

CAPCOM

Year Ended March 31, 2014

United by passion. Ready for success.

ANNUAL REPORT
2014





Corporate Philosophy

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

Our principle is to be a creator of entertainment culture. Through development of highly creative software contents that excite people and stimulate their senses, we have been aiming to offer an entirely new level of game entertainment. Since Capcom’s establishment in 1983, we have developed numerous products with world-class development capabilities as our strength.

Game content, an artistic media product that fascinates people, consisting of highly creative, multi-faceted elements such as characters, storyline, worldview and music, makes use of a variety of media that permeates our daily lives. Going forward, Capcom aims to become a unique company recognized around the world for content brimming with originality.



ANNUAL REPORT 2014

Editorial Policy

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

We strive to go beyond simply presenting company earnings and provide insight into game and entertainment market trends; we have also compiled a game industry glossary included at the end of this report. Furthermore, in response to investor concerns, we have enhanced financial analysis, governance and other information. In particular, this report focuses on the sincere and proactive efforts of management and employees working on the front lines.

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

The information presented in this publication is also available online.

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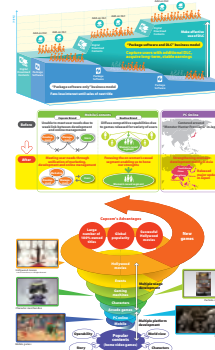
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Corporate Data

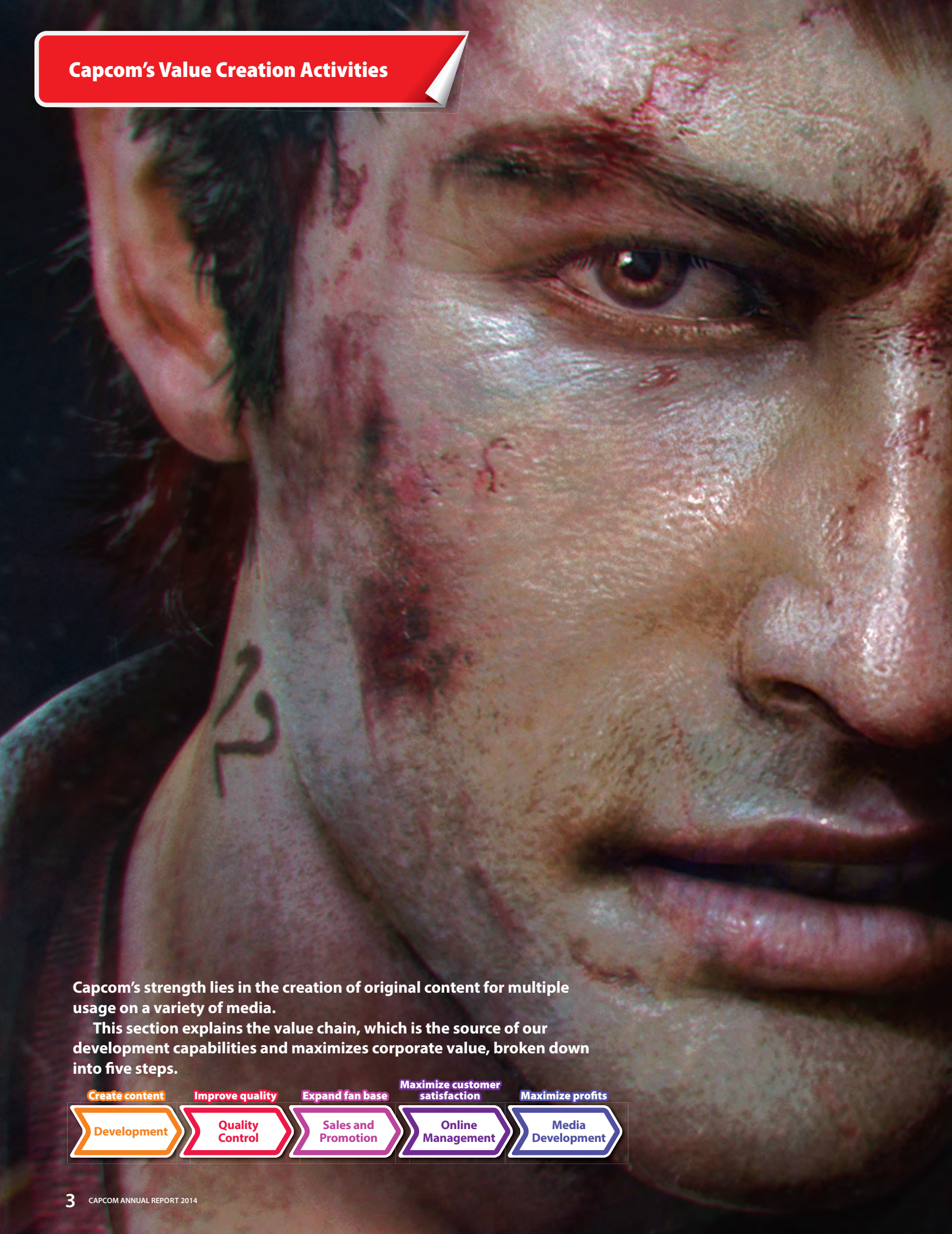
separate volume

The Latest Development Report 2014

It takes the best to create the best

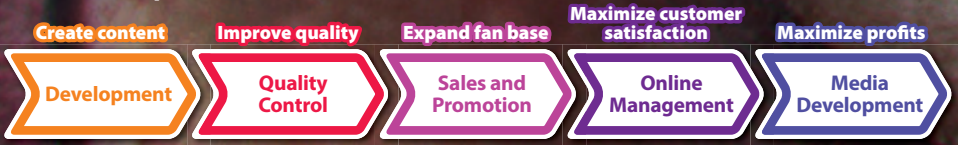


Capcom's Value Creation Activities



Capcom's strength lies in the creation of original content for multiple usage on a variety of media.

This section explains the value chain, which is the source of our development capabilities and maximizes corporate value, broken down into five steps.



Create content

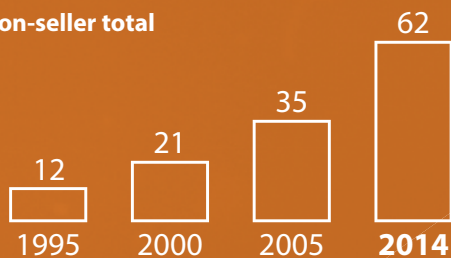
Development

3 Million-Seller Titles This Year Brings Total to 62

Creating content overflowing with originality using the world's leading development capabilities.

Capcom boasts the world's leading development capabilities. This is evident by the amount of original content. More than 60 of our titles have sold over one million units, including "Street Fighter", "Resident Evil" and "Monster Hunter". The value chain, which is the source of content creation, maximizes corporate value through the following five steps.

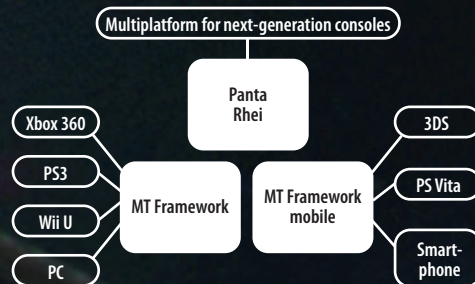
Million-seller total
(units)



(As of March 31, 2014)

We Also Develop Our Game Engines In-House

At Capcom, our proprietary development engines are the technological nuclei of game creation. In addition to our integrated development environment "MT Framework", which facilitates common development for Xbox 360, PS3, PC, Wii U and Nintendo 3DS, we also utilize next-generation engine "Panta Rhei". "Panta Rhei", which maximizes the performance of next-generation consoles, not only improves game quality, it also makes the development process significantly more efficient through parallelization of the traditional serialized development flow.





Improve quality



Quality Control

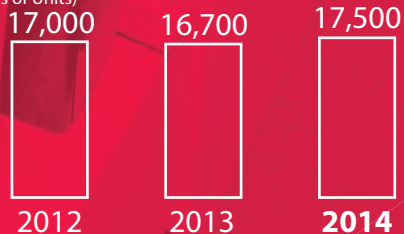
Quality Check
360,000 Hours
 per Year

Capcom conducts a verification process in the thorough pursuit of increased game value.

The role of Capcom's quality control departments is not simply to check for bugs. The quality of the game is in the degree to which the users find it attractive. The verification process, conducted for 360,000 hours per year, is a thorough check of game content from the users' perspective. If improvements are in order, the development departments are provided with feedback right away. This helps us make games that are as attractive as possible.

Consumer Game Shipments

(Thousands of Units)



(As of March 31, 2014)

Expand fan base

Sales and
Promotion

Monster Hunter Events* Attract 48,500 People

Capcom expands its fan base by delivering game worlds through a variety of events.

To expand the fan base, it is important that games worlds resonate with users. Before launching a new product, Capcom always posts the latest promotional movies online and holds user events across Japan to immerse users in a game's world before it goes on sale. Capcom also attempts to create new fans by developing a wide range of collaborations with other industries, including arcade facilities, magazines and travel agencies.

*"Monster Hunter Festa '13" (Five venues)

Major User Events in the Fiscal Year Ended March 2014

"Monster Hunter Festa '13"

"Monster Hunter the Real 2014"

"Monster Hunter × Shibu hot springs resort in Nagano prefecture"

"Resident Evil the Real"

"BASARA Festival 2014"

Capcom's Value Creation Activities



Maximize customer satisfaction

Online Management

Online Users Exceed 110,000 Thousand

Maximizing customer satisfaction with an integrated system able to respond to user needs.

The key to success in the online business is careful management after content has been delivered. To strengthen Capcom's online business, we are integrating development and management. Using online game characteristics, we will make an effort to maximize customer satisfaction through the timely provision of addition content and events by ascertaining user movements and preferences in real time.

Capcom Online Users (Thousand People)



(As of March 31, 2014)

Maximize profits



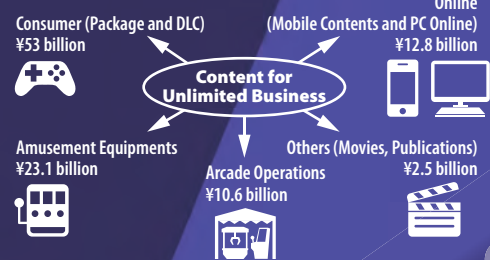
7 Hollywood Films Bring in 1 Billion Dollars* at Box Office

The multiple usage of powerful content maximizes profits.

All the elements that go into creating game content, such as characters, visuals, story, worldview, music are each an independent work of media art. From early on, Capcom has promoted the multiple usage strategy of developing rich intellectual content into a variety of media. Capcom attempts to maximize profits through a variety of copyright businesses involving movies, animation and toys.

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

Single Content Multiple Usage Achievements (Fiscal 2013 Net Sales)



BIOHAZARD
REVELATIONS
UNVEILED EDITION

戦国
BASARA 4

11-Year Summary of Consolidated Business Performance Indicators

Financial Index

	2004	2005	2006	2007	2008
For the Year:					
	Millions of yen				
Net sales	¥ 52,668	¥ 65,895	¥ 70,253	¥ 74,542	¥ 83,097
Operating income	1,402	7,752	6,580	9,602	13,121
Net income (loss)	(9,158)	3,622	6,941	5,852	7,807
Depreciation & amortization	2,081	2,101	1,936	2,774	3,393
Capital expenditures	4,678	1,665	1,600	4,495	4,503
R&D expenses	1,124	1,323	1,864	1,828	2,972

	Millions of yen				
At Year-End:					
Total assets	¥ 93,096	¥ 106,361	¥ 98,457	¥ 91,478	¥ 93,606
Net assets	31,854	32,491	39,464	45,144	53,660
Net cash	(16,957)	(12,948)	(678)	9,200	13,061

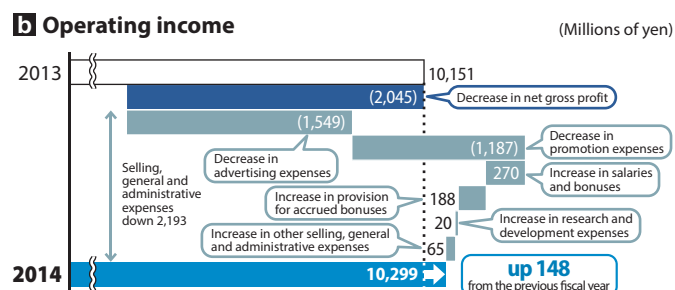
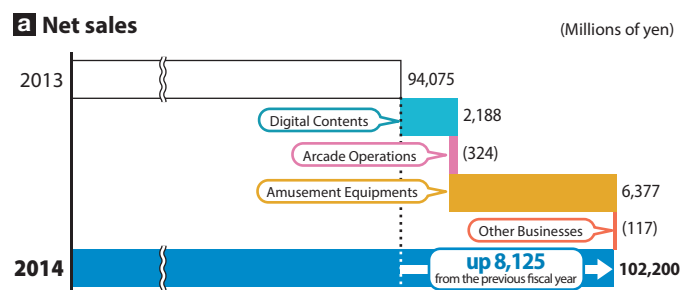
	Millions of yen				
Cash Flows:					
Cash flows from operating activities	¥ 5,577	¥ 7,977	¥ 13,921	¥ 16,063	¥ 7,452
Cash flows from investing activities	(5,011)	(1,099)	(1,779)	(6,715)	(3,374)
Cash flows from financing activities	(395)	6,251	(18,259)	(15,206)	(2,448)
Cash and cash equivalents at end of year	32,131	45,538	40,652	35,020	32,763

	Yen				
Per Share Data:					
Net income (loss) per share	¥ (160.91)	¥ 63.37	¥ 125.19	¥ 107.52	¥ 132.90
Cash dividends applicable to the year per share	20.00	20.00	20.00	30.00	30.00
Net assets per share	559.66	589.99	716.91	799.35	881.31

	%				
Financial Index:					
Operating margin	2.7	11.7	9.4	12.9	15.8
ROE	—	11.3	19.3	13.8	15.8
ROA	—	3.6	6.8	6.2	8.4
Net worth ratio	34.2	30.5	40.1	49.3	57.3
Debt-equity ratio	192.4	227.9	149.4	102.8	74.4
Foreign investors	16.59	14.79	23.35	32.60	27.72

	Billions of yen				
Digital Contents Business:					
Consumer business net sales	¥ 33.9	¥ 39.9	¥ 42.7	¥ 43.8	¥ 51.6
Online business net sales	—	—	1.5	2.7	4.1
Developer numbers	702	660	705	728	809

	Thousands				
Consumer Game Sales (Package Software and Full-game digital content)					
Total number of units	11,600	13,500	13,400	12,200	15,750
Sales of major titles	Mega Man Battle Network 4 950	Resident Evil 4 (GC) 1,230	Resident Evil 4 (PS2) 1,810	Lost Planet Extreme Condition 1,370	Devil May Cry 4 2,320
	Onimusha 3 630	Devil May Cry 3 1,100	Onimusha DAWN of DREAMS 640	Dead Rising 1,220	Resident Evil 4 Wii edition 1,300
	Resident Evil Outbreak 430	Resident Evil Outbreak 820	Monster Hunter Freedom 610	Monster Hunter Freedom 2 1,220	Resident Evil: The Umbrella Chronicles 1,060



11-Year Summary of Consolidated Financial Indicators

See pages 63-64

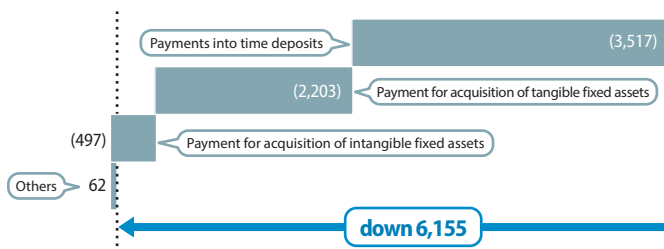
CAPCOM CO., LTD. AND ITS CONSOLIDATED SUBSIDIARIES. YEARS ENDED MARCH 31

2009	2010	2011	2012	2013	2014	2014
Millions of yen						Thousands of U.S. dollars
¥ 91,878	¥ 66,837	¥ 97,716	¥ 82,065	¥ 94,075	¥ 102,200	\$ 1,001,968
14,618	5,587	14,295	12,318	10,151	10,299	100,979
8,063	2,167	7,750	6,723	2,973	3,444	33,773
4,143	3,368	3,315	3,123	3,406	4,638	45,473
2,906	2,205	2,758	4,153	8,724	8,064	79,064
2,329	2,125	2,924	2,236	1,982	2,002	19,636
Millions of yen						Thousands of U.S. dollars
¥ 106,210	¥ 86,621	¥ 90,408	¥ 98,247	¥ 104,365	¥ 96,611	\$ 947,166
59,349	53,956	58,007	59,352	62,828	63,875	626,235
7,378	12,299	27,655	11,348	14,327	22,670	222,259
Millions of yen						Thousands of U.S. dollars
¥ (551)	¥ 14,320	¥ 22,392	¥ (7,672)	¥ 6,647	¥ 13,201	\$ 129,430
(2,715)	(1,618)	(2,046)	(4,794)	(1,375)	(6,155)	(60,349)
(342)	(10,747)	(12,919)	587	1,162	(15,099)	(148,029)
28,611	29,815	35,011	22,287	31,522	26,118	256,061
Yen						U.S. dollars
¥ 130.98	¥ 35.71	¥ 131.18	¥ 116.10	¥ 51.64	¥ 61.11	\$ 0.60
35.00	35.00	40.00	40.00	40.00	40.00	0.39
961.38	913.18	981.76	1,030.70	1,091.08	1,135.91	11.14
%						
15.9	8.4	14.6	15.0	10.8	10.1	
14.3	3.8	13.8	11.5	4.9	5.4	
8.1	2.3	8.8	7.1	2.9	3.4	
55.9	62.3	64.2	60.4	60.2	66.1	
79.0	60.5	55.9	65.5	66.1	51.2	
33.73	24.22	22.17	27.05	32.37	37.29	
Billions of yen						
¥ 60.0	¥ 38.7	¥ 63.6	¥ 46.9	¥ 45.9	¥ 53.0	
6.6	8.5	10.5	12.9	17.7	12.8	
1,047	1,132	1,339	1,455	1,623	1,808	
Thousands						
18,100	13,900	21,700	17,000	16,700	17,500	
Resident Evil 5 4,400	Monster Hunter Freedom Unite (Best Price included) 1,350	Monster Hunter Freedom 3 4,600	Resident Evil: Operation Raccoon City 1,700	Resident Evil 6 5,000	Monster Hunter 4 4,100	
Street Fighter IV 2,500	Monster Hunter Tri 1,150	Dead Rising 2 2,300	Monster Hunter 3 (Tri) G 1,600	Dragon's Dogma 1,300	Dead Rising 3 1,200	
Monster Hunter Freedom Unite (Best Price included) 2,200	Resident Evil 5 950	MARVEL VS. CAPCOM 3 Fate of Two Worlds 2,000	Street Fighter X Tekken 1,400	DmC Devil May Cry 1,200	Resident Evil Revelations 1,200	

Highlights

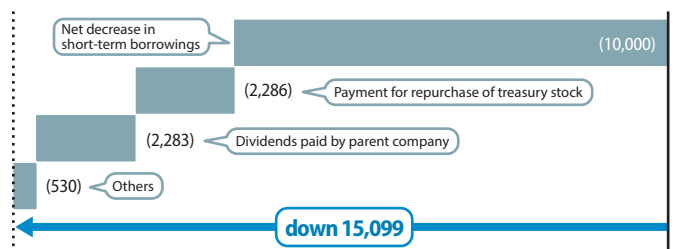
C Cash flows from investing activities

(Millions of yen)



D Cash flows from financing activities

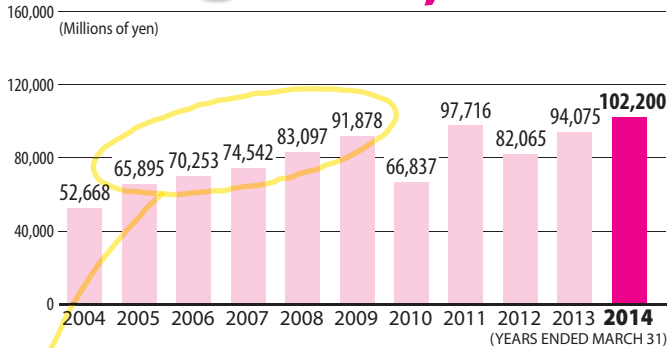
(Millions of yen)



Key Performance Indicators (KPI) and Commentary

1 Net sales

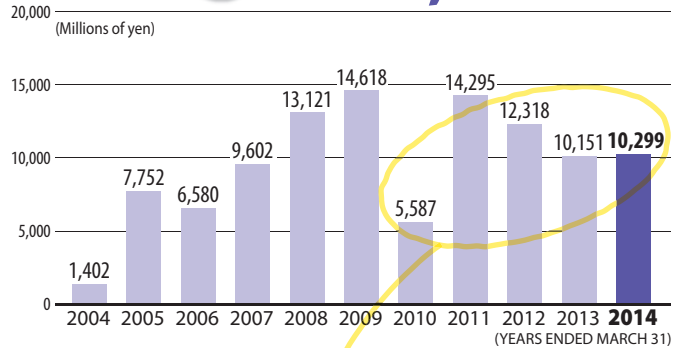
8.6% UP  **102,200** million yen



Structural reforms enacted in the fiscal years ended in March 2003 and 2004 set the stage for **stable growth in sales starting in the fiscal year ended March 2005**. This was mainly due to the creation of an efficient development structure able to launch popular, highly profitable home video games each year. Although revenues temporarily declined due to the postponed sales of major titles in the fiscal years ended March 2010 to March 2012, sales of core title "Monster Hunter 4" and proprietary Pachislo machines in the fiscal year ended March 2014 resulted in Capcom achieving net sales of 100 billion yen for the first time.

2 Operating income

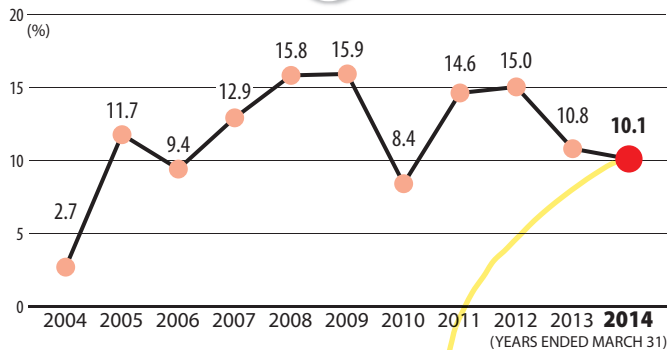
1.5% UP  **10,299** million yen



Structural reforms have enabled Capcom to sustain consistent growth in operating income. Moreover, the contribution to net sales occurred two years later in the fiscal year ended March 2007 because it took two years to put together a highly profitable lineup after restructuring. However, **the impact of precipitous market changes, such as the expansion of mobile contents and digital download contents (DLC), and the transitional period after next-generation consoles were released, have increased earnings volatility**. In the fiscal year ended March 2014, despite an 8.6% increase in sales, a lack of core titles mainly in Mobile Contents caused profitability to decline, resulting in only a 1.5% increase in profits compared to the previous fiscal year.

3 Operating margins

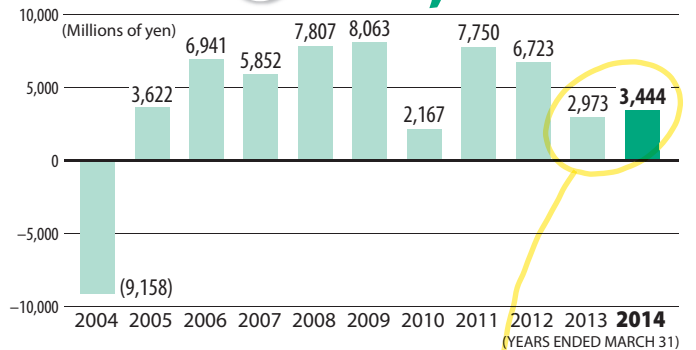
0.7 point DOWN  **10.1%**



Operating margins depend primarily on the profitability of the Digital Contents business, which accounts for about 65% of net sales. There was a steady increase in operating margins as well as operating income from the fiscal year ended March 2007 thanks to the establishment of a more efficient developmental organization. However, **despite higher sales in the fiscal year ended March 2014, some existing and new titles in the Digital Contents business Mobile Contents and PC online sub-segments performed poorly, causing profitability to decline and resulting in a slight decrease in consolidated operating margins to 10.1%**.

