

**To Our Shareholders
(From CEO & COO)**

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Kenzo Tsujimoto

Chairman and
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CEO's Discussion

Summary of This Year's Performance and Progress
Toward Medium - and Long -Term Business Goals

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**From COO Our
Strategy for Growth**

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Strengthening Development in the Expanding Online Market to Become Number One Across All Game Platforms.

Expanding the Game Market through Platform Diversification

In 2011, the global economy once again showed signs of deceleration. In addition to the dampening effects of economic stimulus in developed nations and the European financial crisis, surging prices in developing economies and continued tight monetary policy softened domestic demand. In Japan, despite signs of recovery on the heels of a depreciating yen and a rise in stock prices near fiscal year-end, the export environment continued to deteriorate from the sharp rise in the value of the yen and a temporary lull prevailed over the economy due to falling stock prices.

In our industry, with the rise of mobile and smart phones, the game platform is expanding; online businesses such as PC online and downloadable content (DLC), including low-priced mobile content with low barriers to entry, continue to rise. Consequently, the size of the game market continued to grow robustly, reaching 52.9 billion dollars in 2011 (up 19.1% 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 from over 100 different countries across the globe. Investors are concerned about cannibalization, but there is none; these coexist as platforms and are growing. As the game population expands in accordance with the spread of mobile contents and social games, there is strong potential for benefit when this content functions as a bridge to home video games. 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, which comprise half the market despite sluggish growth rates (3) and, more than anything, create an extensive collection of popular contents to capture a wide user segment around the world.

Providing High-Quality Content for All Platforms

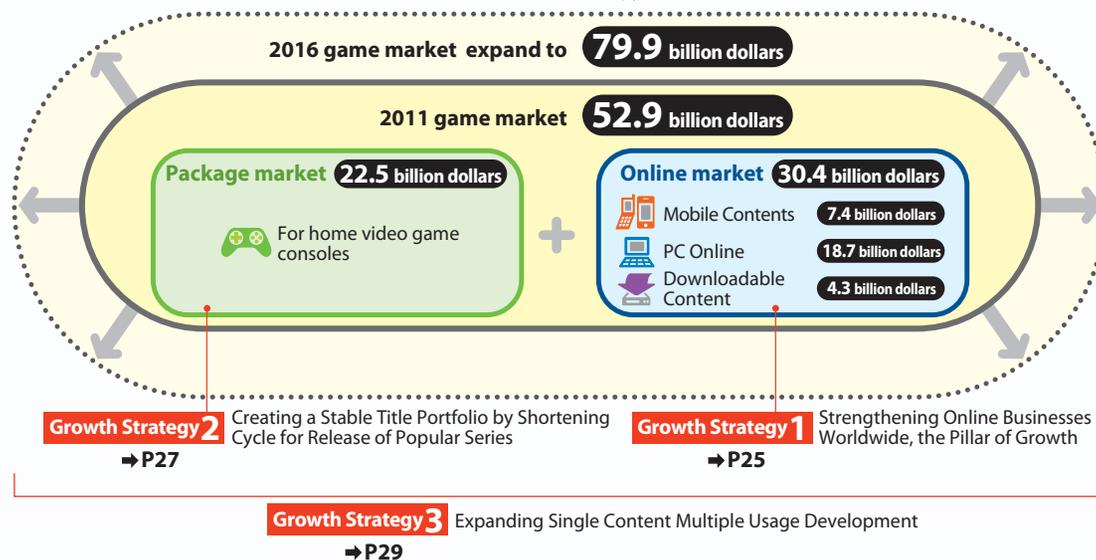
Given these conditions, to meet our medium-term business goals, we are promoting three strategies: “strengthen the online business”, “enhance the development of home video games” and “expand Single Content Multiple Usage”.

