is linked to increased net sales.

In addition to this, the development of our Single Content Multiple Usage strategy to acquire multifaceted profit opportunities is critical to maximizing profits. As indicated in the "Sengoku BASARA" example on P25, in addition to game contents, we are constructing a mechanism to maximize the profitability of one content across the entire Group through our the development of applications for the entertainment business. Accordingly, the creation of hit titles will expand the profitability of the Consumer Online Games Business and other businesses as well. We have positioned these as peripheral businesses to which we will allocate 10% of management resources in an effort to ensure stable earnings.

Our Views on M&A and Business Partnerships

Q6 Some say M&A is necessary—even indispensible—for medium- to long-term global growth. What are your thoughts on acquisitions and partnerships?

A6 In an amicable way, we engage in acquisitions and partnerships that enhance development of titles for overseas and are in line with our Single Content Multiple Usage strategy.

1. Basic Position on Acquisitions and Partnerships

Capcom's stable future growth depends on our ability to increase our sales in the Consumer Online Games Business overseas, where the significant home video game software market still has ample room for growth. Acquisitions and partnerships are important strategies to realize this goal. We actively pursue acquisitions and partnerships that will allow us to "create gaming content with universal market appeal" and "gain technologies and know-how required for Single Content Multiple Usage strategy". However, we have no plans to merge with any major Japanese video game publishers or toy manufacturers in the foreseeable future, as it is unlikely to contribute to sales expansion overseas. Such a merger could also restrict our licensing business opportunities.

We also have no plans to make any Take Over Bids (TOBs) as we recognize that the human resources that create content are the most important assets in the entertainment industry. With a TOB, it is possible that the value of the acquired company will be drastically reduced as a result of employee departures. We believe choosing a partner company that complements our strengths will lead to a successful acquisition and contribute to the growth of our business. Our first objective, therefore, is to form partnerships that meet mutual needs.

2. Aims and Effects of Acquisitions and Partnerships

This fiscal year, we made game development partner Blue Castle Games (Canada) a wholly owned subsidiary, and we developed titles with overseas development partners Slant Six Games (Canada) and Ninja Theory (U.K.) as part of our attempt to strengthen our overseas development line (See Diagram 9).

To further develop our position in the vast Asian market, Capcom partnered with Korean game developer Neowiz Games and Taiwanese online game management company Game Flier International. Examining the effect of acquisitions and partnerships thus far, there is evidence of merit-worthiness; most notably the 2.2 million units of "Dead Rising 2" sold overseas in the year ended March 31, 2011. In the next fiscal year, we will continue to partner with prominent developers, and already have more than five major titles for overseas markets scheduled. We aim to make overseas net sales 65% or more of overall sales.

R&D Investment and Fund Procurement

Q7 To achieve your medium-term business goals, what investment areas will you focus on and what fund procurement methods will you use in support of your growth strategy?

A7 We will focus investment on the core of Capcom's growth, the Consumer Online Games and Mobile Contents Businesses. Fund procurement will be primarily through debt finance.

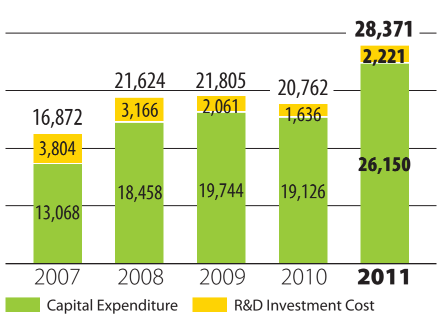
1. Investment Size and Focus

At present, Capcom is formulating and executing growth strategies in each business in the pursuit of stable medium- to long-term growth. We recognize that priority must be given to ensure sufficient investment in the Consumer Online Games Businesses (see item 3 of Q5, "Medium- and Long-Term Strategies" for details), where significant growth in the size of each market is expected. Additionally, to cultivate the Mobile Contents and other future core businesses, we must strengthen our partnerships