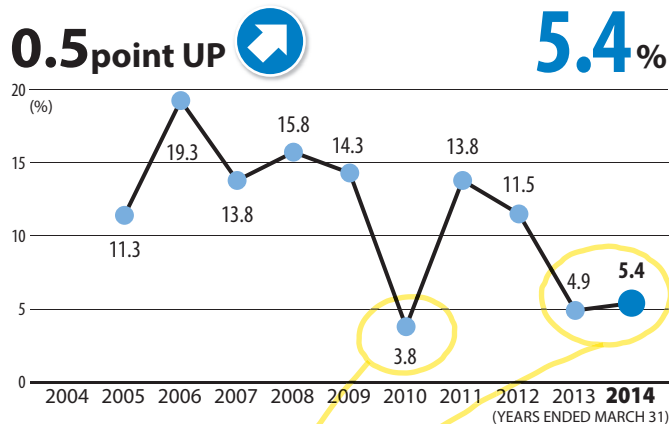
4 Net income (loss)

15.8% UP  **3,444** million yen



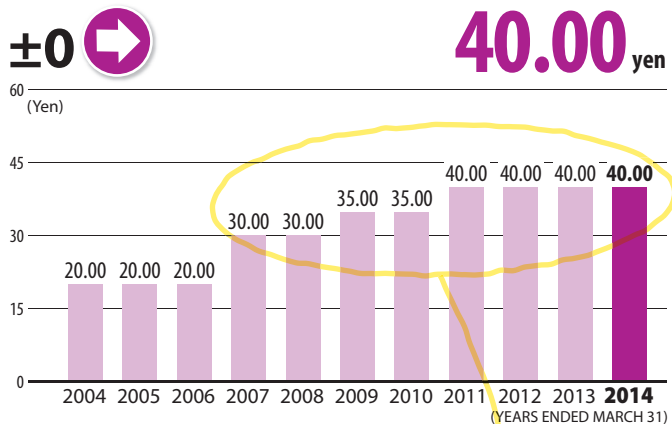
As a result of structural reforms conducted in the fiscal year ended March 2004, Capcom recognized special losses due to disposition of inventory and provisions for loan loss reserves, resulting in significant losses. In the fiscal year ended March 2010, we recorded a loss on restructuring in accordance with a drastic review of poorly performing businesses as a secondary structural reform to adequately respond to market volatility, resulting in a significant decrease in net income. **Furthermore, in the fiscal year ended March 2013 and March 2014, development structure revisions in the Digital Contents business (consumer and mobile contents) led to the recognition of business restructuring expenses resulting in a low level of income for two straight years.**

5 Return on equity (ROE)



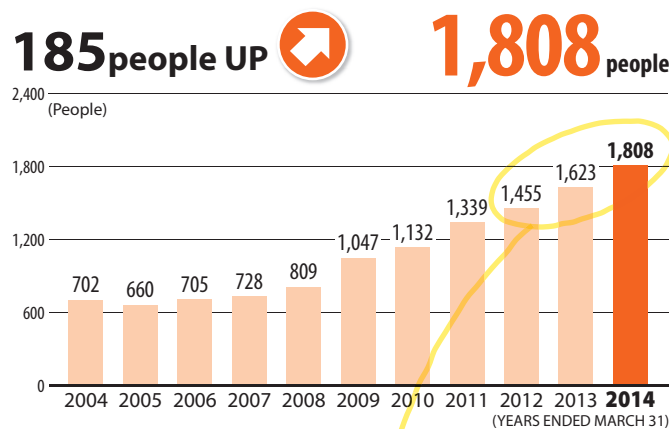
A net loss was recognized in the fiscal year ended March 2004 due to the implementation of structural reforms. ROE has been stable around 14% since the fiscal year ended March 2005 (except in 2010), even though net assets increased due to increases in retained earnings and common stock through the exercise of conversion rights of convertible bonds. Moreover, in the fiscal years ended March 2010, 2013 and 2014, net income decreased due to recognition of special losses, including losses on restructuring and business structure improvement expenses, causing a temporary downturn in numerical values.

6 Cash dividends applicable to the year per share



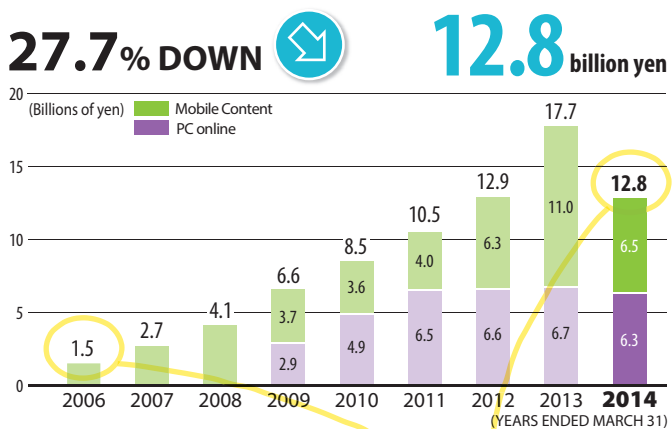
Capcom has its fundamental dividend policy of providing a continued and stable dividend to the shareholders. In accordance with its policy, an annual dividend of 20 yen per share was paid from the fiscal year ended March 1998 to that ended March 2006. Cash dividend per share for the fiscal year ended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

7 Developer numbers



Developers engaged in the creation of content are the source of a game software company's competitive advantage. At Capcom, developers account for 70% of all employees. To promote the development of Capcom's Single Content, Multiple Usage core strategy, we strive to ensure our developers are of the highest caliber through efforts including proactive hiring and training. At the end of March 2004, we employed 702 developers; over the next ten years we, increased this number 2.5 times to employ 1,808 developers as of March 31, 2014. In particular, since the fiscal year ended March 2012, to strengthen the Online and Consumer businesses and make development more efficient, we switched to a development structure focused on internal production and are hiring more than 150 developers each year.

8 Online business (Mobile Contents and PC online) net sales



Online game (Mobile Content and PC online) sales represent one of Capcom's core businesses. Rapid expansion of the online market and a successful focus as a growth business resulted in net sales of 1.5 billion yen in the fiscal year ended March 2006 to 12.8 billion yen in the fiscal year ended March 2014, an eightfold increase over eight years. Specifically, the PC online game "Monster Hunter Frontier" and mobile game "Smurfs' Village" are making stable contributions. However, in the fiscal year ended March 2014, net sales temporarily declined as a result of the rise of native app games and insufficient management expertise.

Business Segments Highlights

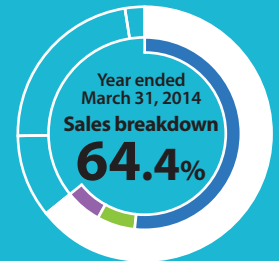
Business Overview



Digital Contents

This business engages in the development and sales of package games for consumer consoles and digital download contents (DLC), as well as the development and operation of mobile contents and PC online games. As this is our core business representing approximately 65% of company sales, we concentrate management resources on these activities to meet diverse user needs.

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



- Consumer (Package and DLC)
- Mobile Contents
- PC Online



Arcade Operations

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



Amusement Equipments

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



Other Businesses

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



Market Trends

Consumer (Package and DLC)

- The consumer market has contracted two years in a row due to declining average retail prices and delayed purchases ahead of next-generation consoles replacing existing consoles.
- Sales of DLC through online networks is expanding.

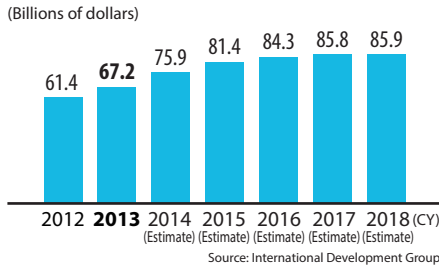
Mobile Contents

- The market is expanding quickly due to the global adoption of smartphones and tablet devices.
- The advent of app stores and other global distribution systems are enabling the cultivation of game users in new regions such as the Middle East and Asia.
- New casual user segment is growing due to popularity of native apps.

PC Online

- Growth mainly in Asia region on track with potential to grow larger than the consumer market in the future.

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



Capcom's Strength and Strategy

Consumer (Package and DLC)

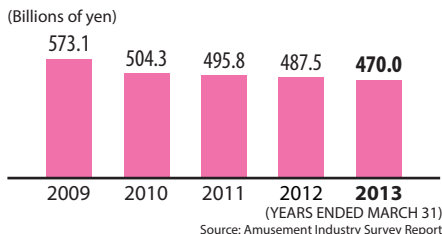
- We own numerous "intellectual properties with universal market appeal".
- We maintain an advanced ability to develop original game content. We also possess a high level of technology, assisted by an integrated development environment built to provide common software development tools for a variety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

Mobile Contents PC Online

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

- Ongoing downward trend in terms of market scale and number of arcades.
- Despite popularity of some prize merchandise, the market remains soft due to lack of hit products and ongoing closure of unprofitable arcades.
- Market will continue to decline due to fewer customers and lower sales stemming from the consumption tax increase and narrowing investment.

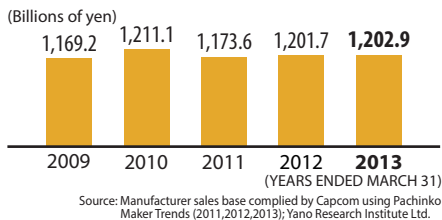
Amusement Arcade Market



- We specialize in opening facilities in large shopping centers to secure a long-term, stable number of customers.
- We focus efforts on cultivating new customers through free game experience tours for senior citizens and kids' corners with an hourly fee.
- We develop business with a high level of profitability compared to other companies in our industry through strict scrap and build focused on investment efficiency.

- In the major gaming machines market, despite lower sales of Pachinko machines, growth in the Pachislo machine market is providing overall stability.
- The arcade game market has shrunk slightly due to gradual declines in the amusement arcade market and being in between new product sales cycles.
- In light of the consumer tax increase, to ensure profitability facilities, operators are narrowing their investment focus, which is expected to cause further decline in the market.

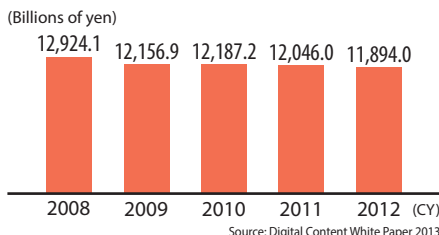
Major Gaming Machines Market (Pachinko and Pachislo machines)



- We establish new revenue streams using our rich in-house content.
- In the P&S business, we can develop machines that make use of development resources such as high definition visuals created for consumer titles.
- Using content developed in the Consumer business, the Arcade Games Sales business released coin-operated game machines with popular content, which are in high demand.

- The global contents market was worth 130,000 billion yen. The Japanese contents market was worth 12,000 billion yen, second to only to the United States.
- Stable domestic contents industry despite lower birth rates.
- The key to future growth is multifaceted development overseas.

Japanese Content Market Trends



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

Operating Results for This Fiscal Year



Digital Contents

Consumer (Package and DLC)

- "Monster Hunter 4" for Nintendo 3DS was extremely popular, selling over 4.1 million units in Japan.
- "Dead Rising 3" and "Resident Evil Revelations" targeting the European and U.S. markets performed solidly, achieving million-seller status.
- Contribution from the "Monster Hunter 4" download version drove significant growth in digital download sales.

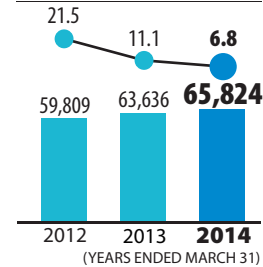
Mobile Contents

- Both Capcom and Beeline brands were sluggish.
- Although the Capcom brand's "Monster Hunter Hunting Quest" did well, the lack of powerful titles made an already bitter competitive environment even harsher.
- While the Beeline brand's "Smurfs' Village" continued stably, there were no new hit titles.

PC Online

- Online game "Monster Hunter Frontier G" maintained its strong popularity.
- Profitability slumped due to intensifying competition and struggling new titles.

Net Sales/ Operating Margin



Net Sales
¥65,824 million
 (Up 3.4% from the previous year)

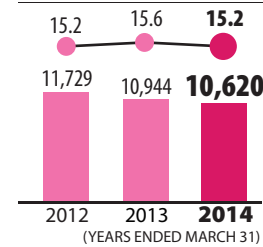
Operating Margin
6.8%



Arcade Operations

- Focused efforts on attracting new customers by conducting free game experience tours for senior citizens and creating themed areas for kids.
- Opened one new arcade, closed two unprofitable arcades.
- Existing arcade sales declined by 5% compared to the previous year.

Net Sales/ Operating Margin



Net Sales
¥10,620 million
 (Down 3.0% from the previous year)

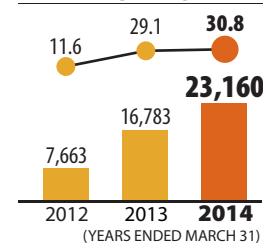
Operating Margin
15.2%



Amusement Equipments

- Significant growth compared to last year on P&S sales of Pachislot machine "Monster Hunter Gekka Raimei" made in-house, which sold about 46 thousand units and "DEVIL MAY CRY 4", which sold 25 thousand units.
- In terms of Arcade Games Sales, new coin-operated game "Monster Hunter Medal Hunting Compact" performed well.

Net Sales/ Operating Margin



Net Sales
¥23,160 million
 (Up 38.0% from the previous year)

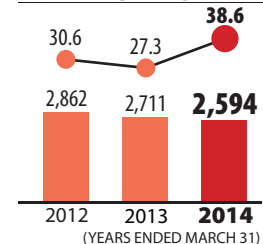
Operating Margin
30.8%



Other Businesses

- Maximize earnings and strengthen brand power of proprietary content through execution of lateral development of integrated sales of games based on the Single Content Multiple Usage strategy.
- Conduct events users can participate in to maximize sales of major titles "Monster Hunter 4" and "Phoenix Wright: Ace Attorney - Dual Destinies".

Net Sales/ Operating Margin



Net Sales
¥2,594 million
 (Down 4.3% from the previous year)

Operating Margin
38.6%

Products Introduced This Year



“Monster Hunter 4”

This title significantly exceeded projections to sell over 4.1 million units due to new elements including 3D action and multiplayer functionality using the Internet, as well as a variety of promotional events that created a buzz and were popular with users. The download version of this game also performed well.

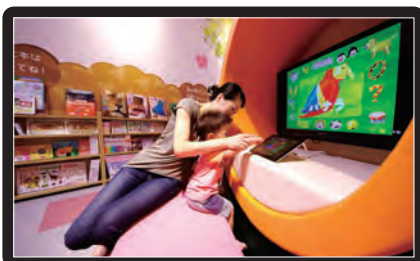


“Dead Rising 3”

With an overwhelming number of zombies and an expansive open world only a title created for next-generation consoles can provide, this game delivers full body gaming fun on the advanced Xbox Kinect™ system. Sold one million titles in the first month, while ongoing DLC keeps users captivated.

Outlook for the Next Fiscal Year

- Improved earnings will come from a narrowed focus on highly profitable games such as “Monster Hunter 4 Ultimate” and other major titles.
- Revise title lineup by reconfiguring the 60-month map.
- Release native app games through the Capcom and Beeline brands in Japan and overseas.
- Strengthen development of PC online games for Japan and the Asia region.



**Plaza Capcom Shitoko
“Asobi Oukoku peekaboo”**

We introduced “Asobi Oukoku peekaboo”, a themed area for kids, in collaboration with Gakken Holdings Co., Ltd., and Dai Nippon Printing Co., Ltd. This entertainment space fosters creativity through both play and learning.

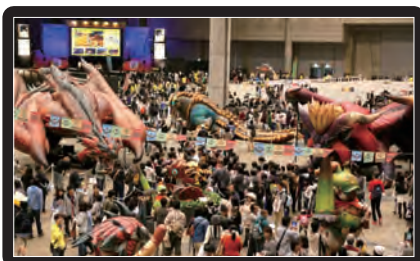
- Promote management efficiency at existing arcades and cultivate new users.
- Respond to concerns over drop in profitability due to consumption tax increase.
- Attract customers through a variety of events, including events that appeal to the middle-aged segment, the development of timed rate structured play areas for kids and the establishment of themed food shops making use of Capcom characters.



**Pachislo Machine
“Monster Hunter Gekka Raimei”**

The power of the “Monster Hunter” brand, its visual technologies and other production elements that appeal strongly to users drove solid sales of this product, which represents the culmination of expertise accumulated since Capcom launched its cabinet business.

- In P&S, we expect to see a reverse impact from hit products last year.
- We anticipate stable need for Pachislo machines resulting from expanding demand for high-quality visuals and popular content.
- Arcade Game Sales to focus on stable supply of new coin-operated game machines.



“Monster Hunter Festa ‘13”

User events aim to create a sense of community and raise awareness. This festival featured the “Karioh Ketteisen” to determine Japan’s fastest hunter and the “Actual Gathering for Players” where players gather to enjoy collaborative game play. Five events were held across Japan attracting 48,500 people.

- We will engage in proactive development of various events and collaborations in conjunction with launch of major title “Monster Hunter 4 Ultimate” and the 10th anniversary of the series.
- We will increase brand value through stage productions and films based on other series.

To Our Shareholders (From CEO & COO)



辻本 憲三

Kenzo Tsujimoto
Chairman and
Chief Executive Officer (CEO)



辻本 春弘

Haruhiro Tsujimoto
President and
Chief Operating Officer (COO)

Significantly Transforming Our Online Business to Ensure Achievement of Medium-Term Business Goals

The Game Market Expanded to 67.2 Billion Dollars in 2013

In 2013, the U.S. economic recovery and easing of debt problems in Europe lessened financial risks and improved global economic activity and trade in the global economy, which continued to recover mainly in developed countries. The Japanese economy was also on track toward recovery, bolstered by firm individual consumption, yen depreciation and exports, as well as improved employment and income environments, rising stock prices and the selection of Tokyo to host the 2020 Olympic Games.

In our industry, advanced sales of next-generation consoles to replace existing consoles were launched in the U.S. and Europe in November 2013. As these consoles were still being adopted, the transitional period caused a slump in the home video game market. On the other hand, the adoption of smartphones and tablet devices and the rise of apps that enable games to be played without incurring data charges in the social games market caused native app games to skyrocket. The overall game market in 2013 expanded to 67.2 billion dollars (up 9.4% from the previous year).

Core users of home video games are predominately located in Japan, North American and Europe, while mobile contents is centered on casual users in over 200 different countries across the globe. We think there is little cannibalization among both types of games, which coexist as platforms and are growing.

From an earnings perspective, online businesses like the Mobile Contents and PC Online ongoing management business are highly profitable and we can expect to secure operating margins of 30%. Regarding investor concerns over declining profitability due to escalating home video game development costs, the acceleration of download sales leading to reduced manufacturing costs and middlemen cuts will enable us to improve operating margins to 20%.

Accordingly, to increase market share in the global game market and secure profits, Capcom will (1) allocate management resources (development staff) to home video games, which account for 1/3 of the market despite flat growth rates, (2) accumulate the management expertise required for online business titles with high growth potential, and above all, (3) create an extensive collection of popular content to capture a wide user segment around the world and develop a variety of platforms (Single Content Multiple Usage).

Strengthening Online with Dogged Determination and an Ability to Execute

Within this environment, we promoted a growth strategy to achieve our medium-term business goals, but low profitability in the online business this fiscal year required us to revise our earnings forecast. Analyzing the cause of these missed earnings, we recognize that, although the direction of our online strategy, which included developing social games for multiple hardware platforms and strengthening online overseas development, was not wrong, the development and marketing measures required to achieve this strategy were erroneous.

 For more detailed information, please see "Verification! Stage 2" on pages 23–24.

Accordingly, (1) we distributed resources to mobile development in Tokyo and Osaka, and, to address the lack of online management expertise in our native app development division (Osaka), which emulated consumer development, to unify development the Osaka division was absorbed into the Tokyo development division, which has abundant management experience. (2) In terms of restructuring the Beeline brand, we went back to our traditional strength, games for the women's casual segment, returning to a management style that can turn on a dime with a unified development and marketing structure aiming to create hit titles in our area of strength.

In light of these measures, next fiscal year, although we expect a downturn in the Digital Contents business in reaction to major hit title sales this fiscal year and a leaner lineup, resulting in net sales of 50 billion yen (down 24.0% from the previous year), the elimination of unprofitable titles and cost reductions are expected to significantly improve operating margins to 13.6% (up 6.8 percentage points from the previous year). Capcom will continue focused allocation of management resources to these growth strategies to achieve the medium-term business goals of (1) operating income of 80 billion yen for the cumulative five-year period between March 31, 2014, and March 31, 2018, and (2) operating margins of 20% in fiscal 2018.

To achieve these objectives, dogged determination and an ability to execute are indispensable among senior management who formulate management policy and employees who promote strategy and measures. At present, all employees are working vigorously together toward these goals, and in this annual report and the developers' reports, we introduce various issues and initiatives earnestly and optimistically.

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.



Kenzo Tsujimoto
Chairman and
Chief Executive Officer (CEO)

Although Sales and Profits Increased This Fiscal Year, We Failed to Achieve Forecasted Earnings. We Will Revise Growth Strategy Measures and Achieve Medium-Term Business Goals Over the Next Four Years

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, 2014), medium-term business goals and strategies, the verification of structural reforms and financial and dividend measures. 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

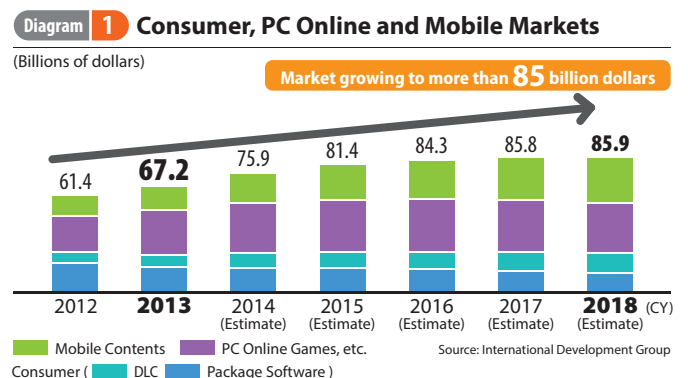
Q₁ Please explain the reasons for the downward revision to earnings this fiscal year. Why is Capcom's growth rate lagging the game market growth rate?

A₁ Sales increased as a result of the effects of last fiscal year's Consumer sub-segment restructuring, but we made some mistakes in terms of our measures in the Online business and incurred costs related to business revisions.

1. The Market Environment Surrounding Games

The rapidly changing market environment surrounding Capcom at present has three major components: the consumer sub-segment, which consists of

home video game package software and digital download contents (DLC), mobile contents and PC online games (these last two represent online



games). Together, these three components drove expansion in the 2013 game market to 67.2 billion dollars (up 9.4% from the previous year). **Diagram 1**

This can be attributed to (1) growing sales of DLC and other digital sales despite delayed consumer purchases in the package game market due to the release of next-generation consoles (transitional period), resulting in declining unit sales and lower average unit sales prices and (2) rapid growth in the mobile and PC online markets driven by the global adoption of digital devices.

2. Factors Influencing Performance Results and Missed Targets

As a result of these conditions, we were unable to achieve our initial targets in terms of profits despite the increase in sales and profits. Net sales were 102,200 million yen (up 8.6% from the previous fiscal year), operating income was 10,299 million yen (up 1.5% from the previous fiscal year) and net income was 3,444 million yen (up 15.9% from the previous fiscal year). **Diagram 2 3 4**

Initial Plans and Achieved

	Initial Plans	Achieved	Increase/Decrease
Sales (Millions of yen)	97,000	102,200	+5,200
Operating income (Millions of yen)	12,000	10,299	-1,701
Net income (Millions of yen)	6,800	3,444	-3,356

Factors contributing to the increase in sales included the sales of major hit titles in the consumer sub-segment totaling 53,000 million yen (up 15.5% from the previous fiscal year) and a popular new Pachislo machine that drove a significant increase in sales in the Amusement Equipments business to 23,160 million yen (up 38.0% from the previous fiscal year).

Core Title Plans and Achieved (As of March 31, 2014)

	Plans	Achieved
1. "Monster Hunter 4"	2.8 million	4.1 million
2. "Dead Rising 3"	1.2 million	1.2 million
3. "Resident Evil Revelations"	1.2 million	1.2 million

At the same time, despite the increase in operating income, the reasons we were unable to achieve our plans included a lack of leading titles and an intensely competitive environment in the mobile content, which ended in the red even though operating margins up to now had been 30%. Also, in the highly profitable PC online sub-segment, the earnings contribution from supporting a variety of hardware platforms fell short of expectations and resulted in our just breaking even.