Above all, we are engaged in increasing the number of social games for mobile/PC, enhancing home video game DLC, developing online business by region and strengthening development teams. Also, in terms of organizational structure, we integrated our global organizational function, unified the vertically divided consumer, mobile and PC online development structures and changed to a new multi-platform development structure to support all hardware. And, we added world famous content such as “Resident Evil” and “Street Fighter” to each platform. As a result, this year sales of online content were 15,700 million yen (up 21.7% from the previous year) and we forecast sales of 23,000 million yen in the next fiscal year, a dramatic increase of 46.5% on the realization of our growth strategy.

To accomplish our medium-term management targets of (1) operating margin of 15% or higher and (2) net sales of 500,000 million yen and operating income of 75,000 million yen (cumulative total for five years from the year ended March 2011 through the year ending March 2015), Capcom will invest 90% of its management resources into growth strategies.

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





Earnings were lower compared to last fiscal year, but we forecast our highest earnings ever in the next fiscal year as we progress on-track toward achieving our medium-term management goals.

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, 2012), 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.

Kenzo Tsujimoto

Chairman and Chief Executive Officer (CEO)

Performance and Commitment

Q₁ What caused the declines in sales and profits in the fiscal year ended March 31, 2012?

A₁ Releasing only a few major titles was a big factor. Nonetheless, we generally achieved all our targets.

1. The Market Environment Surrounding Video Games

The market environment surrounding games has four major components: home video game packages up to now, mobile contents, PC online games and downloadable content for home video game consoles (the latter three are hereinafter referred to as the "Online businesses").

The total 2011 game market grew vigorously to 52.9 billion dollars (up 19.1% from the previous year). **Diagram 1** This can be attributed to

(1) the off-season before the release of next generation game consoles. Accordingly, sales of software are sluggish and unit prices are low, yet at the same time, (2) growth in the mobile and PC online markets was robust as the global adoption of mobile technology continued its rapid spread.

2. Factors Contributing to Declines in Sales and Profits

Given these conditions, net sales were 82,065 million yen (down 16.0% from the previous year), operating income was 12,318 million yen (down 13.8% from the previous year) and net income was 6,723 million yen (down 13.2% from the previous year). **Diagram 2 3 4**

The main factors behind the decline in sales and profits in the Consumer Online Games business include **fewer major software releases, which decreased from five to just three compared to the**

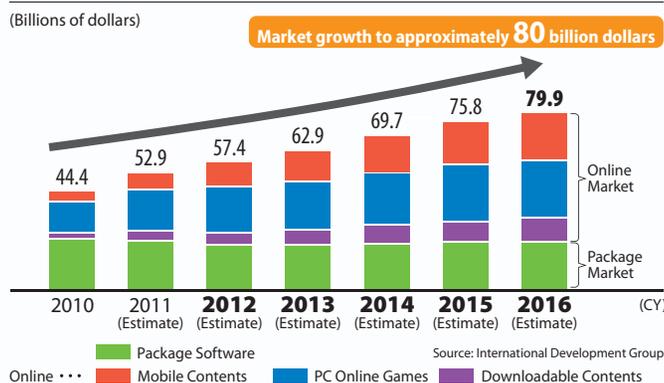
Profile

Kenzo Tsujimoto was born in Nara Prefecture in 1940. After graduating Unebi high-school (part-time), he worked at the family business while studying accounting. He left at the age of 22 to open a confectionery store in Osaka, where he started selling cotton candy machines.

In 1970, after seeing a pachinko machine designed for children, he began selling gaming machines. Sales of the popular "Space Invaders" game made the company very successful, but performance dropped sharply after initial popularity waned.

Tsujimoto then turned his attention to developing game software by establishing Capcom in 1983. Initially, the company developed mostly arcade machines, but then the "Nintendo Entertainment System (NES)" took off and Capcom began developing software for home video games, creating hit after hit in Japan and other countries. Capcom went public in 1990. Tsujimoto's decisive action on several structural improvements grew Capcom into one of the world's leading video game makers.

Diagram 1 Game Market Conditions and Forecast



previous year, as well as the postponed sales of leading software, resulting in 15.7 million units sold (down 23.4% from the previous year).

However, net sales declined 4.6%, operating profit increased 1.8% and net sales decreased 4.0% compared to official projections, while the strength of the Mobile Contents business and efficient cost management enabled us generally to achieve our goals.