Diagram 9 List of Recent Major Acquisitions / Partnerships

Company name	Business	Concern	Main product
Blue Castle Games	Canadian developer	Acquisition	"Dead Rising 2"
Slant Six Games	Canadian developer	Partnership	"Resident Evil: Operation Raccoon City"
Ninja Theory	British developer	Partnership	"DmC Devil May Cry"
Neowiz Games	Korean developer	Partnership	"Mega Man Online"
Game Flier International	Taiwanese development/ management company	Partnership	"Monster Hunter Frontier Online"

Diagram 10 Capital Expenditure and R&D Investment Cost (Millions of yen)



(YEARS ENDED MARCH 31)

with development companies, the recruitment of developers and next-generation console basic research.

Accordingly, we will invest 90% of our management resources (development investment funds and capital expenditures amounting to 33.7 billion yen), or 31 billion yen (up 18.8% from the previous fiscal year) on growth businesses (See Diagram 10).

2. Fund Procurement

Major home video game titles require more than two years from development to sales, making the return on investment a long-term prospect, and the development line is also increasing. Furthermore, we must maintain a certain level of cash and cash equivalents, as online games require regular upgrades after initial sales, and network infrastructure maintenance requires ongoing investment. 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 (35 billion yen) as well as an unused 26.5 billion yen commitment line of credit 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 (See Diagram 11).

Dividend Policy

Q8 After having such a good year, are you thinking about raising the dividend?

A8 While ensuring sufficient resources for investment in the future, we have implemented a modest five yen increase in the dividend.

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.

2. Allocation of Business Investment Results (Dividend and Internal Reserve Ratios)

As I indicated in item 1 of Q7, "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.

3. Dividends for This Fiscal Year and the Next

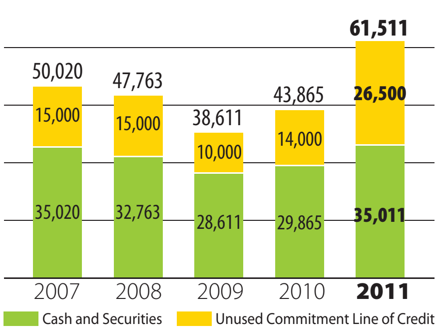
This fiscal year (the period ended March 31, 2011), amid intense competition, Capcom achieved record net sales and exceeded all forecasts of sales and profits for the past several years. In accordance with these results, the dividend for the fiscal year ended March 31, 2011 is increased five yen to an annual dividend of 40 yen. As a result, the dividend payout ratio increased to 30.5% (See Diagram 12,13).

The next fiscal year (the period ending March 31, 2012), although we expect decreased sales and profits, we expect to maintain an annual dividend of 40 yen (payout ratio of 33.8%). 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.

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.

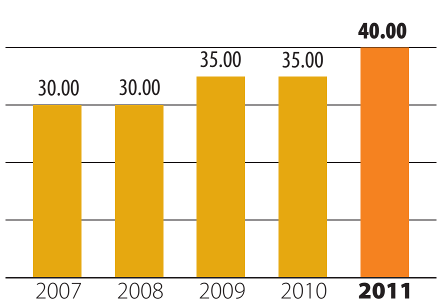
Kenzo Tsujimoto
Chairman and Chief Executive Officer (CEO)

Diagram 11 Liquidity in Hand (Millions of yen)



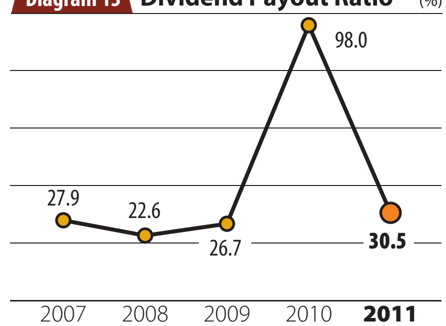
(YEARS ENDED MARCH 31)

Diagram 12 Cash Dividends Applicable to the Year Per Share (Yen)



(YEARS ENDED MARCH 31)

Diagram 13 Dividend Payout Ratio (%)



(YEARS ENDED MARCH 31)