As a result of countermeasures from the analysis of factors why these

businesses fell short of planning, to eliminate the dispersion of human resources and the lack of online management expertise, we determined it was necessary to significantly revise the Online business development and management structures. In addition, regarding online titles currently under development, after overall consideration for the possibility of recouping costs in the future, we posted special losses amounting to 5,537 million yen, resulting in downward earnings revisions for the second year in a row. **For more detailed information, please see "Verification" on pages 22-24.**

The reason Capcom's growth rate lags that of the game market is because in the consumer sub-segment our performance exceeds market growth (market: -7%, Capcom: +15%), but in terms of market growth in the online area, we lag significantly (market: +21%, Capcom: -28%).

3. Fulfilling Our Commitment

At the beginning of the year, I promised to address four issues. To begin with, the effects of structural reforms, such as the DLC sales ratio increasing from 11.3% to 18.3%, were felt right away. Sales of "Monster Hunter 4" exceed the projected 2.8 million to sell 4.1 million units. However, in Mobile Contents, there were no hit titles under the Beeline or Capcom brands, necessitating a review of tactics and measures.

Achievement of This Fiscal Year's Commitments

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

Q2 In the fiscal year ending March 31, 2015, you are expecting a decrease in sales but an increase in profits—what is the basis for the increase in profits?

A2 We are forecasting a 21.7% decrease in net sales and a 1.9% increase in operating profit in light of improved margins resulting from the elimination of unprofitable titles but a stronger operating and administrative structure.

1. Market Outlook

We expect continued growth in the game market, which grew to 75.9 billion dollars (up 12.9% from the previous year) in 2014. **Diagram 1** This is based on (1) continued growth of DLC despite the full-fledged

Diagram 2 Net Sales

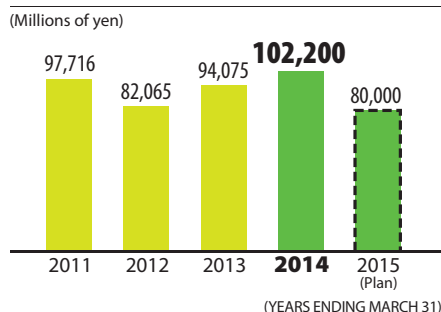


Diagram 3 Operating Income

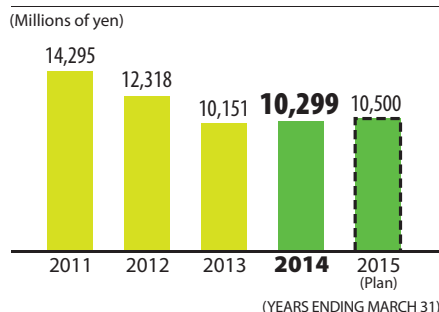
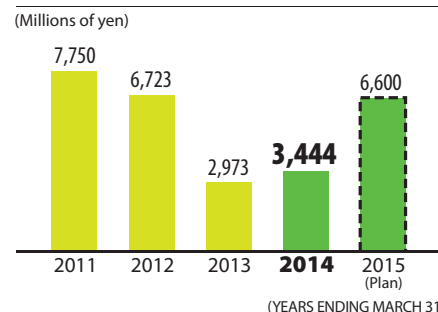


Diagram 4 Net Income



CEO's Discussion

of Performance Summary and Progress Towards Medium-Term Business Goals

adoption of next-generation game consoles in the consumer (package and DLC) market, (2) ongoing expansion in the mobile market as adoption spreads to more regions and (3) the growth of browser games in line with network advances in the PC online market.

2. Factors for Lower Sales and Higher Profits

Next fiscal year (ending March 31, 2015), we expect lower sales and higher profits and are forecasting net sales of 80 billion yen (down 21.7% from the previous fiscal year), operating profits of 10.5 billion yen (up 1.9% from the previous fiscal year) and net income of 6.6 billion yen (up 91.6% from the previous fiscal year). **Diagram 2 3 4**

There are two main factors for the decline in sales. The first is, in addition to a smaller title lineup due to the restructuring of the Mobile Contents business, a lack of major titles in the Consumer sub-segment resulting in sales of 13 million units (down 25.7% from the previous fiscal year) and as a result Digital Contents business, sales of 50 billion yen (down 24.0% from the previous fiscal year). The second factor is the recoil effect of having a major hit Pachislo machine the previous year in the Amusement Equipments business, where we forecast sales of 17.5 billion yen (down 24.4% from the previous year).

At the same time, in the Digital Contents business, we expect profits to increase due to the elimination of titles that are unprofitable or in the red. We expect margins to significantly improve, from 6.8% to 13.6% and forecast operating profit of 6.8 billion yen (up 51.5% from the previous fiscal year).

3. A New Year, A New Commitment

There are three major issues we need to address in the fiscal year ending March 31, 2015. These are (1) achieving unit sales of 3.9 million with next fiscal year's only major software "Monster Hunter 4 Ultimate", (2) undertaking structural reforms in Mobile Contents sub-segment to create an organizational structure with strengthened online management capabilities to achieve next fiscal year forecasts (sales of 5 billion yen and operating margins of 10% or higher) and (3) revitalizing the PC Online sub-segment, where we fought an uphill battle this year, with major updates for core titles in an aim to achieve next fiscal year forecasts

Commitment

1	Achieve "Monster Hunter 4 Ultimate" sales of 3.9 million units
2	Restructure Mobile Contents business organization to strengthen online management capabilities, achieve sales of 5 billion yen and margins of 10% or higher
3	Revitalize the PC Online business with major updates for core titles to achieve forecasts (sales of 8 billion yen and operating margins of 10% or higher).

(sales of 8 billion yen and operating margins of 10% or higher). **Diagram 5**

To address these issues, we will restructure our online development organization, thinning out the title lineup to eliminate waste and create a leaner, more profitable structure.

Q3 In addition to two straight years of downward revisions, it has also become necessary to rethink some of the measures in your growth strategy. What kinds of measures are you planning to move past this situation?

A3 We will achieve the growth targeted by the medium-term business goals through the steady execution of measures in three stages: last year, this year and next year.

1. External Assessments and Internal Recognition

We have heard from shareholders and investors who are uneasy and disappointed over Capcom's earnings revisions stemming from special losses in the past two years. We determined that we must boldly revise growth strategy measures from last year and this year or risk endangering growth over the medium-term.

So, we decided to make a transformation. Looking in from outside, one may have the impression that we aren't executing properly and are struggling, unable to make progress and repeatedly issuing earnings revisions. We are promoting management within this five year framework, and although there have been many unexpected developments, overall we feel we have made steady progress.

2. Verification Analysis: Last Year, This Year and Next Year

To bridge the aforementioned gap in awareness, we will conduct verification analysis for each of these three years, a process broken down into **1** Assumptions at beginning of year, **2** Results at end of year, **3** Reasons for missed targets, **4** Necessary countermeasures and **5** Countermeasure results, which I will now explain.

The first stage (last year) involved changes to the Consumer business structure, the core of our growth strategy. The second stage (this year) involved changes to our Online business and the third stage (next year) involves realizing a leaner structure overall. **Diagram 6** Through these three stages, involving the steady execution of countermeasures based on the analysis of issues over a three-year period, we will achieve the growth targeted by the medium-term business goals.

Diagram 5 Capcom Online Sales

(Billions of yen)

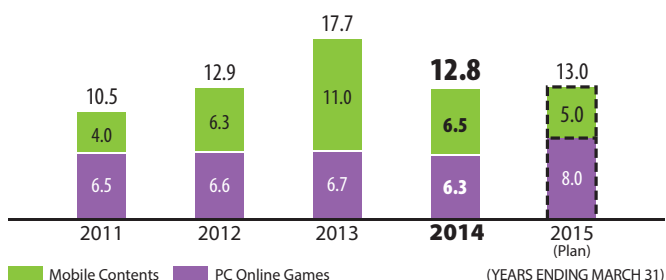
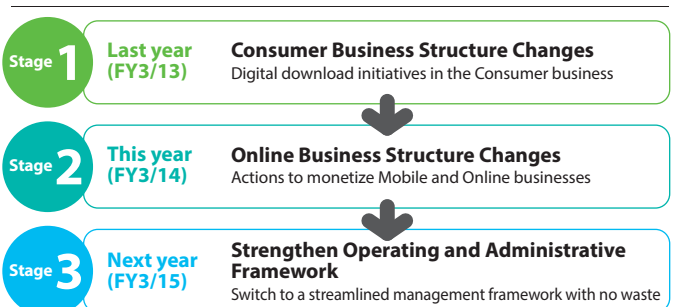


Diagram 6 Last Year-This Year-Next Year: Three-year Summary



Capcom's Past Present Future

Thorough Verification

To understand the necessity of reviewing measures after the downward revisions and the rationality of the medium-term business goals we once again verified these three years according to:

- 1 Assumptions at beginning of year
- 2 Results at end of year
- 3 Reasons for missed targets
- 4 Necessary countermeasures
- 5 Countermeasure results.

Verification Stage 1 Last Year (Ended March 31, 2013) Consumer Business Structure Changes

Issues and Measures		Summary of 1 ~ 5	
<p>Issues</p> <ul style="list-style-type: none"> ● Delayed response to shift to digital download contents in the Consumer business ● Decline in quality of titles outsourced to overseas developers 		<p>1 Assumptions at beginning of year</p> <ul style="list-style-type: none"> ● "Resident Evil 6" will be the series' top seller with over 7 million unit sales ● Enhance lineup and expand overseas sales using overseas development companies 	<p>2 Results at end of year</p> <ul style="list-style-type: none"> ● "Resident Evil 6" sales stalled at 5 million units ● Popular series titles created by overseas development companies failed to achieve sales targets
<p>Measures</p> <ul style="list-style-type: none"> ● Change of strategy for the Consumer business (increase digital download contents, shift to internal R&D) ● Work-in-progress in game software was strictly reevaluated for business restructuring 		<p>3 Reasons for missed targets</p> <ul style="list-style-type: none"> ● Delayed response to shift to digital download contents (DLC) in the Consumer business ● Low quality of overseas development companies and projects that got behind schedule 	<p>4 Necessary countermeasures</p> <ul style="list-style-type: none"> ● Strengthen full-title and add-on DLC ● Shift production from outsourcers to internal R&D
		<p>5 Countermeasure results</p> <ul style="list-style-type: none"> ● Increased DLC ratio from 11% (fiscal 2012) to 18% (fiscal 2013) ● Increased internal R&D ratio from 55% (fiscal 2012) to 64% (fiscal 2013) 	

1 Assumptions at beginning of year?

The assumptions at the beginning of the year were that flagship title "Resident Evil 6" would be the first title in this series to sell over 7 million units, creating a global top selling title. We also assumed the aggressive use of overseas development companies would enhance our title lineup and expand overseas sales. We planned on achieving our best performance ever.

2 Results at the end of the year?

Although "Resident Evil 6" achieved the highest initial shipping numbers of the series, sales stalled at 5 million. Furthermore, popular "DmC Devil May Cry", created by overseas development company in an attempt to fuse overseas tastes with Capcom's taste, fell short of its targeted 2 million units to sell only 1.2 million units.

3 Reasons for missed targets?

Based on internal and external analyses, the reasons these targets were missed included the late DLC response within the Consumer business, the framework of our growth strategy, and the low quality of titles developed overseas.

Specifically, in 2012 DLC accounted for 27.8% of the consumer market and has increased every year since. This is because of the aggressive introduction of add-on DLC among the top ten major titles, which account for 69% of total sales, monopolizing user time and money. At the same time, we placed a priority on allocating management resources to Mobile Contents and PC Online, which delayed our DLC response and made capturing users an uphill battle, resulting in DLC ratio of 11.3% (in fiscal 2012).

Regarding titles developed overseas, remarkable technological innovations in the market further exacerbated differences in the

level of quality among overseas development companies. Sales were lower than expected because of development company quality issues and frequent deviation from schedules.

4 Necessary countermeasures?

The first is a measure aimed at strengthening full-game digital contents. We expect margins to improve as a result of reduced inventory risks and the elimination of middlemen cuts by switching from package sales to download sales in accordance with enhanced game console online functionality. The second is a measure aimed at strengthening add-on DLC. We expect increased revenues and longer game life as a result of providing users who have already bought the package game with new levels and items.

The third is a measure aimed at shifting development from

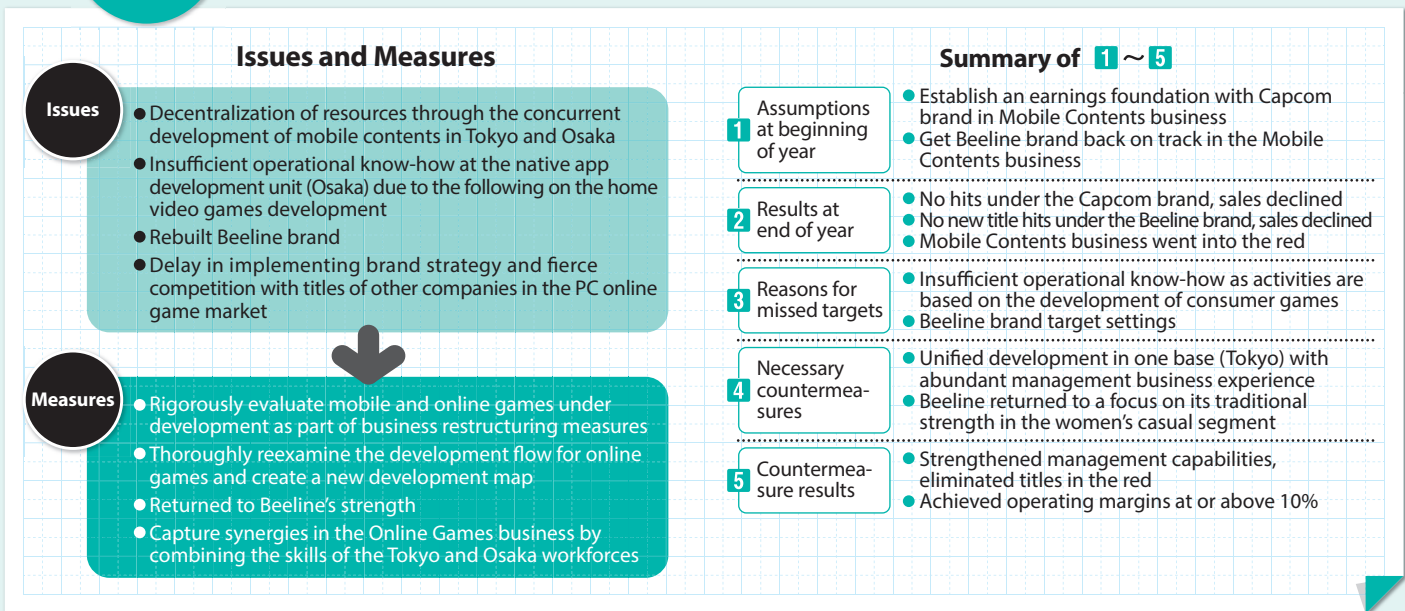
outsourcers to internal R&D. By accumulating proprietary expertise, we can improve quality and adhere more strictly to schedules leading to improved profitability.

5 Countermeasure results?

Regarding achievements in the fiscal year ended March 31, 2014, in addition to focusing efforts on "Monster Hunter 4" and other full-game digital contents, we strengthened sales of former lower-priced bargain-priced titles overseas and on the Steam platform, improving the DLC ratio from 11% to 18%.

Furthermore, by switching our focus to an internal R&D development structure, we were able to increase the ratio of internal R&D approximately nine percentage points, from 55% last fiscal year to 64% as of March 31, 2014.

Verification Stage 2 This Year (Ended March 31, 2014) Online Business Structure Changes



1 Assumptions at beginning of year?

The assumptions at the beginning of the year were that we would establish an earnings foundation with Capcom brand native apps in the Mobile Contents sub-segment and get the Beeline brand back on track by creating a hit to follow "Smurfs' Village".

2 Results at end of year?

In addition to a decline in browser sales, the Capcom brand was unable to generate a hit native app. The Beeline brand was also unable to generate a hit among its new titles.

As a result, Mobile Contents business net sales fell significantly short of the 12.5 billion yen target, achieving only 6.5 billion yen.

3 Reasons for missed targets?

There are three main reasons targets were missed.

- (1) Decentralization of resources through the concurrent development of mobile contents in Tokyo and Osaka
- (2) Insufficient operational know-how at the native app development unit (Osaka) due to the following on the home video games development
- (3) Beeline brand target settings

With respect to (1) and (2), in light of the rapid growth of smartphones, we determined that there was an acceptance of games focused on game characteristics compared to more prosaic games up to now, so we assigned consumer developers who specialize in

development focused on worldviews, scenarios and other game characteristics. However, an important element of the mobile business, online management expertise based on feedback developed from analysis of user activities after distribution, was lacking. In addition, human resources and management expertise were not concentrated internally as they had been too spread out among the Tokyo and Osaka development bases.

As for (3), we placed too much focus on native app market projections and high KPIs in the Japan market, launched titles in the men's segment outside our traditional strengths and spread resources too thin.

4 Necessary countermeasures?

To address (1) and (2), The Osaka division was absorbed into the Tokyo division to unify development and take advantage of Tokyo's abundant

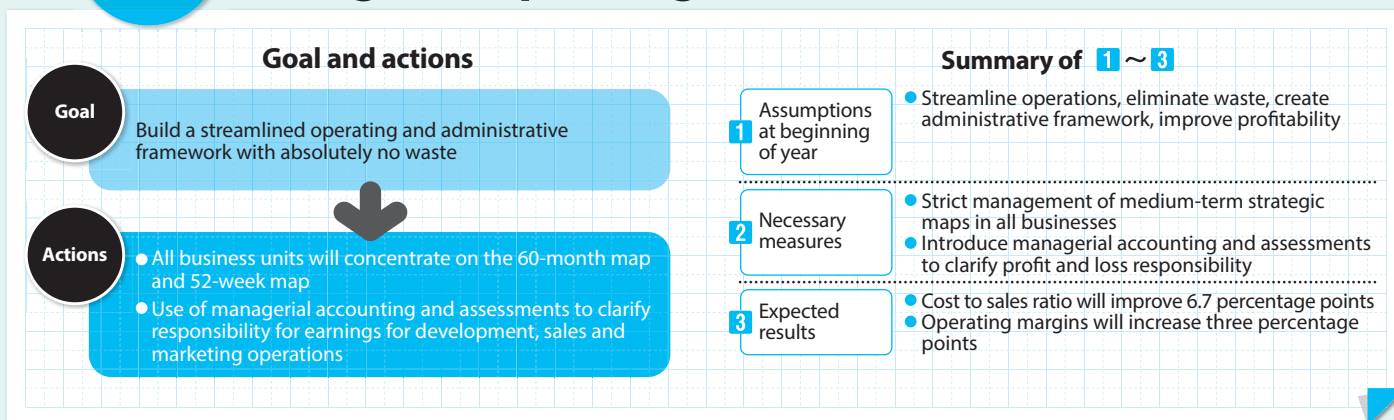
online management expertise. So doing, we are able to make efficient use of internal human resources and management expertise under a consistent mobile brand strategy.

With respect to (3), we returned the Beeline brand's traditional strengths: the female casual user segment. We aim to create hits by returning the success of "Smurfs' Village" by executing a management style with integrated development and marketing that can turn on a dime.

5 Countermeasure results?

Executing (1), (2) and (3), we will eliminate all titles in the red, build an organizational structure with stronger online management capabilities and increase title profitability to turn this year's loss into operating margins of 10% or higher next year.

Verification Stage 3 Next Year (Ending March 31, 2015) Strengthen Operating and Administrative Framework



1 Assumptions at beginning of year?

As the culmination of these three years, we will build a streamlined operating and administrative framework with absolutely no waste to get the biggest results from the first and second stages and achieve our medium-term business goals.

2 Necessary measures?

In addition to strict management of medium-term strategic maps (60-months and 52-weeks) in all businesses, we will introduce managerial accounting and assessments to clarify profit and loss responsibility within development, sales and marketing functions. We will apply Consumer business mechanisms accumulated until now to the Online business and improve profitability.

3 Expected results

As the fiscal year ending March 31, 2015 represents a transitional period for major titles, despite net sales 22% lower than the this fiscal year, the cost to sales ratio is expected to improve 6.7

percentage points. Although SG&A as a percentage of sales will worsen 3.6 percentage points, it will remain at fiscal 2012 levels, generating quantitative results such as a three percentage point rise in operating margins.

Summary

It is essential we surmount these three stages to achieve the above medium-term business goals. **Diagram 7**

Above all, to increase operating margins to 22% by fiscal 2017 (11% last fiscal year) in the core Digital Contents business, we will improve profitability in the Consumer and Mobile sub-segment businesses by modifying mechanisms based on thorough verification.

Results from stage 1 are already being actualized in concrete numbers. In terms of stages 2 and 3, we are also determined to generate quantitative results as early as next fiscal year.

Medium-Term Business Goals

Q4 What progress did you make towards medium-term business goals in this first year?

A4 Although operating income fell short of its target by 1.7 billion yen, we think we can still achieve our cumulative goal of 80 billion yen over the remaining four years.

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. Medium-Term Business Goal Progress Status

Capcom’s medium-term business goals for the cumulative five year period from 2014 to 2018 (ending March 31) are (1) operating income of 80 billion yen and (2) operating margins of 20% in the final year ending March 31, 2018. **Diagram 7** In the first year of this five-year plan, we targeted operating income of 12 billion yen, but missed that target by 1.7 billion yen, so I can’t say it went exactly according to plans. I think we can make up for this over the remaining four years as we fully realize the results of the aforementioned three stages: reorganize the Consumer business DLC and Online business monetization mechanisms and the creation of a streamlined operations structure.

3. Medium- and Long-Term Strategies

The key to achieving our medium-term business goals is the promotion of Consumer business improvements and Online business restructuring.

Diagram 7 Medium-Term Business Goals

- **Targets (cumulative) for 5 years starting fiscal year ending March 2014**
- (1) **Cumulative operating income: 80 billion yen**
- (2) **Operating margins of 20% in fiscal year ending March 2018**

■ **Breakdown by Business Segments**

	Cumulative operating income from 2014–2018 (ending March 31)	2018 (ending March 31) operating margins
Digital Contents	57 billion yen	22%
Arcade Operations	8.5 billion yen	15%
Amusement Equipments	30 billion yen	27%
Other Businesses	5.5 billion yen	45%

First, in the Consumer business, in addition to strengthening DLC to lengthen the payback period and lifecycle of each title, transitioning to internal R&D will improve development efficiency and quality while amassing online management expertise. Furthermore, strictly managing medium-term strategic maps will enable us to realize shorter title sales cycles leading to stable and improved earnings.

Next, in the high-growth potential Online business, we will (1) strengthen marketing and monetization, (2) revise our title lineup and (3) promote PC Online business overseas development. We will also promote the overseas development of both Mobile and PC Online, particularly in the Asia region.

For these reasons, next fiscal year, as with this year, we will augment our development staff with a total of 100 new hires in the Consumer, Mobile and PC Online businesses.

As a result, we will improve operating margins in the highly profitable Digital Contents business from 6.8% in 2014 (ending March 31) to 22% in 2018 (ending March 31) 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, we 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.

R&D Investment and Fund Procurement

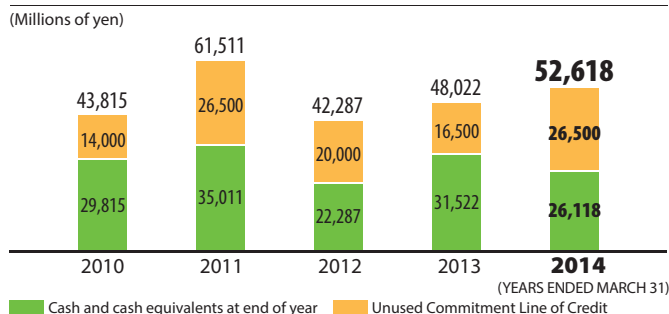
Q5 Please discuss investment strategy and fund procurement in terms of achieving medium-term business goals.

A5 We will ensure a sufficient amount of investment in the consumer and online businesses mainly through cash and cash equivalent on hand and debt financing.

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: 3 “Medium- to Long-Term Strategies), as well as the most massive market of all, the Consumer business,

Diagram 8 Liquidity in Hand



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 36.2 billion yen in the fiscal year ending March 31, 2015), amounting to an investment of 30 billion yen (up 0.3% from the previous fiscal year) into these growth businesses.