Major Package Software Comparison		
Year ended March 2011	1. Monster Hunter Freedom 3	4.6 million units
	2. Dead Rising 2	2.2 million units
	3. MARVEL VS. CAPCOM 3: Fate of Two Worlds	2 million units
	4. Super Street Fighter IV	1.6 million units
	5. Lost Planet 2	1.5 million units
Year ended March 2012	1. Resident Evil: Operation Raccoon City	1.7 million units
	2. Monster Hunter 3 (Tri) G	1.6 million units
	3. Street Fighter X Tekken	1.4 million units

3. Fulfilling Our Commitment

At the beginning of the year, I promised to address three issues. Responding to each issue: first, by strengthening mobile contents development, (net sales up 56.6% from the previous year) and thoroughly eliminating unnecessary costs in development, sales and management, we can improve the consolidated operating margin by 0.4 point. Next, we are adjusting our structure to shorten the series title lifecycle and plan to release four major titles in the next fiscal year.

As a result, despite the decline in sales and profits this fiscal year, Capcom should be able to fulfill the promises of growth in the next fiscal year.

See PP. 33-38 "Overview of Capcom's Business and Outlook for the Future" for more details.

Achievement of This Fiscal Year's Commitments		Achieved
1	Improve operating margin with thorough cost management.	○
2	Strengthen major title lineup; create system for stable profits each year.	○
3	Strengthen development of Mobile Contents business; achieve growth higher than the market growth rate.	△

*○ Achieved △ Somewhat achieved

Q₂ In the fiscal year ending March 31, 2013 you expect a complete turnaround, and are forecasting the highest ever earnings for Capcom. What is the basis for this outlook? Also, has Capcom been impacted by the so-called 'complete gacha' mechanics regulations?

A₂ By releasing major package game titles and upgrading and expanding the Online business, we anticipate net sales to increase by 27.9% and operating profit to increase 28.3%. Capcom has not been impacted by the so-called 'complete gacha' mechanics regulations.

'Complete Gacha' Mechanics Regulations

Based on capsule toy machines common in Japan, 'complete gacha' involves purchasing single random items needed to collect complete sets of specific items in social games. Collecting complete sets enables the player to acquire even rarer prize items. In May 2012, the Japan Consumer Affairs Agency announced that 'complete gacha' mechanics violate laws regarding prize representation.

1. Market Outlook

We expect continued growth in the game market, which grew to 57.4 billion million dollars (up 8.5% from the previous year) in 2012. This is because (1) in the package market, despite a prolonged "transitional period" as consumers postponed purchases in anticipation of the release of next generation game consoles, (2) network advancements in the mobile and PC markets indicate high growth. **Diagram 1**

2. Factors Contributing to Increases in Sales and Profits

In contrast, next fiscal year, we are plan to achieve our highest earnings ever, with net sales of 105,000 million yen (up 27.9% from the previous year), operating profit of 15,800 million yen (up 28.3% from the previous year) and net income of 9,800 million yen (up 45.7% from the previous year). **Diagram 2-3-4** There are three main factors behind the anticipated increase in sales and profits: first, in terms of package games, with a major

Planned Package Software		
Year ending March 2013	1. Resident Evil 6	7 million units
	2. DmC Devil May Cry	2 million units
	3. Dragon's Dogma	1.5 million units
	4. Lost Planet 3	1.4 million units

Diagram 2 Net Sales

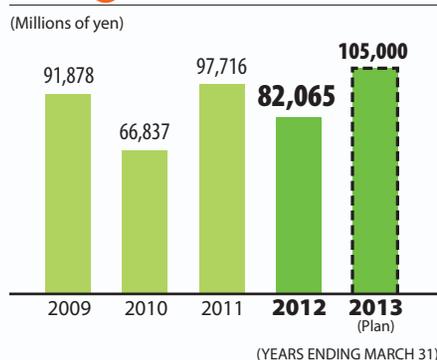


Diagram 3 Operating Income

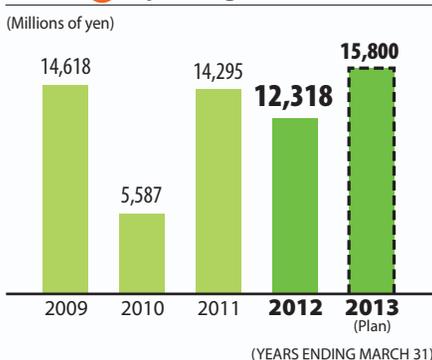
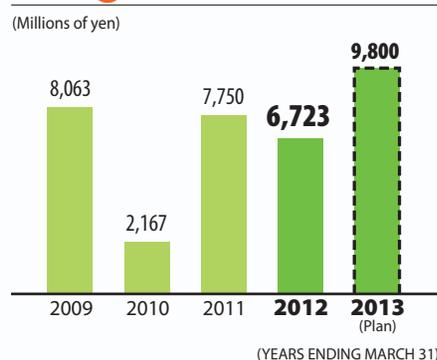


Diagram 4 Net Income



title lineup including “Resident Evil 6”, we plan on sales of 20 million units (up 27.4% from the previous year), coming close to our all-time high in the fiscal year ended March 31, 2011. The second, by upgrading and expanding mobile contents and DLC titles, the Online business will grow to 23,000 million yen (up 46.5% from the previous year). **Diagram 5** Third, Arcade Operations, Amusement Equipments and all businesses (excluding Other Businesses) are forecast to see an increase in sales and profits.

Regarding ‘complete gacha’ mechanics regulations, as Capcom is limited to one of these titles per year, and since we are not planning any of these titles in the coming fiscal year, there is no impact.

Note: From the fiscal year ending March 31, 2013, Capcom will change its business segment classification. See P.35 and P.38 for more details.

3. A New Year, A New Commitment

Issues faced in the fiscal year ending March 31, 2013 are clear.

These are (1) achieving our highest earnings ever in terms of sales, profits and all other measures, (2) creating a top-selling title with “Resident Evil 6” and achieving the series’ highest sales of more than 7 million units around the world, (3) establishing Capcom and “Beeline” brands in mobile contents, grow core business supporting Capcom and (4) getting the P&S in-house case business on track and establishing a stable business foundation.

To realize these goals, we will attempt to improve the quality of our contents by increasing the number of titles for each platform through the realignment of our development structure and enhancement of our development staff.

See P. 23-30 “Growth Strategy” for more details.

Commitment

1	Achieve highest earnings ever in terms of sales, profits and all other measures.
2	Create global top-selling titles.
3	Grow Mobile Contents, core businesses supporting Capcom.
4	Get P&S in-house case business on track.

“Beeline Brand”

“Beeline Interactive, Inc.” established in April 2011, is a separate brand mainly producing mobile content and distributing social games for smartphones targeting the family and light-user segments. With three development bases in Japan, North America and Europe, Beeline advances global development focused on rapidly increasing smartphone users, with over 56 million total downloads (as of March 31, 2012).

Second Stage of Structural Reforms

Q3 What were the results of Capcom’s second stage of structural reforms?

A3 In the final stage beginning April 2011, we integrated our global organization function, strengthening the Online business.

In the contents industry, the market continues to grow in response to changes that occur approximately every 10 years, but developments in the global economy last year and the rise of cloud computing and ubiquitous services indicate the market is facing a period of unprecedented upheaval.

For the game industry—and Capcom—the time has come to change to change the business model in step with these drastic changes. Rapid growth in the smartphone and social games markets is eroding the boundary between platforms in what up to now have been main channels for package sales in independent areas: home video game and PC software. Capcom is already releasing content in these markets and views these changes as an opportunity. If we don’t quickly construct an organization and strategy in response to these market changes, we will be unable to transform into a globally competitive company on a stable growth track.

To sort out these issues, we pushed through the second stage of structural reforms started in October 2009 and created new organization and strategy.