2. Fund Procurement

Consumer game software development expenses 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 add-on 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 (29.7 billion yen) as well as an unused 26.5 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 8

Results of Stock Repurchase		
Acquisition period	Number of shares acquired	Total acquisition
April 22, 2013–May 31, 2013	1,347,200 shares	2,281,065,100 yen
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

Shareholder's Return

Q6 Has your dividend been reduced as a result of the downward revisions?

A6 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 Q5, "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.

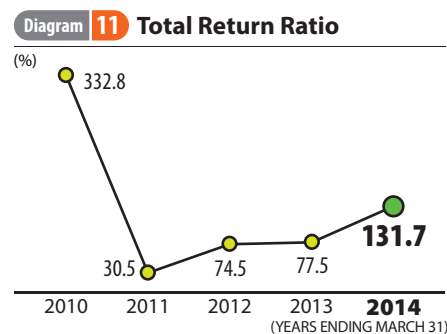
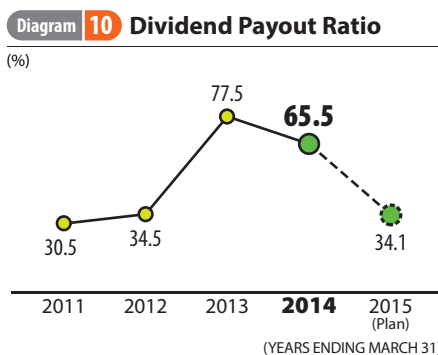
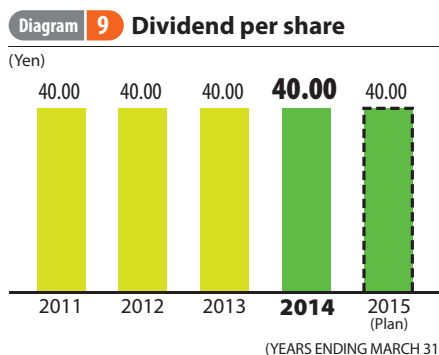
In terms of shareholder return, (1) Capcom will enhance its corporate value through investment and growth; (2) the Company will continue to provide shareholders with stable dividends in line with earnings and (3) we will raise earnings per share through **share buybacks**.

2. Dividends for This Fiscal Year and the Next

This fiscal year (ended March 31, 2014), although we had to make a downward revision due to the poor performance of Mobile Contents, both sales and profits increased on consumer sub-segment and Pachislo machine hits. Accordingly, in line with our basic policy of providing stable dividends, we continued to provide a full-year dividend of 40 yen in this fiscal year. Diagram 9 As a result, the dividend payout ratio increased to 65.5%. Diagram 10

The next fiscal year (ending March 31, 2015), we expect to maintain an annual dividend of 40 yen (payout ratio of 34.1%). 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 11

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.



Conversation: An Analyst's Perspective on Capcom's Strategy for Growth



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

Haruhiro
Tsujimoto



Haruka
Mori

Vice President,
Stocks Research Division
JP Morgan Securities Japan Co., Ltd.

Topic **How to Recover from Disadvantages in the Mobile Business?**

Capcom promotes a growth strategy based on Single Content Multiple Usage, but presently the Mobile business is being harshly evaluated by the stock market. How should the Mobile business be positioned within this strategy? How will Capcom attempt to recover from this situation?

President and Chief Operating Officer Haruhiro Tsujimoto responds to the incisive queries of securities analyst Haruka Mori.

Mobile Strategy Summary

Tsujimoto The purpose of this year's dialogue is to deepen readers' understanding of Capcom from a variety of perspectives through the opinions of a third party. At the same time, some are of the opinion that the materials we publish lack transparency, but as with the objective evaluations we receive in typical analysts reports, I hope you will provide us with your frank opinions.

Mori Yes, of course. As with analysts you have had discussions with in the past years, our mission as analysts is to offer fair and balanced evaluations that provide management with actionable feedback. Sugar-coating evaluations does not benefit either side, so I will speak frankly. To begin with, your mobile strategy has been harshly evaluated by the stock market. How do you perceive this situation at present?

Tsujimoto In the Mobile business, we established the Beeline brand in the United States. Although it had a strong start, we spread our strengths too thin in an attempt to expand user segment, resulting in sluggish

growth. Going forward, we will attempt to rectify this by returning to the source of the Beeline brand's strength, the women's casual user segment.

At the same time, app development for the domestic Mobile business did not go well from the start. We restructured this business, which resulted in the recognition of special losses. Identifying the development structure as the cause, we realized that, rather than relying on consumer development methods, we needed a management approach integrating development and marketing similar to the PC Online business.



Mori Yes, but shouldn't you put more emphasis on speed in rapidly growing markets?

Tsujimoto Of course you are right, however, without expertise, the probability of hit titles will be low no matter how many we create. Last year, we created a number of new titles, but because we lacked expertise none of them performed well. We also failed to gain user trust. The mobile business is positioned as the centerpiece of our growth strategy, so rather than giving up, we will analyze these issues and once again take on new challenges.

Mobile and PC Online Businesses —The Keys to Growth

Mori In terms of growth, while there is no problem regarding Capcom's amassing of expertise, the reality is that your response was delayed compared to competitor firms. Rather than relying purely on in-house development, shouldn't you seek short-term results through aggressive business alliances and personnel exchanges with Internet companies possessing management expertise?

Tsujimoto While alliances and collaborations with external entities offer possibilities, such wholesale delegation does not augment Capcom's expertise. Even in consumer games, we are fast approaching the age of free-to-play (F2P) games. When this occurs, we can make use of online management expertise accumulated in the Mobile business in the Consumer business as a long-term strength. Of course, it is also necessary to obtain results in the short-term, so we are already restructuring PC Online and other divisions with abundant management business experience. As a result, in the fiscal year ending March 31, 2015, although we forecast a decline in sales, we expect to significantly improve profits.

To Further Enhance Capcom's Strengths

Mori Although Capcom, established 31 years ago, is a veteran home video games publisher, there is some doubt as to whether you are able to adjust flexibly to the dramatic changes in the market in recent years. Going forward, do you think you will be able to enhance your competitive advantage?

Tsujimoto The mobile market has a peculiar business model, but if we can combine it with Capcom's strength of development capabilities for creating original content, I think we should have a sufficient chance to succeed. Some time ago, when game consoles advanced from 2D to 3D, Capcom went to painstaking lengths involving trial and error to create popular title "Resident Evil". Our biggest competitive advantages are our developers, who tenaciously persevere in the face of any adversity, and senior management, who have complete trust in the clear policies indicated by developers. Going forward, no matter what kind of new technologies or business models may arise, we are confident we have the spirit and capabilities to overcome any challenge.

Mori I'd like to hear about your strategy for Asia and China, which the stock market is intensely focused on. Starting with the PC Online business, there seems to be a huge potential for development particularly in China. What are your thoughts?

Tsujimoto In the Asia region, which has a large-scale PC online games market, we are attempting to quickly establish brands and create an earnings foundation. Particularly in China, the world's largest market,

we are releasing titles such as "Monster Hunter Online" that make use of core series. However, these titles are not developed in-house, but in collaboration with local companies such as Tencent Holdings Limited. We determined that presently, it will be most effective to forge alliances with powerful local companies to acquire management expertise conforming to user preferences, which differ significantly from those in Japan.

Mori In the rapidly expanding China mobile market, the need for high-quality content and powerful IPs is on the rise, providing plenty of chances for Japanese game companies.

Tsujimoto As with the PC Online business, the environment differs significantly from that in Japan, so we outsource app games developed by Capcom in Japan to local companies in China for localization and management. To establish this process flow, it is first important that the title is a success in Japan. Unlike other game companies, Capcom has a variety of businesses generating steady earnings. If mobile games succeed, this success is linked to all other businesses, making us extremely unique among the world's content makers. We will continue to move forward with dogged determination.



After the Conversation

Although I was strongly aware that Capcom's core business is still console games, I discovered that mobile contents play an unexpectedly central role in Capcom's future growth strategy. However, in the Mobile business, it is not a simple task to speed up and pull ahead of other companies in the industry. I can evaluate Capcom over the medium-term based on how it uses its strength of originality and accumulates internal expertise, but more time is needed before Capcom can fully establish its Mobile business, which needs to make proactive use of successful domestic company expertise and move forward with well-balanced operations. Investors are aware of the upsides involved with the Tencent alliance, but to be reevaluated Capcom needs to demonstrate results in the short-term, such as a hit title in the Mobile business in the next year. (Mori)

Haruka Mori (Profile)

Joined JP Morgan Securities Japan Co., Ltd., in April 2013 covering the gaming and Internet sector.

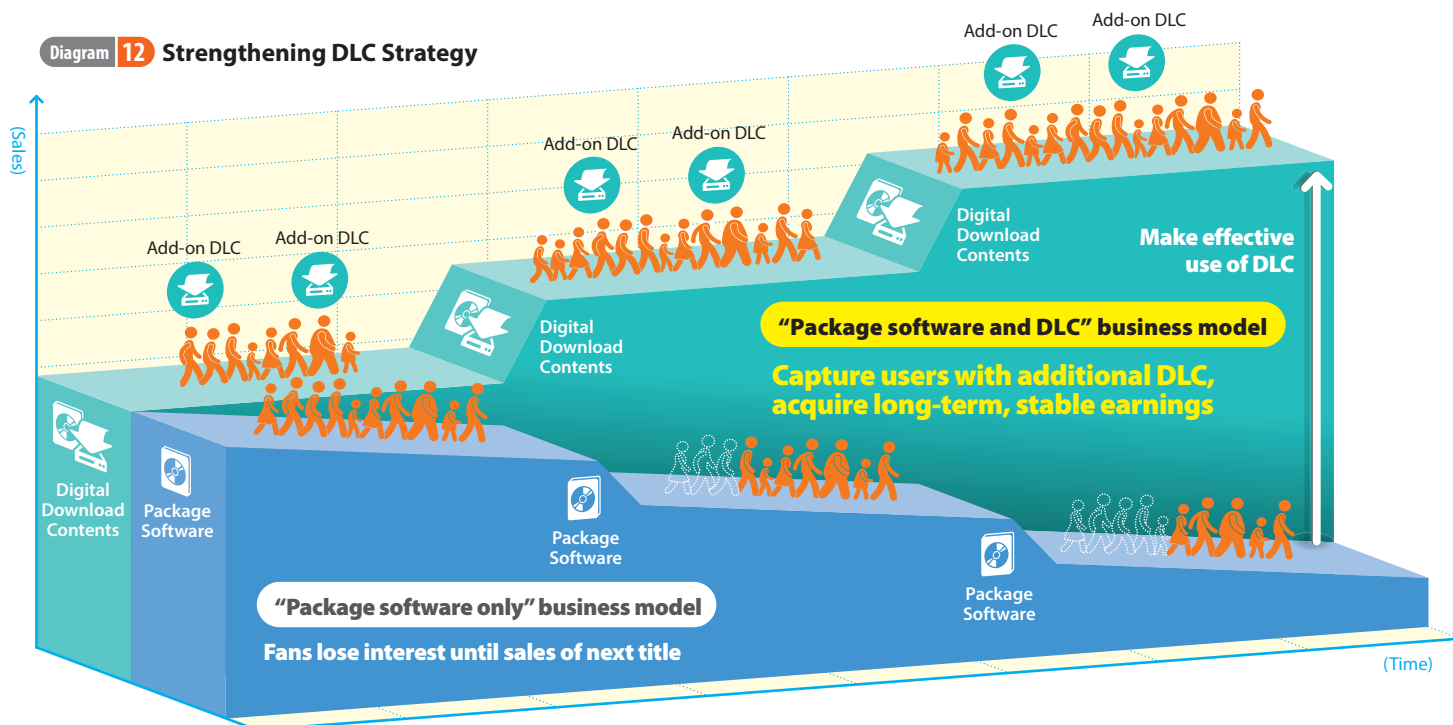
Previously worked for Goldman Sachs Japan Co., Ltd. and Barclays Securities Japan Limited.

Covered the gaming sector since 2010.

Graduated from Sophia University Faculty of Law.

Improving the Consumer Business

Diagram 12 Strengthening DLC Strategy



Creating a High Revenue Structure with 20% Operating Margins

Here, I'd like to explain "improving the Consumer business", the first of our growth strategies for achieving our medium-term business goals. As I touched upon in the CEO Message (see page 19, Q1-2), the consumer market is currently undergoing major changes due to digital download contents (DLC) market expansion and market oligopoly by top titles. Previous fiscal year (ended March 31, 2013), our late response to DLC and other problems adversely affected earnings, but our swift execution of improvement measures (1st stage) has enabled us to significantly improve sales, operating income and operating margins this fiscal year (ended March 31, 2014).

In the consumer market, we are concerned about diminishing profitability from investors due to a rise in development expenses and increased competition with overseas makers resulting from the arrival of next-generation consoles. However, this is still a major market expected to represent about one-third of the overall game market in 2018. Possessing a large amount of popular content, Capcom positions this as a core business able to ensure an operating margin of 20% or higher by improving highly profitable DLC operating margins.

We will promote additional improvement measures on the back of our 1st stage achievements to create a high revenue structure with 20% operating margins.

To this end, we will (1) strengthen DLC, (2) accumulate expertise and improve product quality by transitioning outsourced work to in-house production and (3) revise our title lineup to create a portfolio of titles enabling sustainable growth over the medium- to long-term.

Measure 1 Strengthening DLC to Improve Profitability and Lock in Users

In terms of strengthening DLC (Diagram 12), we will continue previous fiscal year's expansion of DLC sales, improving the ratio of DLC sales of 18%. (Diagram 13) The merits of increasing the ratio of DLC are (1) the reduced manufacturing costs and inventory risks of DLC distribution and (2) locking in users to establish stable long-term addition revenues through ongoing DLC distribution. This is one countermeasure aimed at concerns over rising development costs and increased volatility (which dictate hit titles) in the consumer business, as pointed out by investors.

We are already seeing the effect of previous fiscal year's promotion of improvement measures, particularly with respect to the focus on full title DLC as mentioned in (1). Compared to previous fiscal year, DLC sales have increased 87% and the ratio of DLC has grown seven percentage points.

Going forward, strengthening (2) in addition to (1), we will increase the DLC ratio to 31% in the consumer market. Specifically, we will (1) sell major title "Monster Hunter 4 Ultimate" in package and full-game digital content formats, expanding full-game digital content sales through Steam and (2) strategically release add-on DLC after launching major titles, such as "Street Fighter", to lengthen the lifetime of each game.

Measure 2 Improving Product Quality and Accumulating Expertise Through Transition to In-House Game Creation

We will "improve product quality and accumulate expertise through the transition to in-house game creation" through a structure focused

Diagram 13 DLC Sales Ratio (Capcom and Market Average Comparison)

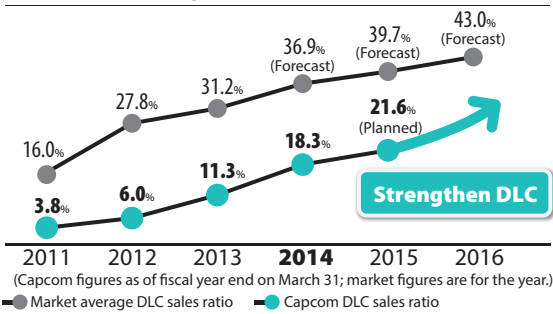
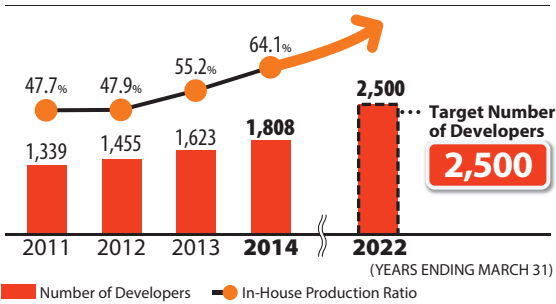


Diagram 14 Number of Developers and In-House Production Ratio

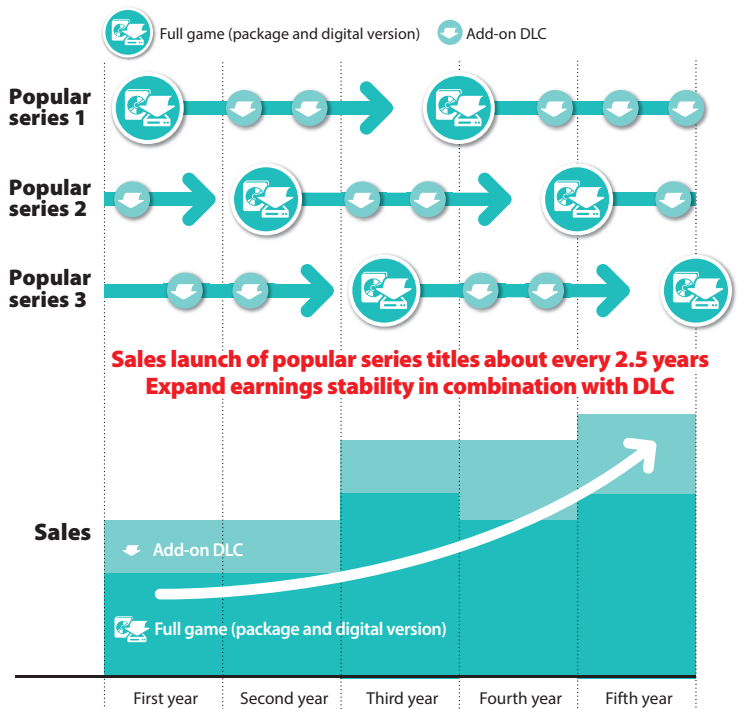


on in-house development and a shift away from our aggressive use of overseas game developers, which began in the fiscal year ended March 31, 2010. The reason for this shift is because major technological innovations in the market led to our inability to sell titles appropriately conforming to market needs due to the time required to change specifications and other agreements with overseas development companies, as well as an increased number of development companies that could not keep up with this technology.

For Capcom, given the current drastic changes in the marketplace, such as the arrival of next-generation consoles and the expansion of the DLC market, shifting our development structure to an in-house focus will improve quality because we can learn all about new technologies associated with next-generation consoles while accumulating expertise on the strategic deployment of additional content. Already, we are seeing benefits from previous fiscal year's improvement measures, with in-house development growing nine percentage points, from 55% previous fiscal year to 64% in the year under review. **Diagram 14**

Also, there is concern over worsening profitability associated with staff allocation and rising personnel costs. In response, Capcom thinks it possible to (1) hire 100 development employees, mainly new graduates, every fiscal year, growing to a structure of 2,500 people by fiscal 2021, (2) strengthen development personnel allocation management with a 52-week map and improve operating rates and (3) keep costs (of sales) down and reduce overseas outsourcing expenses. As a result of these measures, we forecast a cost to sales ratio of 64%, an improvement of 6.7 percentage points.

Diagram 15 Long-Term Portfolio Strategy



Measure 3 Revising Title Lineup to Stabilize Earnings

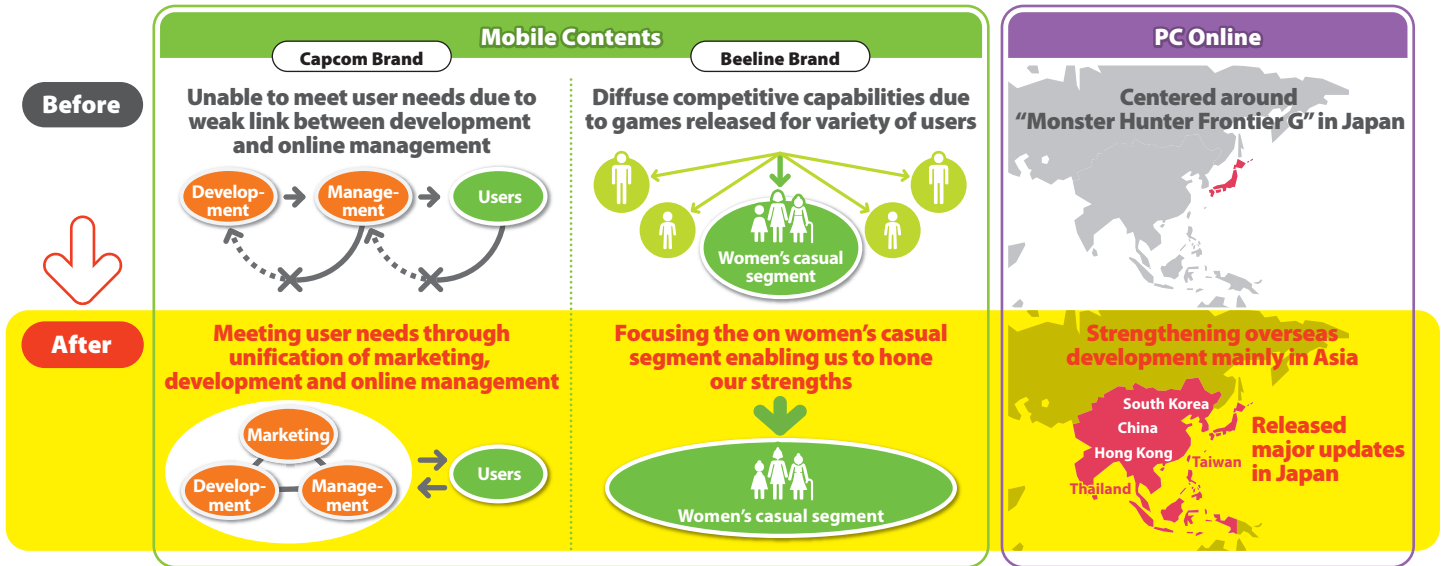
In terms of "revising our title lineup to stabilize earnings," we will (1) advance a multiplatform response focused on current and next-generation consoles and (2) launch a popular Capcom series title about every 2.5 years. **Diagram 15**

The reasons for this are, with regard to (1), to maximize earnings with sales launch of one popular title for both consoles; as the popularity on current consoles peaks, the adoption of next-generation consoles will rise. In terms of (2), three to four years are required to develop a major title, and if we only have a small number of hit titles, it will be difficult to launch a series every year, which will adversely affect earnings. Accordingly, it is important we either stabilize earnings by creating a large number of popular titles, or shorten the time required to launch new titles. Capcom possesses a large number of major titles, including "Resident Evil" and "Street Fighter", so we are able to proceed with both (1) and (2) to pursue stable earnings and growth, increasing the number of titles launched each year to maximize earnings.

With these three overlapping growth strategies and thorough management of our medium-term strategy maps (60-month and 52-week maps) we will flexibly respond to rapid changes in the market, creating popular titles for various consoles sold in about 2.5 year cycle. Furthermore, during times between launches, we will continuously offer new item and scenario downloads to attract users and solidify our fan base in an attempt to attain revenue from the sale of additional items and improve profitability.

Online Business Reforms

Diagram 16 Online Business Reforms



Structural Reform of Growth Engine Online Business

Now, let's explain the second growth strategy for achieving medium-term business goals, "Online business innovation". Diagram 16

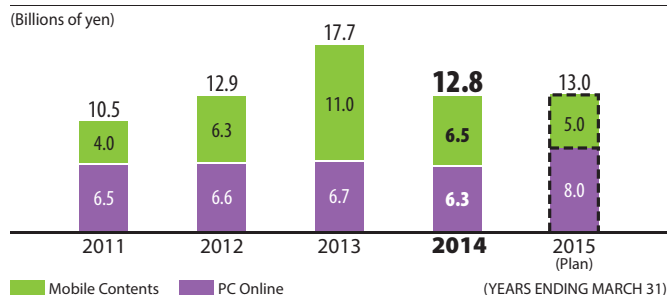
In terms of online business measures, Capcom is (1) strengthening marketing and monetization, (2) revising title lineups and (3) promoting PC Online business overseas development.

We are fighting an uphill battle in the high growth rate online market, and aware that some investors are concerned about Capcom's growth Strategy.

However, we think it is possible to once again reach operating margins of 30% over the medium-term because (1) we maintained operating margins of 30% or higher in the online business for the three years ended March 31, 2013 and (2) at the end of this fiscal year (March 31, 2014), we reviewed measures and carried out organizational improvements based on analysis of the cause of unachieved goals and issues that arose this fiscal year.

For more detailed information, please see "Verification! Stage 2" on pages 23-24.

Diagram 17 Capcom Online Sales



Next fiscal year (ending March 31, 2015), although we do not expect a sufficient recovery in net sales, we do expect to improve cost efficiency and increase operating margins 10% or more through the following measures. Diagram 17

Measure 1 Strengthening Marketing and Monetization (Capcom Brand)

To succeed in the Mobile business, it is important to maintain (1) popular content that can be differentiated from a sea of competition and has low barriers to entry and (2) operational expertise developed by analyzing user movements after a game has been distributed, then providing feedback to development.

Although Capcom has a wide variety of popular content such as "Resident Evil", our Osaka mobile division, which was responsible for native app development in Japan this fiscal year, had insufficient operational expertise as it is staffed by consumer game developers, resulting in the distribution of titles that struggled from an earnings perspective.

In response, the Tokyo mobile division, which is very experienced in the Capcom brand PC online and browser operations business, absorbed the Osaka division to integrate the development structure of native apps. As a result, we will be able to make efficient use of operational expertise and human resources, create teams where marketing staff are positioned above development staff and promote the management and development of titles based on user needs.

Next fiscal year, we plan to launch native app games using core brands, including "Monster Hunter Explore", using a new organizational structure incorporating operational expertise resulting from structural reforms. We will also make use of our powerful

Diagram 18 **Capcom Online Strategy (Matrix)**



* MHFG: "Monster Hunter Frontier G"

Our Strategy for Growth

content and operational expertise to develop the Asia market where the adoption of smartphones continues to accelerate. We will expand our mobile business in Taiwan, South Korea, Hong Kong, and in particular, China, where growth remains robust.

Measure 2 **Revising the Title Lineup (Beeline Brand)**

Turning to the Beeline brand, being too conscious of high growth prospects in the content market and high key performance indicators (KPI) in the Japan market led to our allocating resources to the release of titles outside our traditional strengths in the men's segment, resulting in no new hits this fiscal year.

In response, from next fiscal year, we will go back to Beeline's traditional strengths in the women's casual segment. We aim to create a hit in our area of strength by returning to what made "Smurfs' Village" a success, namely (1) the development of a title making use of globally popular content and (2) a management style with integrated development and marketing that can turn on a dime. At our development bases in North America, Europe and Japan, we will develop games that incorporate characteristics from each of these regions while attempting to acquire users in developing regions where home game consoles have not yet been adopted. The title lineup will include "Smurfette's Magic Match" and "Snoopy's Sugar Drop".

Measure 3 **Promoting PC Online Business Overseas Development**

Recognizing the need to quickly establish our brand in the large Asia market and create a foundation for earnings, we began full-fledged

promotion of PC online overseas development this fiscal year. Specifically, we distributed browser game "Onimusha Soul" to Taiwan in April 2013, where it reached number one in the popularity rankings. We also upgraded the development lines at our subsidiaries in South Korea and Taiwan.

Next fiscal year, in China, the world's biggest online game market, we will begin beta testing of "Monster Hunter Online" in collaboration with Tencent Holdings Limited. We will also begin distributing "Onimusha Soul" to China and Thailand. The reason we are collaborating with Tencent and other local companies is to avoid country risk in Asia while gaining management expertise. We decided that alliances with local, well-established management companies were the most appropriate way forward.

On the domestic front, we will distribute a major update to "Monster Hunter Frontier G" for PC and four types of console, and we plan to release new titles including "Breath of Fire 6". We are aiming for net sales of 8 billion yen (up 27.0% from the current year) next fiscal year.

The Online business is considered the core of Capcom's growth strategy. Having quickly made decisions in response to the cause of unachieved goals and issues that arose this fiscal year, the benefits of which won't become apparent until next fiscal year or after, we expect to achieve business growth that exceeds market growth. **Diagram 18** We can also make use of online management expertise in the Consumer business to increase the DLC ratio, creating greater synergies through the sharing of Digital Content business information and know-how to achieve our medium-term business goals.

Expanding Single Content Multiple Usage Development

Diagram 19 Making Use of Multiple Popular Contents



Generating Earnings Through the Development of 100% Capcom-Owned Content in a Variety of Regions and Media

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

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

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

We own scores of intellectual properties based on popular content. We are now creating a business model to enjoy multiple profits by promoting Single Content Multiple Usage strategy in several applications. **Diagram 19**

While other companies in our industry are rolling out similar strategies,

Capcom’s competitive advantages are (1) more 100% owned content than any other company, able to be developed in a variety of ways using our strength in creating original content and (2) an ability to maximize earnings, compared to companies that only operate in Japan, due to the global development of content popular around the world. **Diagram 20**

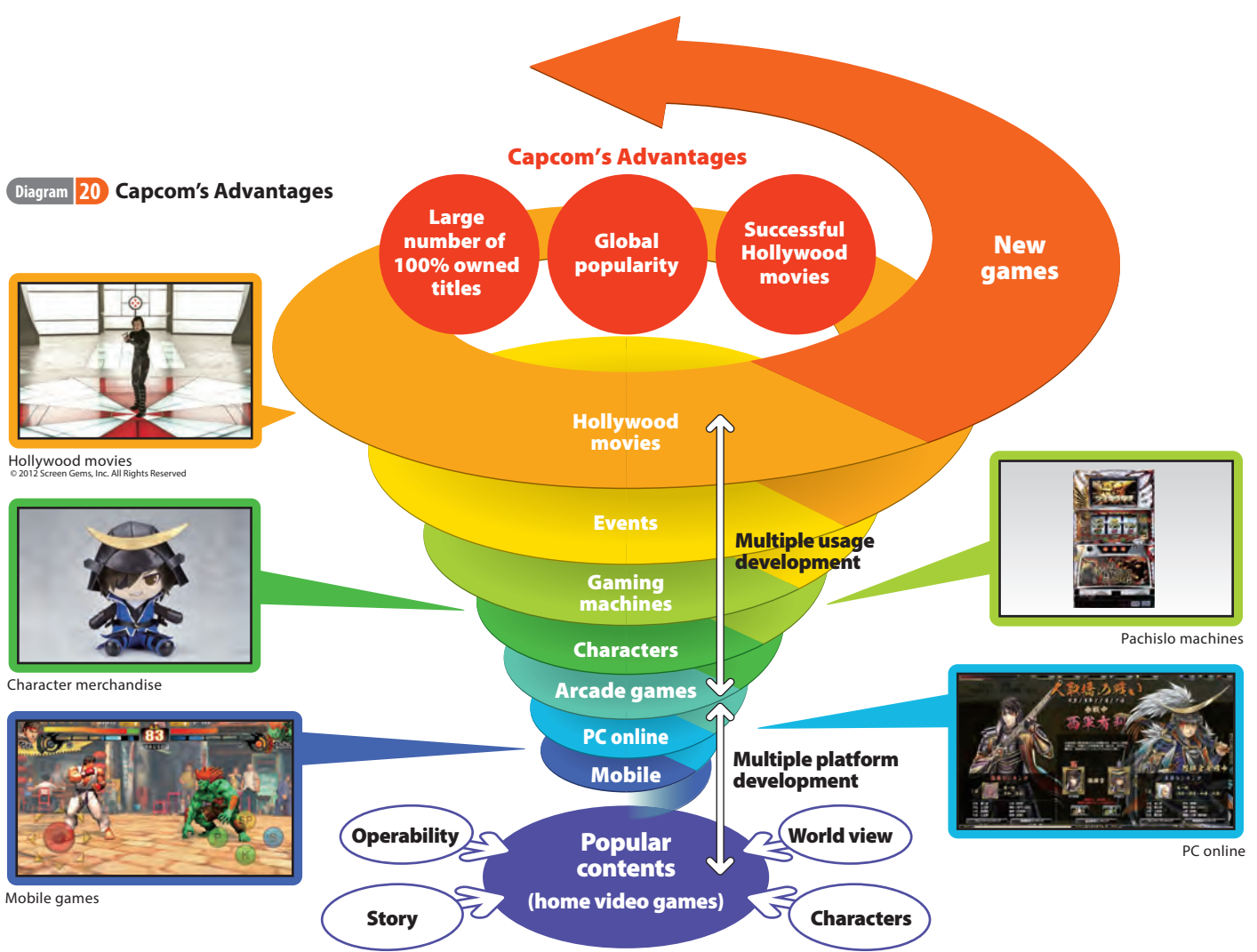
In particular, we are putting more effort into movies based on Capcom content, which is expected to have a significant promotional effect on the sale of consumer games. Other domestic game makers are undertaking similar efforts, but comparing the number of titles made into movies and box office revenues, it is clear that Capcom leads the industry in this regard.

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

Measure 1 Using Popular Content for Events, Stage Productions, Comics and Animation

This fiscal year (ended March 31, 2014), we maximized profits by promoting the multiple usage development of content from popular series. In the “Monster Hunter” series, we held “Monster Hunter Festa ‘13” in five cities across Japan timed to coincide with the launch of home video game “Monster Hunter 4”, as well as “Monster Hunter the Real 2014”, an event in collaboration with Universal Studios Japan (USJ). In addition, we collaborated with the Shibu Onsen Ryokan

Diagram 20 **Capcom's Advantages**



Association in Nagano Prefecture to hold the "Monster Hunter x Shibu hot springs resort in Nagano prefecture" tourist event. Synergy with the game resulted in the participation of 13,000 users.

In the "Sengoku BASARA" series, we collaborated with the Takurazuka Revue to present "Sengoku BASARA". We also presented the "Sengoku BASARA 3 Utage 2" stage production and held "Sengoku BASARA Busyo Festival 2013" as well as fan appreciation event "BASARA Festival 2014", an annual affair. Additionally, we collaborated with the Japan Travel Bureau (JTB) to offer a bus excursion, the "Sengoku BASARA Date Bus Tour", all part of our effort to effectively promote consumer game "Sengoku BASARA 4".

As for "Ace Attorney", in conjunction with the release of "Phoenix Wright: Ace Attorney -Dual Destinies" we attracted users by presenting stage production "Ace Attorney -Gyakuten no Spotlight" and experience-based detective game "Ace Attorney in Joypolis" and "Phoenix Wright: Ace Attorney Dual Destinies x Keikyu Corporation" in collaboration with the Keikyu Railway Corporation.

We conducted a new project for kids involving large-scale cross media development timed to coincide with the release of "Gaist Crusher". We attempted to establish this new brand with serial stories in Saikyo Jump and V Jump comics, animation programs broadcast on television and the sale of music CDs and "Gaimetal" toys linked to the game.

In commemoration of our 30th anniversary, we also held the "Capcom summer festival in Huis Ten Bosch" in Nagasaki Prefecture,

which drew more than 25,000 fans.

Measure 2 Attempting to Increase Brand Value Even More by Appealing to a Wide Customer Segment

Multiple usage development next fiscal year (ending March 31, 2015), will attempt to further improve Capcom brand value and profitability by appealing to a wide customer segment through the ongoing development of titles including "Monster Hunter", "Sengoku BASARA" and "Street Fighter" in a variety of media formats.

Specifically, with regard to the "Monster Hunter" series, we will hold "Monster Hunter the Real 2014" at USJ and continue hosting tourism events at Shibu hot springs resort in Nagano prefecture. To commemorate this series' 10th anniversary, we plan to hold a "10th Anniversary Monster Hunter Exhibition" and "Monster Hunter 10th Anniversary Orchestra Concert -Shuryo Ongakusai 2014-" in addition to a diverse array of activities timed to coincide with the release of "Monster Hunter 4 Ultimate". We also plan to promote "Sengoku BASARA" with stage productions "Sengoku BASARA 3 -Toga Kuruwashikizuna-" and "Sengoku BASARA 4", as well as the broadcast of animated television program "Sengoku BASARA -Judge End-".

These collaborations with other industries function as the linchpin of game content horizontal development. By appealing to a wider customer segment than ever before, we anticipate further increases to our brand value.

Katsuhiko Ichii
Director and Executive Corporate Officer in charge of Consumer Games Business

Kazuhiko Abe
Director and Executive Corporate Officer in charge of Overseas Business

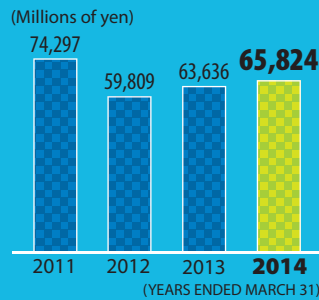


Digital Contents

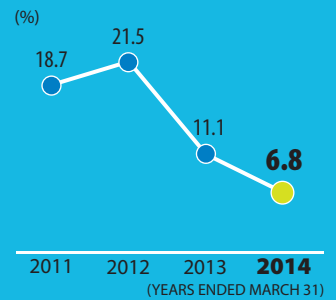
This business engages in the development and sales of consumer games (package software and digital download contents (DLC)) and the development and management of mobile content and PC online games. Original content created for consumer games is developed for a variety of platforms and distributed globally.



Net Sales



Operating Margin



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

- | Strength (S) | Weakness (W) |
|--|---|
| <ul style="list-style-type: none"> World-class development and technological capabilities Own a number of original popular titles PC online game management expertise | <ul style="list-style-type: none"> Dependence on specific genres Lack of development staff Lack of native app game hit titles and management expertise |
| Opportunities (O) | Threats (T) |
| <ul style="list-style-type: none"> Arrival of next generation consumer game consoles Expand digital download business Expanding PC online game genres and areas of adoption Increased users from global expansion of smartphone adoption | <ul style="list-style-type: none"> Consumer game presence diminished by diversity of play Falling average sales price of package games Low barriers for entry into mobile contents, large number of competitor firms |

Market Trends

Consumer (Package and DLC)

DLC Expands Despite 7.1% Consumer Market Decline

In 2013, the consumer (Package and DLC) market was worth 23.7 billion dollars (down 7.1% from the previous year), the second straight year of negative growth. The reasons for this include (1) fewer consoles purchased, resulting in fewer software sales, due to the off-season before new next-generation consoles are released this year and (2) the declining average unit price of software. In the Consumer sub-segment package market, consisting primarily of North America, Europe and Japan, the 80% of the market accounting for North America and Europe contracted 10%, while in Japan, accounting for 20% of the overall, the market shrank more than 20% compared to the previous year. [Diagram 21](#)

At the same time, in line with network infrastructure developments

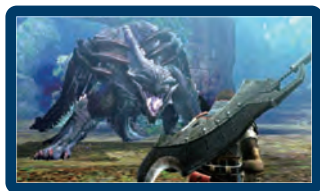
and the establishment of the online premium model, the DLC market, involving the download of full games and additional contents, is clearly growing, increasing to 7.4 billion dollars (up 4.2% from the previous year).

In terms of outlook for the future, we will upgrade title lineups for next-generation consoles sold in 2013 and DLC will continue to grow. We expect a recovery and forecast a slight increase in the global consumer market to 24.9 billion dollars (up 5.1% from the previous year). [Diagram 22](#)

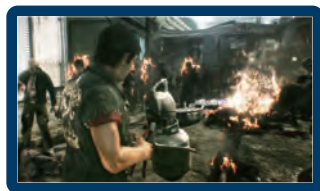
Mobile Contents

Solid Global Growth as Market Expands 19.5% in 2013

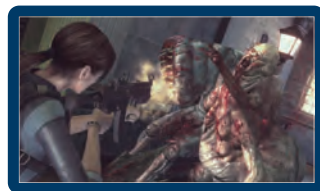
The 2013 mobile contents market achieved significant global growth, increasing to 14.7 billion dollars from 12.3 billion dollars in 2012 (up 19.5% from the previous year). [Diagram 23](#) The main reasons for this were (1) the ongoing adoption of smartphones in all countries of the world,



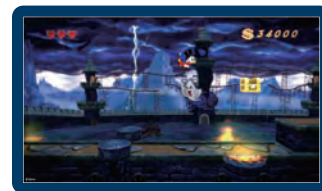
"Monster Hunter 4"



"Dead Rising 3"



"Resident Evil Revelations"



"Duck Tales"

© 1989, 2013 Disney Distributed by CAPCOM U.S.A., INC.

(2) the rise of sophisticated tablet devices and free communication apps such as LINE and (3) the spread of native app and social games due to the growing number of mobile users.

By region, the North American market was worth 3.9 billion dollars (up 38.5% from the previous year), the European market was worth 2.3 billion dollars (up 17.3% from the previous year) and the Asian market including Japan was worth 7 billion dollars (up 14.4% from the previous year). Furthermore, in emerging and Eastern European markets, as well as other areas, the global market grew steadily to 1.3 billion dollars (up 3.8% from the previous year).

The freemium (virtual item purchases/in-game purchases), a earnings model where users download a game for free, then purchase access to additional items and other game content as needed, has predominated in the market since about 2010. With freemium games, the key to manageability is using content power (brand/game content) to appeal to users and analyzing user activity after service provision begins to offer the appropriate services and premium games. For game companies with lots of popular software titles as well as mobile development companies with operational expertise, the opportunity to improve earnings is growing. In line with the movement from traditional feature phones to smartphones, a shift away from browser games requiring a web browser has made the distribution of native app-style games via direct download from the App Store or Google Play commonplace, demanding development structures able to respond to these changes.

Looking ahead, we forecast shipments in the 2014 smartphone market to grow to 1,204 million units (up 19.3% from the previous year) as they continue their spread across the world. We forecast tablet device shipments of 200 million units in 2014 (up 38.6% from the previous year) based on our assumption that mobile content users will continue to increase globally. Accordingly, we predict the mobile

contents market will grow to 28.6 billion dollars by 2018.

PC Online

In 2013 the Market Expanded Favorably by 22.0%

In the PC online market, the spread of cloud game services and digital sales in North America and Europe, the rise of a new genre of browser games, and a growing number of Massively Multiplayer Online (MMO) game users in Asia resulted in solid market expansion to 28.8 billion dollars (up 22.0% from the previous year).

In 2014, this market is expected to continue growing steadily to 32.2 billion dollars (up 11.8% from the previous year). The Asia market in particular is expected to continue expanding, driven primarily by MMO games, from 12.3 billion dollars in 2013 to 13.1 billion dollars by 2018 (up 6.8% from 2013). Accordingly, the PC game market is expected to surpass the consumer game market and grow to 32.3 billion dollars by 2018. Diagram 24

Operating Results for This Fiscal Year

Consumer (Package and DLC)

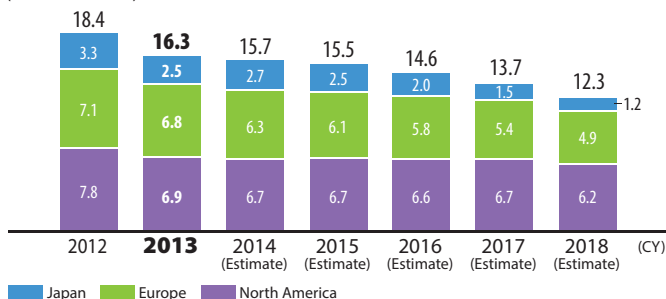
Sales and Profits Rise on Big Hit "Monster Hunter 4" with Net Sales of 53 Billion Yen (Up 15.5%)

In the Consumer sub-segment, there were three million-seller titles. The overwhelming popularity of core title "Monster Hunter 4" drove sales of 4.1 million units, greatly surpassing sales projections of 2.8 million, while "Dead Rising 3" for the U.S. and European markets (1.2 million) and "Resident Evil Revelations" (1.2 million) sold over one million units each. Furthermore, New DLC titles such as "Monster Hunter 4" and "Duck Tales" sold well in Japan and overseas, contributing to overall sales. At the same time, although "Lost Planet 3" for overseas markets never really took

Diagram 21

Package Markets

(Billions of dollars)

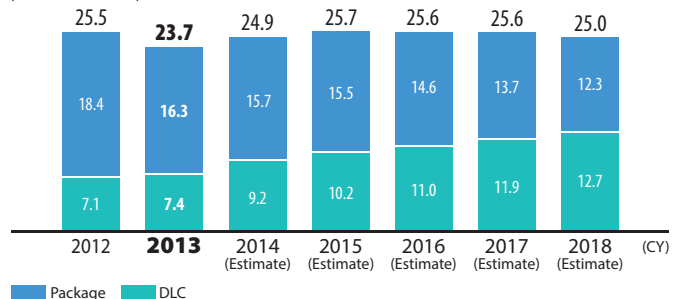


Source: International Development Group

Diagram 22

Consumer (Package and DLC) Market

(Billions of dollars)



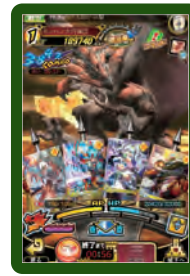
Source: International Development Group



"Lost Planet 3"



"Resident Evil: Clan Master"
©CAPCOM developed by gloops



"Monster Hunter Hunting Quest"



"Smurfs' Village"
© Peyo - 2010 - Licensed through Lafig Belgium - www.smurf.com. All game code © 2011 Beeline Interactive, Inc.

off and sold just 400,000 units, package and full game download sales totaled 17.5 million units (up 4.8% from the previous fiscal year).

As a result, package net sales were 43.3 billion yen (up 6.4% from the previous fiscal year), digital download sales net sales were 9.7 billion yen (up 86.5% from the previous fiscal year) and Consumer net sales were 53 billion yen (up 15.5% from the previous fiscal year).

Mobile Contents

Capcom and Beeline Brands Performing Weakly with Sales of 6.5 Billion Yen (Down 40.9%)

In Mobile Contents, amid the growing prevalence of smartphones, although existing Capcom brand browser-type game "Resident Evil: Clan Master" (Mobage) and recently launched Capcom brand native app game "Monster Hunter Hunting Quest" (iOS/Android) performed steadily, the lack of strong titles and a bitterly competitive environment made these achievements an uphill battle. At the same time, under the Beeline brand, core title "Smurfs' Village" performed solidly. Although it contributed to earnings stability, the inability to produce a new hit kept the market soft.

As a result, net sales tumbled to 6.5 billion yen (down 40.9% from the previous fiscal year). The dearth of new titles caused the cost and sales ratio to worsen and earnings to dip into the red.

PC Online

Net Sales Stagnate at 6.3 Billion Yen (Down 6.0%) Due to Intensifying Competition and Struggling New Titles

In the PC online sub-segment, earnings expanded as a result of the extreme popularity of "Monster Hunter Frontier G" (PC and Xbox 360) and services related to the launch of PlayStation 3 in November 2013 and Wii U in December 2013. However, the market stagnated due to

intensifying competition and struggling new titles.

As a result, net sales were lower than last year at 6.3 billion yen (down 6.0% from the previous fiscal year) as the dearth of new titles caused the cost and sales ratio to worsen and profitability to decrease.

Summary

As a result, the Digital Contents business this fiscal year achieved sales of 65,824 million yen (up 3.4% from the previous fiscal year) and operating income of 4,489 million yen (down 36.4% from the previous fiscal year).

Outlook for the Next Fiscal Year

Consumer (Package and DLC)

Net Sales of 37 Billion Yen (Down 30.2%) Affected by Off-Season, Significantly Improved Earnings Forecast Due to Refocus on Highly Profitable Titles

In the Consumer segment, we are engaged in initiatives aimed at (1) strengthening our digital download strategy, (2) improving quality as we transition to in-house title creation and (3) revising our title lineup to achieve medium-term business goals.

In terms of (1), we will launch simultaneous package and full title download sales of core title "Monster Hunter 4 Ultimate" in an attempt to expand marketing channels and improve the digital download sales ratio.

Moving on to (2), we will make an effort to reduce the outsource ratio (approximately 36% last year) by increasing the operating ratio of our in-house staff and enhancing the efficiency of our development process to improve the cost to sales ratio.

Finally, with respect to (3), we will review our title lineup by redrawing

Diagram 23

Mobile Contents Market

(Billions of dollars)

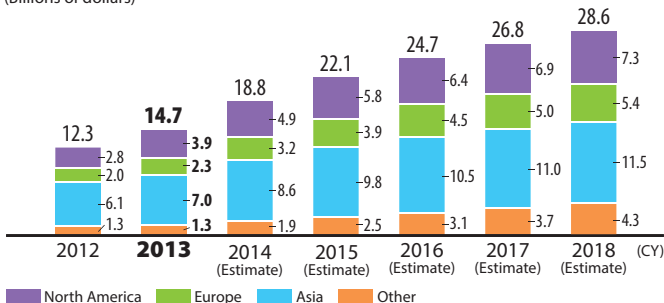
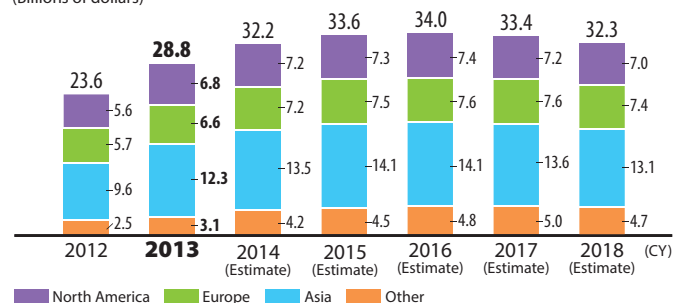
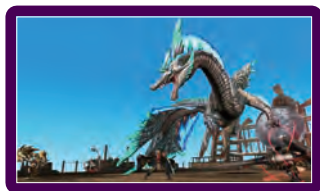


Diagram 24

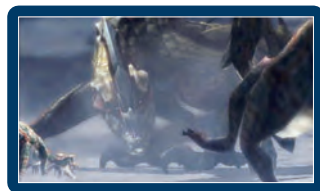
PC Online Market

(Billions of dollars)

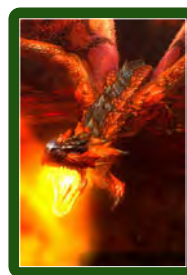




"Monster Hunter Frontier G"



"Monster Hunter 4 Ultimate"



"Monster Hunter Explore"



"Breath of Fire 6"

our 60-month map and restructure such that we are able to continually produce highly profitable core series sequels. **Diagram 25** Next fiscal year, we plan to release new titles from core series including "Monster Hunter 4 Ultimate" and "Ultra Street Fighter IV".