After the first and second stages, in the final third stage that began in April 2011, we integrated organization functions globally around social games for mobile and PC to strengthen the Online business—the linchpin of our growth strategy. **Diagram 6**

Capcom has upgraded to a structure equipped for the next five years to achieve our growth strategy in each region, including initiatives focused on the online business in burgeoning Asia.

Asia Online Business

In July 2012, Capcom established its first development base in Taiwan in an attempt to maximize profits through the expanded distribution of online and social games in Asia, primarily in the Southeast Asian region.

Diagram 5 Growth in Sales of Online Contents

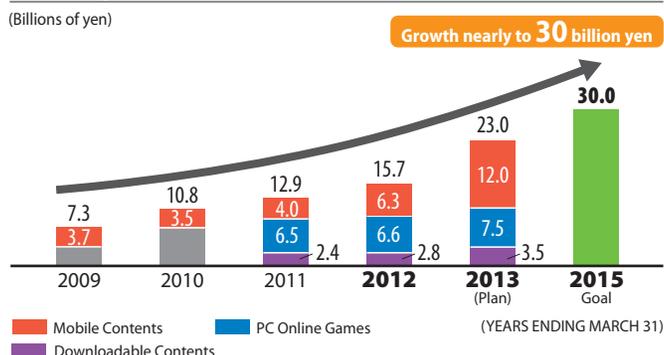
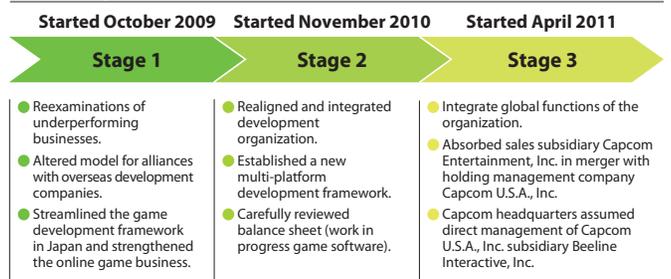


Diagram 6 Second Stage of Structural Reforms



Medium-Term Business Goals and Progress

Q4 Last year Capcom announced new medium-term business goals. How much progress have you made and what is the strategy going forward?

A4 We are on track, having already achieved 36% of sales and 35% of operating profit goals over the past two fiscal years. Our strategy is to promote the expansion and upgrade of our development lineup and the strengthening of our Online business.

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. 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 We 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.

3. Medium-Term Business Goals and Progress

Capcom’s medium-term business goals for the five years from the fiscal year ended March 31, 2011 through the fiscal year ending March 31, 2015 are (1) operating margin of 15% or higher and (2) net sales of 500,000 million yen (up 29.3% compared to past five years) and operating income of 75,000 million yen (up 51.5% compared to past five years). **Diagram 7**

At present, in terms of progress over the past two fiscal years, we are on track with cumulative sales of 179,700 million yen (36% achieved), operating profit of 26,600 million yen (35% achieved) and an operation margin of 14.8%. **Diagram 8**

4. Medium- and Long-Term Strategies

Our growth strategy of expanding and upgrading our development lineup while strengthening the Online business is the key to achieving our medium- term business goals.

First of all, expanding and upgrading our traditional home video game development lineup by shortening the series title sales cycle and establishing new titles, we will increase Single Content Multiple Usage development of popular content.

We will also strengthen the Online business, which has strong potential for growth. Specifically, we will (1) increase the number of mobile and PC social games, (2) enhance downloadable content for home video games, (3) promote PC browser games in our traditional areas of business, Japan, North America, Europe and Asia, as well as South America and Eastern Europe as a means of developing Online business by region.

To this end, next fiscal year, we will increase Consumer, Mobile and PC Online development staff to 100 people each.

As a result, we aim for sales in the highly profitable Online business to increase from 15,700 million yen at the end of the fiscal year ended March 31, 2012 to 30,000 million yen in the fiscal year ending March 31, 2015. **Diagram 5** By increasing the Online business sales composition, we will gradually improve the consolidated earnings operating margin above 15%.