However, due to the market continuing to be in between sales cycles as next-generation consoles continue to spread, and in anticipation of the opposite impact from last year's hits, we forecast net sales of 37 billion yen (down 30.2% from the previous fiscal year). **Diagram 26** We expect significantly improved earnings as a result of eliminating unprofitable titles and costs.

Mobile Contents

Expecting Net Sales of 5 Billion Yen (Down 23.1%) and Operating Margins of 10% or Higher on Structural Improvements and Core Title Refocus

In Mobile Contents, we are focusing efforts on (1) accumulating online management expertise within the Capcom brand and (2) reorganizing our development structure and creating the next hit by returning to the source of our area of expertise within the Beeline brand.

Under the Capcom brand, we will create a development process optimized for ongoing business by integrating the disparate Tokyo and Osaka development divisions to create synergies from the fusion of consumer content creation capabilities and PC online management capabilities. Specifically, we will release carefully selected core brand native app games like "Monster Hunter Explore". We will also develop the Asia market (including China) where smartphones continue to spread at a rapid pace.

Turning to the Beeline brand, we will focus on our traditional strengths in the women's casual segments by returning to the development of titles making use of popular content featuring world-famous

characters like "The Smurfs" and "Snoopy". We will also develop games incorporating distinctive regional characteristics at our development facilities in North America, Europe and Japan and acquire users in developing regions where home video game consoles have yet to be adopted. Next year (ending March 31, 2015), our overseas title lineup will include the release of "Smurfette's Magic Match" and "Snoopy's Sugar Drop".

In light of these measures, although mobile content net sales were 5 billion yen (down 23.1% from the previous fiscal year) after a reduction in the number of titles for distribution, we forecast a return to profitability including operating margins of 10% or higher. **Diagram 26**

PC Online

Strengthening Development in Japan and Asia, Forecasting Sales of 8 Billion Yen (Up 27.0%)

In the PC online segment, we expect earnings contributions from a major update to "Monster Hunter Frontier GG" and the distribution of new titles including "Breath of Fire 6". We will also strengthen our business in the Asia region through developments in the China market with the "Monster Hunter Online" collaboration with Chinese firm Tencent Holdings Limited.

Accordingly, we forecast net sales of 8 billion yen. **Diagram 26**

Summary

In light of the above, we forecast Digital Contents net sales of 50 billion yen (down 24.0% from the previous fiscal year) next fiscal year. We also forecast operating income of 6.8 billion yen (up 51.5% from the previous fiscal year) and an operating margin of 13.6% (up 6.8 percentage points from the previous fiscal year) as a result of a focus on highly profitable titles.

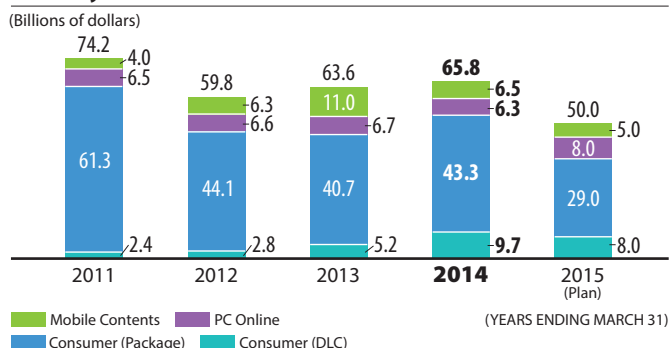
Diagram 25

Total Number of Units of Major Titles Sold (As of March 31, 2014)

Major Titles	Number of Titles	Total Number of Units Sold (Thousands)
Resident Evil	89 titles	61,000
Street Fighter	77 titles	35,000
Mega Man	129 titles	30,000
Monster Hunter	28 titles	28,000
Devil May Cry	19 titles	13,000
Dead Rising	12 titles	7,500
Lost Planet	17 titles	5,600
Ace Attorney	17 titles	5,100
Sengoku BASARA	26 titles	3,600

Diagram 26

Sales by Genre





Arcade Operations

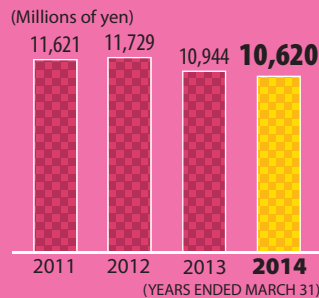
We operate "Plaza Capcom" amusement facilities in Japan. These arcades are predominantly in large commercial complexes and host various events designed to attract families, women and senior customers. We have diligently followed a scrap-and-build policy to maximize our efficiency in arcade operations.



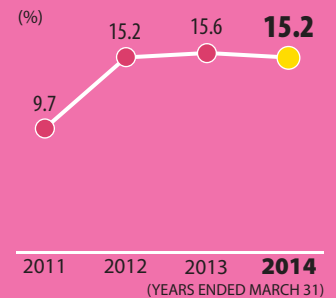
Yoichi Egawa
Director and Executive Corporate Officer in charge of Arcade Business and Pachinko & Pachislo Business



Net Sales



Operating Margin



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

- | | | |
|--|--|--|
| <ul style="list-style-type: none"> Specialize in opening mall-based large-scale facilities to secure a stable customer base Thorough scrap-and-build focused on investment efficiency to ensure sustainable earnings | | <ul style="list-style-type: none"> Low sales growth from small number of carefully selected facilities Little synergy with proprietary contents |
| <ul style="list-style-type: none"> Expanded ability to attract customers through installation of new machines Hedges risks through inverse relationship to home video game market Expand customer base through appeal to senior and kids segments | | <ul style="list-style-type: none"> Existing users on the decline due to falling birth rate Lower growth potential of overseas markets Increased consumption tax |

Market Trends

3.6% Market Contraction Indicates Continued Downward Trend, Continued Monitoring of Consumption Tax Increase Impacts Essential

During the previous fiscal year (ended March 31, 2013), the size of the arcade facilities market was 470 billion yen (down 3.6% from the previous fiscal year). [Diagram 27](#) This was due to a decrease in the number of company-owned arcades, which have a large sales volume per facility, the absence of a major hit product gaining traction in the market and competition from app games in line with the ongoing adoption of smartphones.

Furthermore, although the number of facilities decreased to 16,992 (down 6.2% from the previous fiscal year), there was a slight increase in the number of machines per arcade (up 0.5 machines from the previous fiscal year) and sales per facility (up 2.8% from the previous

fiscal year) amid accelerated growth in large-scale company-owned arcades and a decline in small scale rental facilities. [Diagram 28](#)

This fiscal year (ended March 31, 2014), although there was an increase in the popularity of some prize products, there were not as many hit products as last year. As a result, despite the increased operating efficiency of existing arcades at all companies, the ongoing closure of unprofitable arcades led to a somewhat soft market.

In terms of outlook for the future, price pass-through has become difficult for the one coin business structure due to the April 2014 consumption tax increase. In addition, concerns over declining customer numbers due to a drop in consumer confidence are expected to result in a weaker market as company priorities will focus on improving profitability through narrowed-down investment, operational efficiency, scrap and build policies and other initiatives.



Plaza Capcom Oita
"Monhan Sweets Airou Crepe Shop"



Plaza Capcom Hanyu



Plaza Capcom Shitoro
"Asobi Oukoku peekaboo"



MARK IS Shizuoka Amusement Park

Operating Results for This Fiscal Year

Promoting New Businesses Targeting Seniors and Kids Amid Lower Sales and Profits Due to Market Sluggishness

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

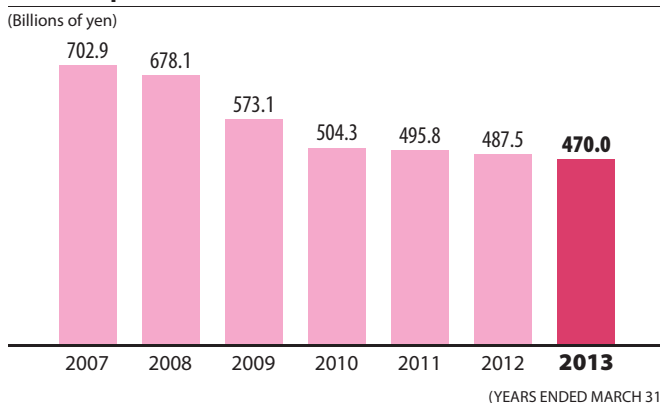
This fiscal year (ended March 31, 2014), amid continued market sluggishness, we focused efforts on cultivating new customers through concepts aimed at attracting customers including comprehensive arcade renovations, free game experience tours for senior citizens and themed areas for kids to expand customer segments. We also made efforts to capture a wider range of users, including a collaboration with Gakken Holdings Co., Ltd., and Dai Nippon Printing Co., Ltd., to introduce "Asobi Oukoku peekaboo", a timed rate structured play area for kids.

Nevertheless, insufficient machine traction and increased competition from other forms of entertainment combined with unseasonable weather resulted in fewer customers.

This fiscal year, we promoted a scrap and build policy in response to changes in the environment, opening one new arcade in Shizuoka City and closing two other unprofitable arcades, bringing the total number of arcades in operation at the end of this fiscal year to 33.

As a result, net sales were 10,620 million yen (down 3.0% from the previous fiscal year) and operating income was 1,617 million yen (down 5.4% from the previous fiscal year).

Diagram 27 Arcade Operations Market



Outlook for the Next Fiscal Year

Planning to Open Three Arcades and Close One Next Fiscal Year, Maintaining Operating Margins at 15% Amid a Severe Market Environment

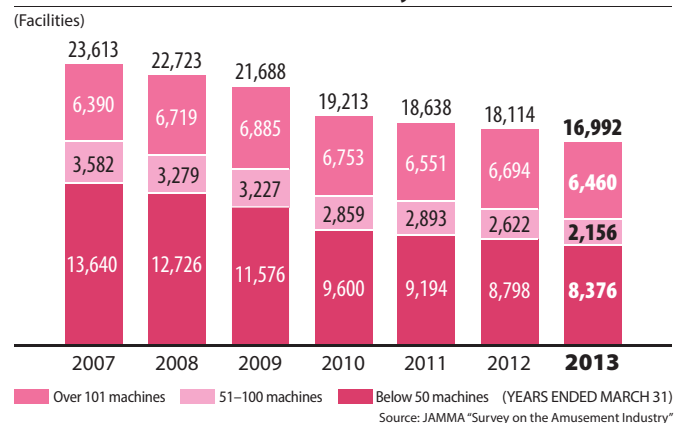
In terms of business development next fiscal year (ending March 31, 2015), the arcade facilities market faces concerns over declining customer numbers caused by a drop in consumer confidence as price pass-through will be difficult due to the April 2014 consumption tax increase. Capcom will make an effort to ensure profitability through ongoing operational efficiencies at existing facilities and the cultivation of new customers.

Capcom will focus efforts on attracting a greater number of customers and aim for synergies in the game users, women and family segments through ongoing senior events that attract customers from the middle-aged segment, the development of timed rate structured play areas for kids and the establishment of themed food shops making use of Capcom characters.

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

We forecast net sales of 10 billion yen and operating income of 1.5 billion yen in the next fiscal year.

Diagram 28 Number of Amusement Arcades (by number of machines)





Amusement Equipments

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

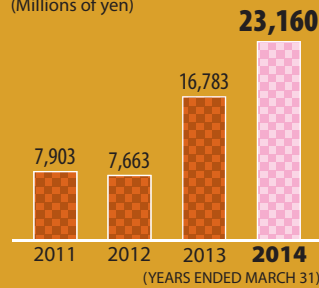


Yoichi Egawa
Director and Executive Corporate Officer in charge of Arcade Business and Pachinko & Pachislo Business



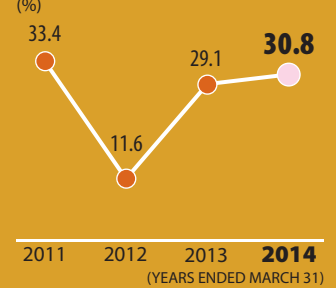
Net Sales

(Millions of yen)



Operating Margin

(%)



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

- | Strength (S) | Weakness (W) |
|---|--|
| <ul style="list-style-type: none"> High quality development capabilities cultivated through home video games Multiple usage of plentiful in-house content Ability to observe real time market movements through company-owned arcades | <ul style="list-style-type: none"> Lack of title lineup |
| Opportunity (O) | Threat (T) |
| <ul style="list-style-type: none"> Market recovery via introduction of popular machines Market expansion through network and 3D and other new technologies Market recovery from relaxation of The Entertainment Establishments Control Law | <ul style="list-style-type: none"> Declining operator and hall investment appetite Long-term market stagnation Market fluctuations resulting from changes to The Entertainment Establishments Control Law |

Market Trends

Gaming Machine Market Stable at Previous Year's Levels on Popular Pachislo Machines, Arcade Game Machines Contract 3.6% During Transitional Period

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

During the previous fiscal year (ended March 31, 2013), the Pachinko and Pachislo market maintained the same levels as the previous fiscal year, totaling 1,202.9 billion yen (up 0.1% from the previous fiscal year). This was partly due to the third straight year of contraction in the Pachinko machine market (down 6.5% from the previous fiscal year), which accounts for more than half the overall market. At the same time, the market has been sustained by Pachislo machine market growth, which has expanded in each of the last three years (up 14.7% from the previous fiscal year). [Diagram 29](#)

This fiscal year (ended March 31, 2014), the Pachislo machine market remained stable and showed signs of recovery, such as the number of new arcade openings returning to pre-Great East Japan Earthquake levels and expanded sales per arcade in accordance with the increase in large-scale facilities with more than 1,000 machines, which indicate the market has bottomed out.

However, in terms of the future outlook, the Pachinko machine market is expected to remain soft, while there are indications demand has returned to the Pachislo machine market, potentially the beginning of a turning point.

Next, in the previous fiscal year, the arcade games domestic product sales market shrank to 167.5 billion yen (down 3.6% from the previous fiscal year) due to contraction in the arcade facilities market and the effects of the transitional period between new product sales cycles. [Diagram 30](#)
By genre, sales of additional items in the content of consoles with networking functions increased significantly to 23.9 billion yen (up



"DEVIL MAY CRY 4"



"Resident Evil 5"



"Monster Hunter Gekka Raimei"



"Monster Hunter Medal Hunting Compact"



"Mario Party-Fushigi no Korokoro Catcher 2"

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30.6% from the previous fiscal year), while high-sales-ratio coin-operated games (accounting for 20.8% of the market) tracked slightly lower to 34.9 billion yen (down 3.6% from the previous fiscal year).

This fiscal year (ended March 31, 2014), the market remained firm on the launch of several major coin-operated games and higher sales of upgraded network game consoles requiring little investment.

In terms of the outlook for the future, the facilities market will continue to be in a slump due to the consumption tax increase. To ensure profitability, facility operators will narrow down new arcade openings and capital expenditure, which we think will result in a softer market.

Operating Results for This Fiscal Year

Contributing to Profitability with Smash Hit "Monster Hunter Gekka Raimei" Pachislo Machine Created In-House. Coin-Operated Games Maintain Position Among Arcade Games. Sales Increased 38.0%, Operating Income Increased 45.8%

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

In the P&S sub-segment, Capcom develops attractive software featuring our proprietary content along with that of other companies, using our technological expertise in high-resolution image processing cultivated through the development of home video games is our strength. This fiscal year, in the P&S sub-segment, the "Monster Hunter Gekka Raimei" Pachislo machine created in-house sold approximately 46,000 units and "DEVIL MAY CRY 4" sold over 25,000 units, exceeding all expectations and significantly contributing to profitability. The contracted product development business also contributed to this segment's solid performance.

In terms of Arcade Games Sales sub-segment, we will make use of widely recognized Capcom content and our strength in developing

coin-operated games, an area where we anticipate heightened market needs and steady sales. This fiscal year, arcade game machine sales were led by the new coin-operated games "Monster Hunter Medal Hunting Compact" and "Mario Party-Fushigi no Korokoro Catcher 2". As a result, sales and profits increased, with sales of 23,160 million yen (up 38.0% from the previous fiscal year) and operating profit of 7,131 million yen (up 45.8% from the previous fiscal year).

Outlook for the Next Fiscal Year

Expecting Sales to Drop 24.4% and Operating Profit to Decline 29.9% in P&S and Arcade Games Sales Due to Reverse Impact of Hit Products Last Year

In terms of business development in the next fiscal year (ending March 31, 2015) in the P&S sub-segment, we expect the need for Pachislo machines to remain stable in line with the growing demand for higher quality visuals and popular content. At the same time, we anticipate increased competition between companies distinguished by high-performance hardware and investment opportunities. Capcom will (1) strengthen the consignment business which is expected to contribute stable profits, (2) enter into an alliance with the Fields Corporation to enhance development capabilities and strengthen sales network and (3) introduce major popular home video game contents in an aim to ensure machine sales.

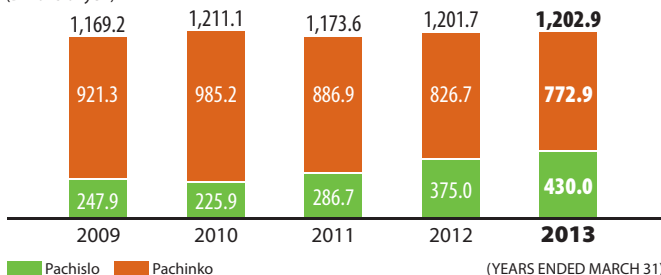
With respect to the Arcade Game Sales sub-segment, we expect facility operator appetite for investment to decline as a result of the consumption tax increase. Capcom will focus on the development of coin-operated games using popular, highly recognizable proprietary content in an attempt to differentiate from other companies' products.

However, the reverse impact from hit products in the P&S and Arcade Games Sales sub-segment is expected to result in a decrease in sales and profits, forecast at 17.5 billion yen and 5 billion yen, respectively.

Diagram 29

Gaming Machines Market (New Machine Sales)

(Billions of yen)

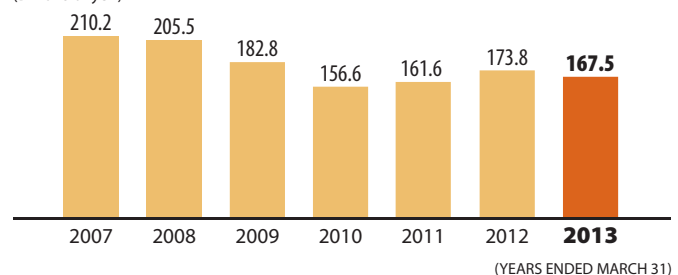


Source: Manufacturer sales base compiled by Capcom using Pachinko Maker Trends (2011, 2012, 2013); Yano Research Institute Ltd.

Diagram 30

Arcade Game Market

(Billions of yen)



Source: JAMMA "Survey on the Amusement Industry"



Other Businesses

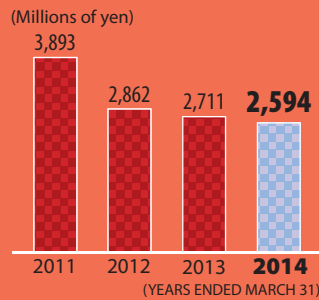
Based on a Single Content Multiple Usage strategy of developing game content for various media, we will pursue a variety of copyright-related business opportunities including publishing (walkthrough and strategy guides as well as game settings collections) and licensing (music CDs and licensed merchandise).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



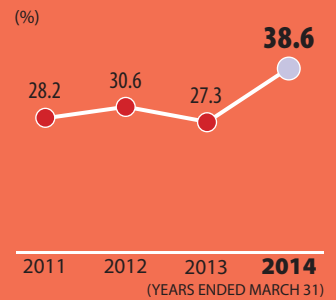
Katsuhiko Ichii
Director and Executive Corporate Officer in charge of Consumer Games Business



Net Sales

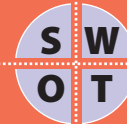


Operating Margin



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

- Synergy effect from multiple use of abundant content
- Brand value increased through high media exposure
- High profitability
- Low return of sales from licensed products
- Expansion of film, animation, comics, stage productions, orchestras and other development media
- Contents business demand area expansion
- Direct competition with other company's contents as a result of globalization



Operating Results for This Fiscal Year

Despite a 4.3% Dip in Sales, Operating Profit Soared 35.2% Amid Acquisition of New Fans Through Cross-Industry Collaborations on Movies, Theatrical Performances and Other Popular Series

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

During this fiscal year (ended March 31, 2014), we continued to execute our Single Content Multiple Usage strategy (see "Growth Strategy 3" on page 33), conducting various projects based on each game title to enhance the branding of our game content and maximize profits.

These projects were implemented across all business segments, with each division involved in the launch of arcade games, mobile content, walkthrough and strategy guides and character goods, as well as movie and TV animation programs and other events in connection with the release of our home video games. **Diagram 31** Specifically, we focused on increasing the "film version of Capcom contents", which strengthens the promotion and sales of home video games. Although other Japanese software manufacturers have made similar moves, the number of Capcom game titles adapted into movies and the attendant box-office revenues demonstrate our clear competitive advantage in this area. This success is a result of (1) our strength in creating original content, underpinned by owning more proprietary content than our competitors and (2) the global popularity of our titles, which are suitable for adaptation into movies for global distribution. **Diagram 32**

This fiscal year, to commemorate our 30th anniversary, we held a



"Monster Hunter Festa '13"



"Monster Hunter the Real 2014"
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"Monster Hunter × Shibu hot springs resort in Nagano prefecture"



"Sengoku BASARA 3 Utage 2"



"Sengoku BASARA -Judge End-"
©CAPCOM / BASARA JE

"Capcom summer festival in Huis Ten Bosch" in Nagasaki Prefecture. We also held "Monster Hunter Festa '13" events in five cities across Japan to coincide with the launch of "Monster Hunter 4" and collaborated with Universal Studios Japan on "Monster Hunter the Real 2014". We held other events in an attempt to expand our user base, including regional promotional events in conjunction with the Shibu hot springs resort in Nagano Prefecture.

Capcom promotes cross-industry collaborations, such as the "Sengoku BASARA 3 Utage 2" theatrical production, in an ongoing effort to appeal to a wide variety of users.

In the "Phoenix Wright: Ace Attorney" series, we kept users captivated with theatrical production "Ace Attorney -Gyakuten no Spotlight" and the return of hands-on detective game "Ace Attorney in Joypolis".

We are also moving forward with several multi-development projects involving "Street Fighter".

These activities resulted in a slight drop in sales but significantly

higher income, as net sales were 2,594 million yen (down 4.3% from the previous fiscal year) and operating income was 1,001 million yen (up 35.2% from the previous fiscal year).

Outlook for the Next Fiscal Year

Further Progress with Our Single Content Multiple Usage Strategy and Promotion of a "Monster Hunter" 10 Year Anniversary Project Expected to Maintain Net Sales and Operating Income at Last Year's Levels

Looking ahead to the next fiscal year (ending March 31, 2015), we will continue to execute our Single Content Multiple Usage strategy.

Capcom is proactively developing various collaborations to coincide with the "Monster Hunter" series 10th anniversary as well as the launch of "Monster Hunter 4 Ultimate" for Nintendo 3DS. Specifically, we will attempt to forge closer bonds with users through ongoing participatory-based events, including the "Monster Hunter 10th Anniversary Orchestra Concert -Shuryo Ongakusai 2014-" and "10th Anniversary Monster Hunter Exhibition", both slated for August 2014.

As for the "Sengoku BASARA" series, Capcom is planning a "Sengoku BASARA 3 -Togakuruwasikizuna-" theatrical production and the broadcast of TV animation "Sengoku BASARA -Judge End-" in July 2014. Furthermore, we are making efforts to increase brand value through ongoing stage and screen projects involving the "Phoenix Wright: Ace Attorney" and "Gaist Crusher" series.

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

In light of these efforts, we forecast net sales in the next fiscal year of 2.5 billion yen and operating income of 0.9 billion yen.

Diagram 31

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

	Year	Content	Adaptation
Movie	Aug. 1994	Animated movie	Street Fighter II
	Dec. 1994	Hollywood movie	Street Fighter
	Mar. 2002	Hollywood movie	Resident Evil
	Sep. 2004	Hollywood movie	Resident Evil: Apocalypse
	Mar. 2005	Animated movie	Mega Man Battle Network
	Nov. 2007	Hollywood movie	Resident Evil: Extinction
	Oct. 2008	CG movie	Resident Evil: Degeneration
	Feb. 2009	Hollywood movie	Street Fighter: The Legend of Chun-Li
	Aug. 2010	Movie	ZOMBREX DEAD RISING SUN
	Sep. 2010	Hollywood movie	Resident Evil: Afterlife 3D
	Jun. 2011	Animated movie	Sengoku BASARA -The Last Party-
Feb. 2012	Movie	Ace Attorney	
Sep. 2012	Hollywood movie	Resident Evil: Retribution	
Oct. 2012	CG movie	Resident Evil: Damnation	
Nov. 2012	Movie	Sengoku BASARA -MOONLIGHT PARTY-Remix	
TV animation	Apr. 1995	TV animation	Street Fighter II V
	Mar. 2002	TV animation	Mega Man Battle Network
	Oct. 2004	TV animation	Viewtiful Joe
	Oct. 2006	TV animation	Mega Man Star Force
	Jun. 2007	TV animation	Devil May Cry
	Apr. 2009	TV animation	Sengoku BASARA
	Jul. 2010	TV animation	Sengoku BASARA2
	Aug. 2010	TV animation	MONHAN NIKKI GIRIGIRI AIRU MURA AIRU KIKI IPPATSU
	Jul. 2011	TV animation	MONHAN NIKKI GIRIGIRI AIRU MURA G
	Oct. 2012	TV animation	IXION SAGA DT
Oct. 2013	TV animation	Gaist Crusher	
Jul. 2014	TV animation	Sengoku BASARA -Judge End-	
Theatrical production	Feb. 2009	Takarazuka Revue Company	Phoenix Wright: Ace Attorney -The Truth Comes Back to Life
	Jul. 2009	Theatrical production	Sengoku BASARA
	Aug. 2009	Takarazuka Revue Company	Phoenix Wright: Ace Attorney 2
	Apr. 2010	Theatrical production	Sengoku BASARA Stage Adaptation second stage
	Oct. 2011	Theatrical production	Sengoku BASARA: Samurai Heroes
	May 2012	Theatrical production	Sengoku BASARA 2
	Nov. 2012	Theatrical production	Sengoku BASARA 3 Setouchi Kyoran, Stage Adaptation
	Jan. 2013	Takarazuka Revue Company	Prosecutor Miles Edgeworth: Ace Attorney 3
	Apr. 2013	Theatrical production	Sengoku BASARA 3 Utage
	Jun. 2013	Takarazuka Revue Company	Sengoku BASARA
Jul. 2013	Theatrical production	Ace Attorney -Gyakuten no Spotlight	
Nov. 2013	Theatrical production	Sengoku BASARA 3 Utage 2	
Apr. 2014	Theatrical production	Sengoku BASARA 3 -Togakuruwasikizuna-	
TV drama	Jul. 2012	TV drama	Sengoku BASARA -MOONLIGHT PARTY-

Diagram 32

Revenue Ranking of Japanese Game Content that Has Been Adapted into Hollywood Movies

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

As of June 30, 2014 (Capcom figures)

Conversation: An External Director's Perspective on Capcom's Governance



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

Kenzo
Tsujimoto



External Director,
Capcom Co., Ltd.

Takayuki
Morinaga

Board of Directors Decisions Based on Discussions Incorporating a Variety of Perspectives Make Responses to the Drastically Changing Business Environment Possible

Recognizing the need to respond to bewildering changes in the business environment, each Capcom division is moving forward with a variety of innovative changes involving business strategy and organizational structure. What kind of discussions have the Board of Directors, the maker of final determinations, been having? Capcom Chairman and CEO Kenzo Tsujimoto and External Director Takayuki Morinaga reflect on Board of Directors meetings in fiscal 2013.

Clearer Quantitative Management Targets

Morinaga When I was appointed to the board five years ago, I was prepossessed with the idea that Capcom, a company founded and owned by the same person, who was also chairman of the board, must be run autocratically. In reality, as the moderator of the Board, the Chairman creates an atmosphere that makes it easy for all in attendance to offer their opinions. At the monthly meetings, we external directors are able to shed light through our personal experiences and discuss our opinions freely and vigorously. Each meeting, detailed materials related to each item for discussion are handed out to ensure we thoroughly consider all items from a variety of angles, facilitating more active discussions.

Tsujimoto One role of the Board of Directors is to offer final judgment concerning proposals that have already been discussed at length in the executive divisions. To this end, decision-making materials are necessary. With external directors in particular, you are asked to make decisions only once a month at board meetings, so naturally we explain the issues associated with each proposal and why the executive divisions decided

they way they did. This is why I think we should have as much information as possible to understand the entire background of an issue.

Morinaga The materials handed out each meeting embody the visualization of quantitative management targets you are always promoting, making the company's situation extremely easy to understand for external directors. At meetings, I mainly address issues from the perspective of



maintaining financial health, moving forward with business plans and responding quickly to environmental changes by taking on challenges in new areas. The distributed materials provide detailed comparisons in terms of sales, the previous year's performance and planning, so even if we don't confirm everything at the

meeting, we can go over it later in our own time then go to the relevant departments directly with any questions we might have.

Looking Back at Important Agenda Items in Fiscal 2013

Morinaga This fiscal year, there was a proposal to transform the development organization from laterally structured divisions to a vertically-structured studio system based on medium- to long-term (60-month and 52-week maps) planning for each major title in response to the changing game market environment. I offered the opinion that although this proposal would probably improve operating efficiency, it might also create walls between divisions, so care should be taken from a managerial perspective to ensure Capcom's overall organization doesn't grow weaker as a result.



Tsujimoto I am thankful you pointed that out. Under this new system, each development division establishes a shared awareness; someone will be assigned to manage the development process on-site and coordinate closely with each studio. We try to avoid going overboard on specific optimizations.

Morinaga The topic that created the biggest discussion at a board meeting this year was the second straight year of downward revisions to earnings. The questions and accusations regarding the causes and future responses to the many costs and special losses responsible for the downward revision were intense.

Tsujimoto The biggest reason for the special losses was that we developed mobile games in the same way we develop consumer games. Mobile games, which have short development periods, can be ready for testing in as little as one or two months, but we took a long time tweaking the games before we were satisfied, which made matters worse. This was a marketing and operational error, one that we are presently making an all out effort to correct. In terms of operational visibility, we will seek outside assessments throughout the development process. If a project is behind schedule, support will be provided, even from divisions other than development, until it becomes a product we can sell.

Morinaga At that meeting, I raised a question regarding development cost increases. "The 66% cost to sales ratio is pressuring earnings, but what is causing this situation?"

Tsujimoto This was also because sales did not rise in line with development costs, in other words, the situation was caused by the inability to offer a product we could sell. The majority of unprofitable titles were developed by external outsourcers. Two years ago, we announced our intention to increase the ratio of titles developed in-house, and although we are hiring about 100 new graduates each year, until we have a sufficient number of staff, there are still a lot of titles that have been outsourced. At present, we are thinning out our outsourced lines and diverting those development funds toward internal development. By radically reforming internal development operations, we think we can significantly enhance cost performance compared to external outsourcing.

Handling Problems Quickly with Decisions from Top Management

Morinaga Regarding those special losses, one external director asked if they were the result of "not being able to respond to user and societal changes". I myself feel that, among big changes in the games market in terms of the shift from mainly package games to digital download contents (DLC) and the expansion of the mobile contents market, the time has come for Capcom, with its expertise in consumer game development, to undergo the necessary transformations.

Tsujimoto Without a doubt, in recent years, the game industry market has been expanding rapidly due to advances in online functions and the rise of the smartphone. We are seeing this rise across all regions. This time, we ended in failure trying to develop rich mobile content using consumer technologies. We obviously need to try something new. At the same time, we also need to review what we have done right up to now, like successfully pivoting from package to download sales. The truth is, there is a lot of trial and error involved.

Morinaga It's those kinds of situations when management's capabilities come into question. There's no guarantee measures implemented by the various divisions will succeed, but the important thing is to clearly identify the causes when things don't go right, discuss what measures to take and carry out improvements. With regard to organizational restructuring in particular, without decision-making from senior management, nothing will change.

Tsujimoto That's absolutely correct. You need to identify problem areas and deal with them as soon as possible to reform divisions and that includes development. This is something only senior management can do. As with the major improvements we achieved over the past two years after our analysis that our response to consumer DLC was late and we had mismanaged the mobile segment, we first need to stop the bleeding, and then perform drastic surgery. If we don't handle individual problems, they will become problems affecting the whole.

Correct Board of Directors Judgments Linked to Improved Corporate Value

Morinaga Mobile content initiatives are one key to the future growth of Capcom, but my personal view is that we also need to focus more on Asia. Considering how large the market potential, Asia should become a promising market for Capcom.

Tsujimoto Certainly, with the emergence of online game mega-corporations in China, I think the time has come to reconsider our traditional focus on market development in the United States and Europe.

Morinaga Amid this dramatically changing environment, it seems there are many things that Capcom "needs to change" to respond to these changes, but I also suspect there are some things that "should not be changed". For Capcom, the brand will be much stronger if you maintain your management philosophy and core management principles. This will also enhance your corporate value. The important thing is to be able to discern what needs to be changed and what does not.

Tsujimoto I hope for careful judgment as to whether the direction and ideas put forth by the executive divisions are misdirected and whether the judgments of the board are incorrect from the perspective of corporate governance. In other words, I appreciate the important responsibility placed on management. My job requires me to create a system enabling Capcom to grow in future generations. To that end, I ask for your continued cooperation.

Principal Discussions at Board of Directors Meetings in Fiscal 2013

At Capcom Board of Directors Meetings, three external directors take the lead in offering aggressive opinions and advice to ensure management transparency and corporate health. Through lively and detailed discussions about which direction the company should advance, we strive to realize a corporate governance function able to sufficiently promote growth strategies as necessary. This page provides examples of heated discussions related to two areas where external directors demand improvement.

Item 1

(Convened on April 18, 2013)

Measures Related to Earnings Outlook Revisions During the Fiscal Year Ended March 31, 2013

Morinaga (in response to an explanation) Strengthening the digital strategy is an issue, but are there concrete measures and plans for this?

Ichii Experience gained through success with package games up to now has become a hindrance to moving forward into the new digital domain, so we were late to respond. That being said, we have been successful in the digital domain with "Monster Hunter Frontier" among other mobile and social titles. Going forward, the policy is to conduct development that makes effective use of in-house resources by integrating Osaka development capabilities and Tokyo online expertise on titles such as "deep down" for PS4.

Morinaga With respect to the postponed development of "Title A", do you think there are essentially no problems associated with taking collective responsibility?

Oda Chairman Tsujimoto made the same point. Executive management has a responsibility because we are the ones who approve the development. I think Abe in Overseas Business, Ichii in Consumer Games Business and myself as CFO in particular need to pay more careful attention.

Matsuo Japan is an anomaly in terms of the present status of social games, but I don't think this will always be the case. Looking around the world, we see the situation is different from Japan. Regarding the

strategy formulated in 2009, despite successful execution, we didn't achieve anything. Or maybe we didn't execute the strategy correctly? It's never really been clear who is responsible for such outcomes up to now. I think we need to do a better job of identifying who is responsible for significant losses due to postponements, write downs and decisions made during development to make better decision that we have up to now.

Ichii I understand.

Chairman Tsujimoto This problem has arisen because we aren't able to hedge the risks inherent in production and marketing management. Regardless of the increase in sales, profits aren't on the rise because, frankly, our operational structure was not optimal. We do have a sound management system; it is vital we quickly respond to management issues going forward.

Yasuda Given the rapidly progressing revolution in information technology, the pace of change is too fast and its impacts are huge; I think our response has been insufficient thus far. Listening to Chairman Tsujimoto's points and President Tsujimoto's determination, I think we need to promote improvements addressing the factors contributing to these problems as we move forward.



Note: Light blue highlights indicate external director comments.

Mr. Iechika was appointed to the board as an and auditor external director for five years beginning in 2002. Legally, he is not an external corporate auditor, but in practice, he conducts audits in the same capacity as an external corporate auditor.

Item 2

(Convened on November 28, 2013)

Measures Related to the Auditing Operation (Corporate Auditing) Officer's Verification Results Report in the First Half of Fiscal 2013

Iechika (in response to the report) The auditing operation (Corporate Auditing) system is unique to Capcom, but I don't understand how it is useful for corporate operations going forward. Although the report indicated three cases where we incurred special losses, I think there are limits to checking everything and making recommendations for improvement from the top down. I'd like to see an organizational response, one involving the creation of a system for collecting insights from the front lines and widely disseminating them to benefit the common understanding.

Chairman Tsujimoto As the report only lists problem areas, there are conclusions but no details, which is itself a problem. Inasmuch as possible, we need to improve this report by conducting a more complete auditing operation (Corporate Auditing) and collecting feedback directly from the front lines. People on the front lines conduct their duties with a firm belief that they don't make mistakes, so it is difficult to solicit opinions that consider one's sense of personal responsibility regarding the planning and targets for each title they are involved with. Individually, they have a sense of their own responsibilities, but only management can see the big picture. Thus, the only response we can provide at present is top down leadership. In terms of a supplement to the report details, up to now we have promoted overseas outsourcing, but problems involving lack of control due to the low level of onsite development capabilities and poor management systems have resulted in the recommended improvement of shifting production in-house.

Iechika This report does not address subcontracting-related issues, it focuses on operational problems. The Board of Directors meeting

presents us with an opportunity to discuss this auditing operation (Corporate Auditing) report, so I'd like to see movement toward better corporate management.

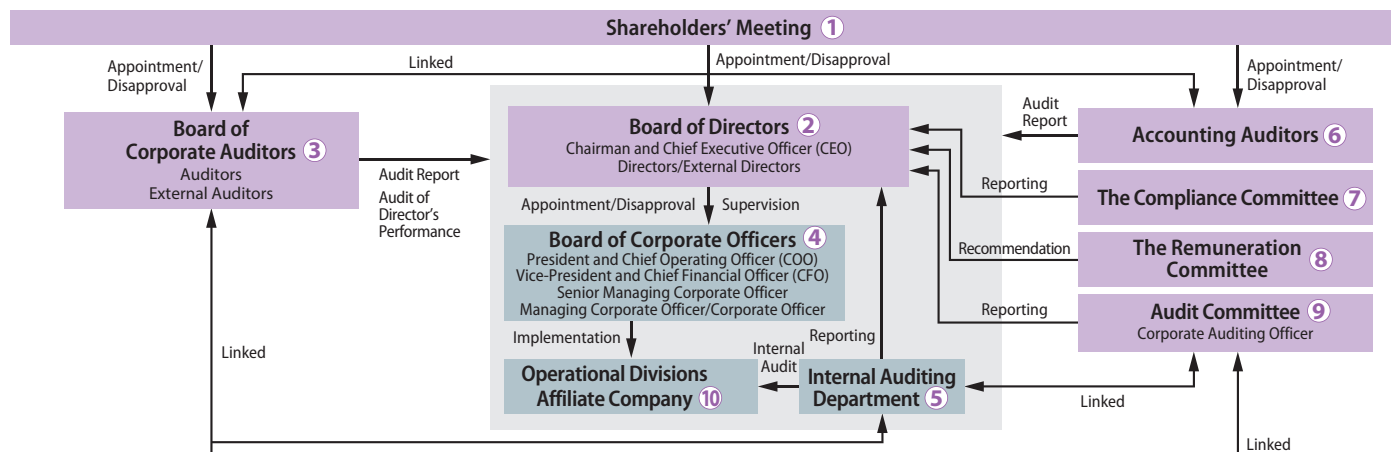
Matsuo Regarding the content of this latest report, as already reported at the Board of Directors meeting, I am aware of responses related to organization structure changes, 60-month and 52-week maps and the shift to in-house production. In addition to poor communication between marketing and development on "Resident Evil 6", some products did not meet market needs. At present, although we are proposing improvements, I wonder if our response is one that takes into account movements in the market overall? I would like to hear what you have to say on this point.

Ichii There were two problems with "Resident Evil 6". First, there were problems with consistency in terms of overseas marketing. Second, there was a problem with the overall game design. As with other domestic game makers, up to now we have promoted an approach where we make the game up as we are developing it. In the event we need to make revisions during the development process, we have had to change all aspects of the process, resulting in cases where a small revision ended up compromising the entire project. In terms of sequels, conducting repeated verifications of a game's essential elements using a small number of people guarantees quality and keeps costs low. It also enables us to focus resources and advance mass production planning. We used this process with "Resident Evil 6" but we did not create a system able to make use of development capabilities and local subsidiaries idea, resulting in the failure to achieve projections. We are verifying the causes of these failures and moving forward with improvements.



Corporate Governance Structure and Initiatives

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



Corporate Governance Structure

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

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

1 Shareholders’ Meeting Convened on June 16, 2014

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

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

We have scheduled the meeting to take place around 10 days prior to the date on which most other companies in Japan hold their general shareholders’ meetings to ensure as many shareholders as possible can be in attendance.

We have also made it possible for shareholders to exercise their voting rights over the Internet using a computer or smartphone. In addition, we participate in an electronic voting rights exercise platform for institutional investors.

Three resolutions were brought up for discussion at this year’s shareholders’ meeting, of which two, the “Proposed Appropriation of Retained Earnings” and “A Partial Amendment to Articles of Incorporation”, were approved and passed.

For more details, please see “Shareholders’ Meeting Resolutions” on page 51.

2 Board of Directors Convened 15 Times in Year ended March 31, 2014

Management Decisions that Incorporate Outside Opinions

The Board of Directors consists of 10 members, meets regularly once a month and holds extraordinary meetings when necessary. **Three of the 10 members are external directors**, whose opinions, advice and feedback invigorate and improve the transparency and reliability of the Board of Directors while strengthening the management monitoring function. During the period under review, the Board of Directors met 15 times, engaging in lively discussions concerning reported items and matters for resolution. Moreover, we established a Remuneration Committee chaired by an external director to determine fair and appropriate compensation for directors. Also, two external directors were appointed as independent directors to avoid any conflict of interest among general shareholders in terms of decision-making.

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

For more on external directors, please see “External Directors and Auditors” on page 51.

Officer Remuneration (Year ended March 31, 2014)

Category	Paid Personnel	Total Remuneration
Directors (External Directors)	12 (3)	¥514 million (¥32 million)
Corporate Auditors (External Auditors)	4 (2)	¥52 million (¥24 million)
Total	16 (5)	¥566 million (¥56 million)

Notes:

- The above includes two directors who resigned at the conclusion of the 34th General Shareholder’s Meeting held on June 18, 2013.
- The above includes director’s bonuses of 48 million yen (external directors excluded) for business activities in the fiscal year
- At the 32nd General Shareholder’s Meeting held on June 17, 2011, a resolution was passed limiting director’s remuneration to no more than 650 million yen (or no more than 50 million yen for external directors) per year. For corporate auditors, a resolution was passed limiting remuneration to no more than 85 million yen per year at the 33rd General Shareholder’s Meeting held on June 15, 2012.


3 Board of Corporate Auditors Convened 15 Times in Year ended March 31, 2014

Accounting Auditors Partner with Internal Auditing Department to Monitor Management

Capcom has adopted a corporate auditor system consisting of four members, two of whom are external auditors. In addition to formulating auditing policies and providing consultation regarding audit results, members of the Board of Corporate Auditors submit items identified in the audit to the president and exchange opinions and information with accounting auditors when appropriate.

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

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

 For more on external auditors, please see "External Directors and Auditors" on page 51.

4 Board of Corporate Officers Convened 12 Times in Year ended March 31, 2014

Executing Operations Based on a Clear Management Policy

The Board of Corporate Officers is composed of 21 members selected by the Board of Directors. Under the supervision of the Board of Directors, corporate officers promptly and precisely execute business activities based on management policy determined by the Board of Directors, taking agile and appropriate response to rapid changes in the management environment when deemed necessary.

5 Internal Auditing Department

Ensuring and Verifying Legal Compliance and Operating Efficiencies

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

6 Accounting Auditors

Ensuring and Verifying Accounting Transparency

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

Auditor Remuneration (Year ended March 31, 2014)

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

Auditing Company	Names of Certified Public Accountants	
KPMG AZSA LLC	Designated and Engagement partner	Masaaki Doi
		Hiroshi Miura
		Takuya Obata

Note 1: Assistants to certified audit operations
 Certified public accountants: 14; Others: 10 (those who have passed the certified public accountant exam, persons in charge of system audits and pension actuaries)

7 The Compliance Committee Convened Four Times in Year ended March 31, 2014

Focusing on Compliance as an Important Management Issue

The Compliance Committee, including external directors licensed to practice law as members, meets quarterly to address various risks facing the company. The Compliance Committee receives results and internal reports on "period compliance checks" that investigate the business operations of each division semiannually and on the nature of inquiries made at the "Compliance Hotline", which serves as a whistle-blowing system for the company, issuing reminders and recommendations as well as providing advice as necessary.

8 The Remuneration Committee Convened Two Times in the Fiscal Year Ended March 31, 2014

Reporting Details of Director Compensation

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

9 Audit Committee Convened 44 Times in Year ended March 31, 2014

Auditing Operations from a Risk Management Perspective

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

10 Affiliate Companies

Ensuring Effective Government through Close, Group-wide Collaboration

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

Corporate Governance Structure and Initiatives

External Directors and Auditors

Using External Perspectives to Ensure Effective Governance

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

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

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

Board of Directors/Board of Corporate Auditors Rate of Attendance (Year ended March 2014)

	Name	Independent director	Reasons for selection	Board of Directors/Board of Corporate Auditors Rate of Attendance (Year Ended March 2014)
External Directors	Hiroshi Yasuda	○	Appointed with overall consideration for character, business acumen and successive appointments to important posts	Board of Directors Attended 14 of 15 meetings (93.3%)
	Makoto Matsuo		A legal professional able to provide precise guidance and advice and ensure the effectiveness of corporate governance	Board of Directors Attended 14 of 15 meetings (93.3%)
	Takayuki Morinaga	○	Appointed with overall consideration for management experience at other companies, professional career, track record, and personal connections in the business world	Board of Directors Attended 15 of 15 meetings (100%)
External Auditors	Yoshihiko Iwasaki		It was determined that his professional experience in tax administration would be of benefit to the company	Board of Directors Attended 15 of 15 meetings (100%) Board of Corporate Auditors Attended 15 of 15 meetings (100%)
	Akihiko Matsuzaki		Appointed to leverage the wealth of experience and knowledge accumulated during many years in law enforcement administration to help the company further enhance its corporate governance	Board of Directors Attended 15 of 15 meetings (100%) Board of Corporate Auditors Attended 15 of 15 meetings (100%)

Shareholders' Meeting Resolutions

The following presents the number of votes in favor, opposed or abstained for the matters to be resolved at the year ended March 31, 2014, general shareholders' meeting, the requirements for the resolutions to be passed and the results of voting.

Shareholders' Meeting Resolutions

Resolutions	Approval Votes	Votes Opposed	Abstained Votes	Approval Rate (%)	Voting Results
First proposal: Proposed Appropriation of Retained Earnings	452,130	255	0	99.35	Approved
Second proposal: A Partial Amendment to Articles of Incorporation	451,748	637	0	99.27	Approved
Third proposal: Renewal of Countermeasures in response to a Large-Scale Purchase of Shares of the Company (Takeover Defense)	215,731	236,404	250	47.41	Not approved

Notes:

- Conditions for each proposal to be passed
 - A majority of shareholders in attendance approved the first and third proposal.
 - The second proposal could be approved with at least two-thirds of the company's shareholders with voting rights in attendance and with a majority approval of the voting rights of the applicable shareholders in attendance.
 - The percentage of approval is calculated according to the following formula.

$$\text{Percentage of approval} = \frac{\text{number of voting rights for approval (votes exercised prior to the meeting + certain shareholders in attendance on the day of the meeting)}}{\text{number of votes (votes exercised prior to the meeting + shareholders in attendance on the day of the meeting)}}$$
- Reason why certain voting rights of shareholders in attendance were not added to the total number of voting rights
 The total confirmed number of votes in approval from the votes exercised prior to the meeting and certain shareholders in attendance on the day of the meeting fulfilled the requirements for each proposal. As a result, the number of voting rights for which confirmation was not made in terms of approval, opposition or abstention from shareholders in attendance on the day of the meeting were not counted because the proposals were legitimately approved in accordance with the Companies Act of Japan.