Furthermore, Capcom will make an effort to stabilize earnings by placing mature businesses on the periphery and investing 10% of management resources into profit-maximizing Single Content Multiple Usage developments to seize diverse profit opportunities.

Diagram 7 Medium-Term Business Goals (for the five years ending 2015)

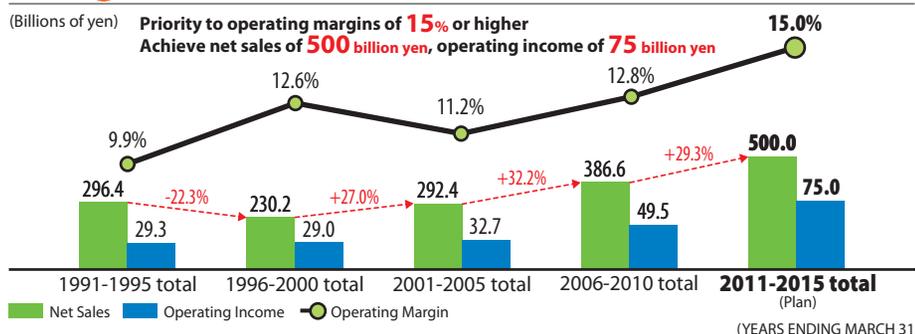
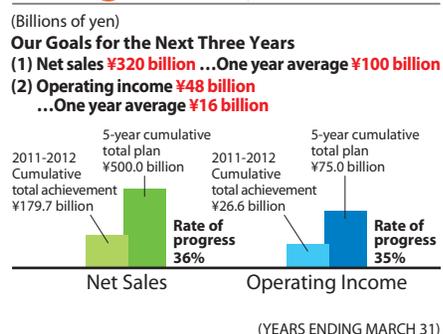


Diagram 8 Medium-Term Business Goals Progress



Our Views on M&A and Business Partnerships

Q5 **Capcom is intensifying M&A activities to achieve global growth; what are your thoughts on buyouts and affiliations?**

A5 **We develop overseas titles and strengthen Online business conducting buyouts and affiliations in an amicable way.**

1. Basic Position on Acquisitions and Partnerships

To achieve stable growth going forward, Capcom must increase its share in the giant overseas market **Diagram 9** for consumer online games and expand earnings in the burgeoning online business and other new markets. To expand market share, corporate buyouts and affiliations are an important strategy, one Capcom proactively pursues in an aim to “create gaming content with universal market appeal” and “acquire technology and expertise for new businesses”.

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, although there were no buyouts, we hastened **affiliations with domestic and international development companies** in all our businesses. In package games, we teamed with Slant Six Games (Canada) to sell software and partnered with overseas developers Ninja Theory (UK) and Spark Unlimited (USA) on the development of major software. In mobile contents, to counter the lag in domestic initiatives compared to Beeline’s on-track overseas development, we made an effort to acquire expertise in this new market by working with recognized leaders gloops, Inc. and gumi Inc. on the development and operation of social games.

Reviewing the results of buyouts and affiliations up to now, Capcom has achieved success already, with 1.7 million copies of “Resident Evil: Operation Raccoon City” sold primarily overseas in fiscal 2012 and two social game titles boasting over one million members each. Going

forward, we will continue to regularly review affiliations and distribute development resources appropriately.

Next fiscal year, we will aim for all-time high sales of 20 million units though the release of multiple major in-house titles and affiliations with other leading development companies.

Affiliations This Fiscal Year

Overseas Package game co-developers	Slant Six Games (Canada)	Resident Evil: Operation Raccoon City
	Ninja Theory (UK)	DmC Devil May Cry
	Spark Unlimited (USA)	Lost Planet 3
Domestic Social game co-developers	gloops Inc.	Minna to Monhan Card Master
	gumi Inc.	Monhan Tankenki Maboroshi no Shima

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 focus investment on the Consumer Online Games and Mobile Contents businesses. Fund procurement will be primarily through debt finance.**

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. Above all, in addition to the Consumer Business, where there is room to increase share in this large-scale market, we are aware that a priority issue is ensuring sufficient investment in the Mobile Contents business, expected to be the next core business (See Q4.4. Medium- and Long-Term Strategies). Furthermore, we must invest in our developers to strengthen foundational research in next-generation consoles and increase title lineups in the Online and P&S businesses.

Accordingly, we will invest 90% of our management resources (development investment funds and capital expenditures amounting to 38.2 billion yen), or 34.2 billion yen (up 20.0% from the previous fiscal year) on growth businesses. **Diagram 10**

Diagram 9 Overseas Sales

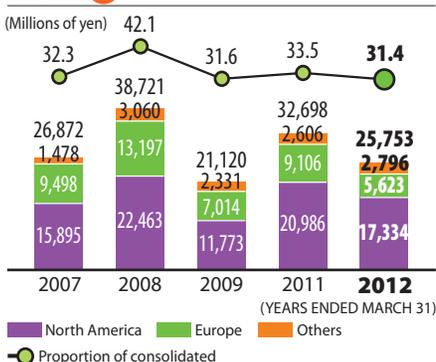
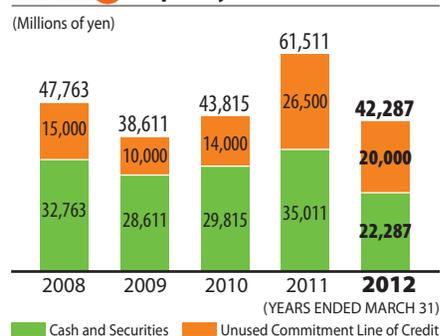


Diagram 10 Capital Expenditure and R&D Investment Cost



Diagram 11 Liquidity in Hand



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 (22,287 million yen) as well as an unused 20,000 million 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. **Diagram 11**

Shareholder's Return

Q7 Given the decline in sales and profits, will dividends also decrease?

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.

2. Dividends for This Fiscal Year and the Next

This fiscal year there were declines in sales and profits as a result of the release of several major titles last year. However, in consideration of our basic policy on stable dividends, as well as the forecast for operating profit, we will continue to pay an annual dividend of 40 yen per share for fiscal 2012. **Diagram 12**

As a result, the dividend payout ratio increased to 34.5%. **Diagram 13**

Also, Capcom acquired 1.5 million shares of its own stock.

The next fiscal year (ending March 31, 2013), we expect to maintain an annual dividend of 40 yen (payout ratio of 23.5%). 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.

Results of Stock Repurchase

Acquisition period	Number of shares acquired	Total acquisition
June 9, 2011—July 20, 2011	1,500,000 shares	2,701,644,300 yen
January 4, 2010—January 29, 2010	1,502,700 shares	2,420,722,500 yen
August 1, 2009—August 31, 2009	1,471,900 shares	2,703,220,800 yen



Kenzo Tsujimoto

Chairman and Chief Executive Officer (CEO)

Diagram 12 Cash Dividends Applicable to the Year Per Share

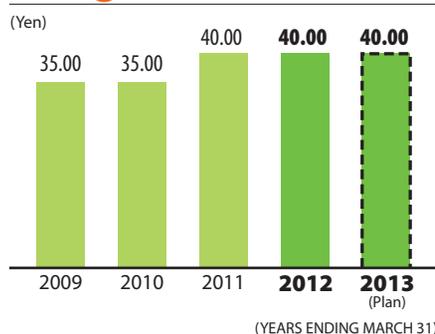


Diagram 13 Dividend Payout Ratio

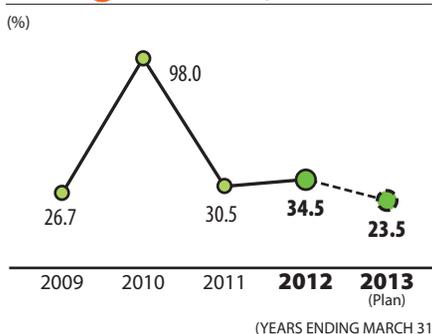


Diagram 14 Dividend on Equity Ratio