Third-Party Assessment

Promoting More “Visible” Governance

An analysis of an assessment performed by a third-party organization into the validity and effectiveness of Capcom’s corporate governance shows that the company ranked 102nd among 3,370 listed companies in Japan in the “NEEDS-Cges” quantitative corporate governance assessment developed by Nikkei Digital Media, Inc.

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

Capcom’s total score was 8.29 points, placing us in the top 3.0% of Japan’s listed companies. Our score also exceeded the average for all listed companies and for the industry, at 5.44 points and 7.17 points, respectively.

Compared to last fiscal year, our score increased by 0.46 points. This was mainly because of the increase in our “capital efficiency” rating due to improved cash flows, as well as an increase in our “stock market evaluation” rating, including capital gains and other stock returns. We continued to receive the full 10 points for “shareholder returns”, “shareholder and capital composition” and “information disclosure” important for corporate governance.

The main reasons for each of these perfect scores are given in the chart provided below, but in particular areas highlighted in yellow indicate measures that received particular notice.

Details of Capcom’s Corporate Governance Assessment

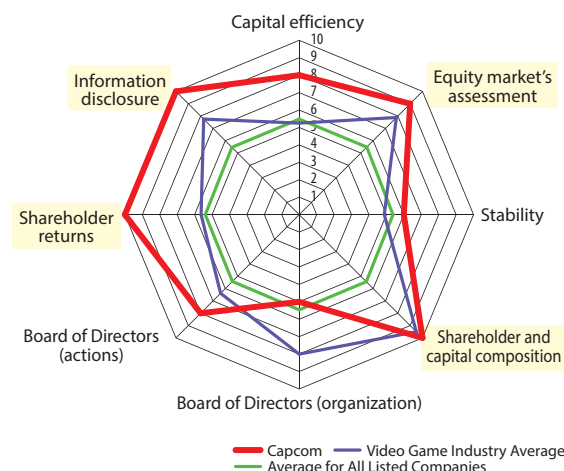
Categories	Fiscal 2013 Ratings	Fiscal 2014 Ratings	
Total Score	7.83	8.29	↑
Capital efficiency	6	8	↑
Equity market’s assessment	8	9	↑
Stability	5	6	↑
Shareholder and capital composition	10	10	↔
Board of Directors (organization)	5	5	↔
Board of Directors (actions)	8	8	↔
Shareholder returns	10	10	↔
Information disclosure	10	10	↔
Rank	191	102	↑

102/3,370 Top 3.0%

Looking ahead, we will make improvements that take this kind of external data into consideration to earn an even stronger assessment, and further promote the external visibility of our governance, such as posting this data on our corporate website.

Third-Party Assessment Results of Capcom’s Corporate Governance

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



Details of Highest Rated Categories

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

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

Internal Management Structure and Initiatives

Internal Control System Status

Strengthening Risk Management through the Development of Our Internal Control System

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

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

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

2. Internal Control over Financial Reporting

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

3. Develop a System to Maintain Appropriate Business Practices

(1) Information Management and Storage

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

(2) Risk Management

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

(3) Efficient Execution of Business Operations

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

(4) Legal Compliance System

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

(5) Operational Audit Structure

In accordance with auditing policies, the execution of operations by Board of Directors are audited, with recommendations for improvements indicated in auditor reports as necessary to ensure internal controls function effectively. To enable auditors to perform their duties smoothly and appropriately, two employees are selected with the consent of auditors to provide assistance.

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

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

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

Initiatives to Strengthen Compliance

Focusing on the Viability and Effectiveness of Our Compliance System

As noted on page 50, Capcom has established a Compliance Committee consisting of external directors, some of whom are lawyers, who regularly report to the Board of Directors and issue reminders and recommendations. A secretariat was established in the Internal Controls Department, which works to enhance the viability of the entire Capcom Group compliance system by planning and operating the internal compliance system and functioning as the department that provides consultations and receives notifications to prevent legal violations before they occur.

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

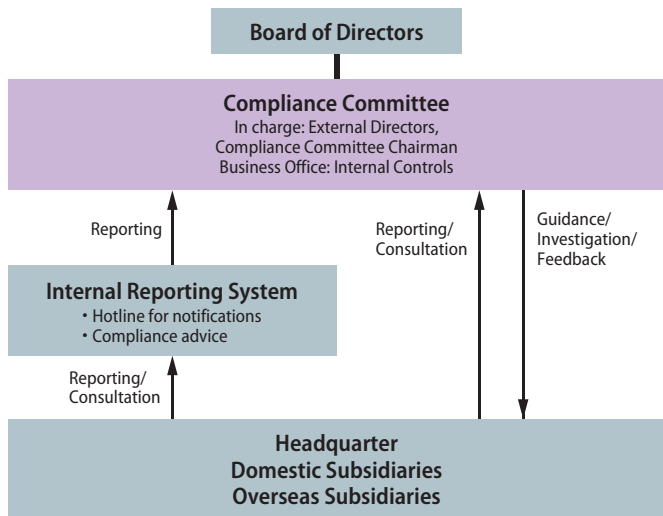
During the period under review, the Compliance Committee met four times and conducted compliance training sessions for new employees. Also, "e-learning sessions on legal compliance and personal information protection rules" were given to all employees.

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

■ Status of Training Programs (Year ended March 31, 2014)

Activity	No. of Times	Target
Compliance training curriculum	2	All employees
Personal information protection training curriculum	2	All employees

■ Compliance Structure



Periodic Compliance Checks

Compliance Status Checked Regularly

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

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

Compliance Hotline

Special Hotline Set Up for Compliance Issues

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

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

Information Security Initiatives

Building Mechanisms for the Appropriate Protection of Information Assets

As a company primarily engaged in the planning and development of software, Capcom is an environment where the latest information technology is always in use. Compared to companies in other lines of business, we face relatively high information security risks.

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

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

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

Furthermore, we are in the process of patching known security holes. Over the next few years, we will implement measures to prevent information leaks, which will include (1) identification of information leak risks, (2) creation of an early response structure to respond to information leaks and (3) establishing a response process to minimize damage in event information is leaked. Specifically, we will (1) reconfirm the importance of information assets held by each department with the aim of clarifying critical risks, (2) audit the information log and create a structure for the quick detection of abnormalities and (3) make an effort to utilize our expertise to enhance our internal response capabilities.

To improve security literacy among all our employees, we are implementing internal training to raise awareness and educate on the topic of information leak risks. Through these and other initiatives, Capcom is striving to create a structure for making an appropriate first response in the event information is leaked or an accident occurs.

Business Continuity Plan (BCP) Initiatives

Strengthening Our Crisis Management System

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

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

Risk Management

Various Risk Management Efforts to Achieve Stable Earnings

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

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

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

Risks Affecting Operating Results

Capcom is exposed to risks which may affect its operating results, financial status, stock price and its operational environments, including but not limited to those stated in writing below, which are based on information that is available as of March 31, 2014 and certain assumptions by the Capcom Group that serve as the basis of rational judgments.

1. Risks Relating to Digital Contents

(1) Increase in Development Costs

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

(2) Obsolescence of Game Software

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

(3) Dependency on Popular Series

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

(4) Violent Scenes and Depictions

Some of our popular software titles have provocative graphics and

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

(5) Seasonal Fluctuations

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

(6) Trends in Proliferation of Home Video Game Consoles

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

(7) License Agreements with Console Manufacturers

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

(8) Technological Enhancement of Home Video Game Platforms

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

(9) About the Used Software Market

Currently, used software accounts for approximately one-fourth of the domestic software market. Also, the flood of pirated copies in the Asian market is becoming increasingly serious. As a result, it is gradually becoming more difficult to recover development costs. There is a risk that it may adversely affect our operating results, depending on the trends in the market.

(10) Internet Market Expansion, etc.

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

2. Risks Relating to Other Businesses

(1) Arcade Operations

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

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

(2) Amusement Equipments

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

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

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

3. Risks Relating to Overseas Operations

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

4. Risks Relating to Financial Status and Operating Results

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

5. Risks Relating to Development Technologies

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

6. Legislative Risks

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

7. Risks Relating to Intellectual Property Rights

The development and distribution of game software involve intellectual property rights such as patent rights, trademark rights, utility model rights, design rights, copyrights, etc.

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

8. Risks Relating to Lawsuits

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

9. Risks Relating to Information Leaks

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

10. Development and Assurance of Human Resources

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

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

Creating Relationships with Shareholders and Investors

Initiatives for the General Shareholders' Meeting

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

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

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

Basic Policies Regarding IR Activities

1. Disclosure Policies

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

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

2. Disclosure Criteria

Capcom provides timely disclosure in accordance with the Securities and Exchange Law and other regulations including the "Rules on Timely Disclosure of Corporate Information" by Issuer of Listed Security (hereinafter Timely Disclosure Rules) stipulated by the Financial Instruments and Exchange Law and the Tokyo Stock Exchange. It is our policy to disclose as much information as possible, including the disclosure of information not required by the Timely Disclosure Rules, to accommodate our investors' needs.

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

3. Quiet Period

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

Third-Party Assessment of IR Activities

High Praise for Proactive IR Initiatives

In recognition of our ongoing pursuit of timely and appropriate information disclosure, our IR activities and various IR tools have received a number of awards from third-party organizations. This fiscal year, Capcom won an award at the Nikkei Annual Report Awards 2013, our IR website was ranked number one in the Asia-Pacific region IR website category in the IR Global Ranking 2013 and we were selected by Daiwa

Investor Relations for the Internet IR Grand Prize.

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

Making Use of Shareholder and Investor Opinions

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

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

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

Website Utilization

IR Activities Making Use of Our Website

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



IR Team

Full-Time Staff Engaged in a Wide Variety of Activities

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

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



Investor Relations Staff

Public Relations & Investor Relations Section

PHONE: +81-6-6920-3623
E-mail: ir@capcom.co.jp

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

CSR Initiatives

Educational Assistance as a Game Company

Implementing Independent Education Programs

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

As part of our corporate social responsibilities as a game software publisher, we believe in fostering an understanding about video games by inviting elementary and junior high school students to visit our company and proactively participate in classroom activities at schools. We conduct two highly acclaimed programs: the “Career Education Support program” providing an overview of the company, focusing on the rewards and challenges of developing video game software; and the “Game Literacy Education Support program” teaching students how to develop a healthy relationship with video games. We also launched a new educational program focused on the “Career Education Support program”. This program represents our commitment to continually improve our educational assistance based on feedback received from educators.

As a result, as of March 31, 2014, 1,853 students from approximately 250 schools had visited the company, and Capcom school visits have been held for a cumulative total 4,881 students in 48 schools, including Hatsushiba Ritsumeikan Junior High School in Osaka.

This fiscal year, Capcom developed a new program targeting elementary and middle school students to help prevent the recent trend toward declining math skills among children. This new program provides students with experiences designed to prove that “the study of mathematics is not a waste of time—you will need it when you get older”, by introducing developers who use arithmetic and mathematics regularly in the workplace. Capcom will continue to incorporate feedback from schools and advice from university education specialists to better meet educational needs in promotion of CSR activities.

Capcom School Visit Feedback

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

- I learned that games are jam-packed with a variety of ingenious ideas. (Elementary school student)
- I thought I would never use mathematics, but knowing they are used in all kinds of areas, I decided to study mathematics harder from now on. (Middle school student)
- It made me realize what students are learning at school today are the skills necessary for entering society in the future. It was also fun, since the subject matter involved games, something kids love. (Elementary school parent)
- As this was just one class, there were no dramatic changes, but listening to the students, I thought they seemed more comfortable with mathematics than before. (Middle school teacher)

Regional Invigoration

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

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

In 2013, Capcom collaborated with the Tsuchiura City Museum in Ibaraki Prefecture on the “Sengoku BASARA” special exhibition “The BASARA’s Armory: The Armor and Blades of Busho Who Tore Across Sengoku”. Featuring illustrations and panels inside the museum and a stamp rally at tourist facilities around the city, the special exhibit drew over 10,000 visitors, a first since the museum’s opening. Again in 2014, we used characters from this same series to raise awareness and aid prevention of vehicle-related theft in Osaka, Kyoto and Hyogo prefectures. This was in response Osaka once again experiencing the worst vehicle-related thefts in Japan, and to help realize a lower number of crimes in Kyoto and Hyogo prefectures. 10,000 awareness posters and 250,000 advertisements were distributed at public facilities to inform as many people as possible in these three Kinki

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



“The BASARA’s Armory: The Armor and Blades of Busho Who Tore Across Sengoku” poster



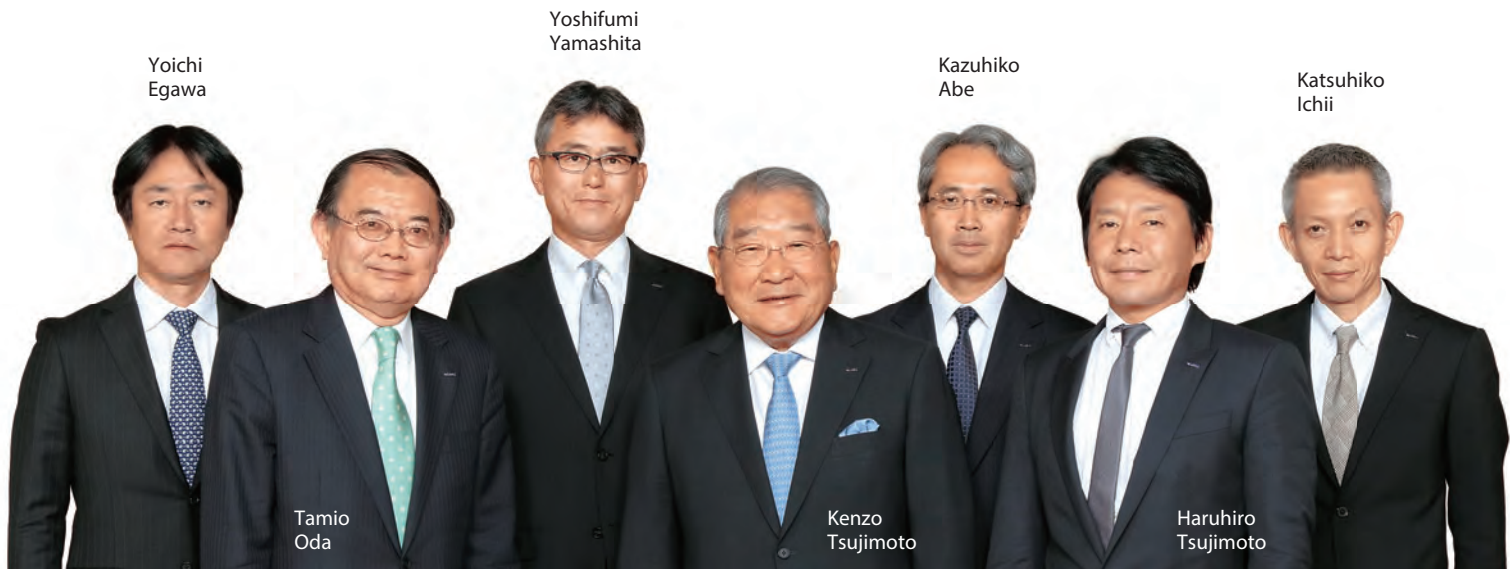
Vehicle-related theft damage prevention awareness poster

Employee Diversity

In recent years, Capcom has been emphasizing diversity and the creation of employment opportunities regardless of race, religion, disability, gender or age. Accordingly, we have been engaged in (1) improving the work environment for women and (2) proactively hiring foreign workers. Regarding (1), we provide maternity leave and shortened working hour systems to support women who continue to work after getting married or giving birth. Women represent 20% of the development staff in game companies where men typically are in the majority. We are also considering creating a daycare facility inside the R&D building in 2016 in an aim make more proactive use of women. As for (2), we are focusing efforts on the employment of foreigners with an overseas development perspective and will aggressively recruit programmers from Dalian, China. Currently, foreigners make up 5% of the development staff. Going forward, we will create a system for improving motivation in an attempt to increase the ratio of foreign employees, including the creation of career paths and the promotion of foreign managers.

For more details, please see page 15 of “The Latest Development Report”.

Directors and Corporate Auditors



Yoichi
Egawa

Yoshifumi
Yamashita

Kazuhiko
Abe

Katsuhiko
Ichii

Tamio
Oda

Kenzo
Tsujimoto

Haruhiro
Tsujimoto

Directors

Kenzo Tsujimoto

Chairman and Chief Executive Officer (CEO)

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

Haruhiro Tsujimoto

President and Chief Operating Officer (COO)

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

Tamio Oda

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

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

Kazuhiko Abe

Director and Executive Corporate Officer

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

Yoshifumi Yamashita

Director and Executive Corporate Officer

- Feb. 1992 Entered into the Company
- Apr. 1997 General Manager, Business Dept. in R&D Division of the Company
- May 2001 Corporate Officer and Head of Budget Control Office of the Company
- Jul. 2003 Managing Corporate Officer, Head of Creative Division of the Company
- Apr. 2011 Executive Corporate Officer (to present), Head of Human Resources, IT and Research & Development Management
- Jun. 2011 Director, in charge of Human Resources, IT and Research & Development Management of the Company
- Oct. 2012 Director, in charge of General Affairs, Legal, Human Resources and IT Division of the Company
- Jul. 2014 Director, in charge of General Affairs, Legal and Human Resources of the Company (to present)

Katsuhiko Ichii

Director and Executive Corporate Officer

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

Yoichi Egawa

Director and Executive Corporate Officer

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



Takayuki Morinaga

Hiroshi Yasuda

Makoto Matsuo

External Directors

Takayuki Morinaga

Director

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

Hiroshi Yasuda

Director

Apr. 1957 Entered into the Ministry of Finance
Nov. 1973 Personal Secretary to the Minister of Finance
Jan. 1977 Executive Secretary to the Prime Minister
Jun. 1988 Deputy Vice Minister of Finance
Jun. 1990 Director-General, Budget Bureau of the Ministry of Finance
Jun. 1991 Administrative Vice Minister of Finance
May 1994 Governor of the Export-Import Bank of Japan
Oct. 1999 Governor of Japan Bank for International Cooperation
Sep. 2001 Advisor of the Kansai Electric Power Co., Inc.
Jan. 2002 Chairman of Yomiuri International Economic Society (to present)
Jul. 2002 President of Japan Investor Protection Fund
Jun. 2004 External Corporate Auditor of Shiseido Co., Ltd.
Aug. 2004 President of Capital Market Promotion Foundation (Currently Capital Market Promotion Public Interest Incorporated Foundation)
Jun. 2007 External Director of the Company (to present)
Jan. 2014 Capital Market Promotion Public Interest Incorporated Foundation (to present)

Makoto Matsuo

Director

Apr. 1975 Admitted to Japanese Bar (The Dai-ichi Tokyo Bar Association) Ozaki & Momo-o
Aug. 1978 Weil, Gotshal & Manges in New York
Mar. 1979 Admitted to New York Bar
Apr. 1989 Partner of Momo-o, Matsuo & Namba (to present)
Apr. 1997 Lecturer of Nihon University, Faculty of Law: International Transaction Law
Jun. 1999 External Corporate Auditor of Victor Company of Japan, Limited
Jun. 2000 External Corporate Auditor of Billing System Corporation (to present)
Jun. 2003 External Corporate Auditor of Yamanouchi Pharmaceutical, Co., Ltd.
Jun. 2004 External Director of the said Company
Apr. 2005 External Director of Astellas Pharma Inc. Lecturer of Hitotsubashi University Faculty and Graduate School of Law: World Business Law
Jun. 2007 External Director of the Company (to present)
Oct. 2008 External Director of JVC KENWOOD Holdings, Inc.
Jun. 2009 External Corporate Auditor of Toray Industries, Inc. (to present)

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



Akihiko Matsuzaki

Yoshihiko Iwasaki

Kazushi Hirao

Masanao Iechika

Corporate Auditors

Akihiko Matsuzaki

Corporate Auditor

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

Yoshihiko Iwasaki

Corporate Auditor (full-time)

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

Kazushi Hirao

Corporate Auditor (full-time)

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

Masanao Iechika

Corporate Auditor

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

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

Financial Section

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Net Cash Strategy for Supporting Investments in Online Game Development

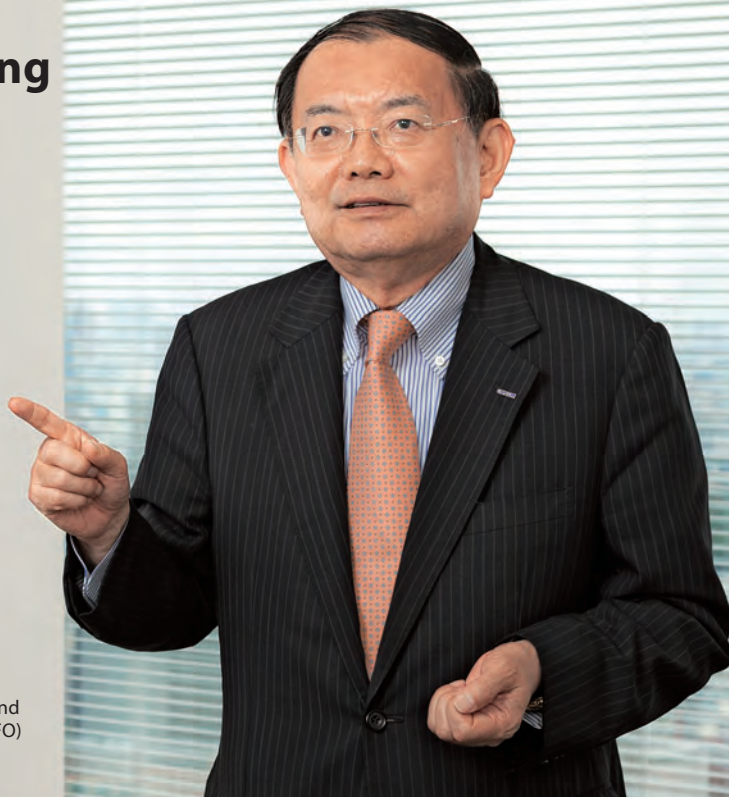
Capcom has set a financial goal of improving net cash to build a lean financial foundation without waste while at the same time securing funding to invest in growth and increasing shareholder returns.

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

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

Tamio Oda

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



1. Securing Funding to Invest in Growth

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

To achieve this, we formulated two new financial strategies focused on generating cash flows through process management. The first is to thoroughly manage return on investment. Accordingly, we manage a database able to compare the ROI status of each title by category, such as brand or producer. The second strategy is to maximize working capital efficiency. To this end, we are expanding the invested capital management system of each business and creating a framework to manage our investment turnover period and turnover ratio in a more visible manner.

Net cash in the fiscal year ended March 31, 2014 increased 8.3 billion yen from the previous year to a total of 22.6 billion yen. This was due to the execution of the above strategy, ongoing capital efficiency measures, including the thorough collection of notes and accounts receivable (trade), an increasing number of titles developed in-house and reductions in loans and other interest-bearing debt.

Furthermore, analysis of past fiscal years shows that our net cash position, or cash deposits less interest-bearing debt, as of the fiscal year ended March 2002, the year I was appointed to the board, was negative 11.1 billion yen. Considering that our net cash position in the year ended March 2014 was 22.6 billion yen, this represents an improvement of nearly 33.7 billion yen over the past 12 years.

2. Increasing Shareholder Returns

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

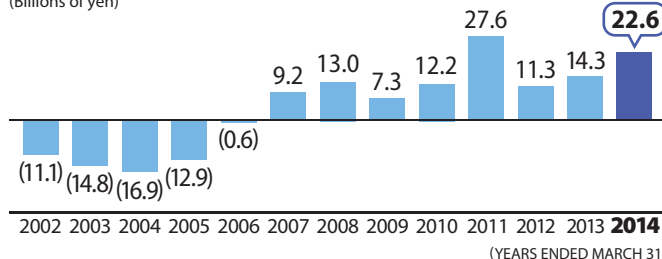
For the year ended March 2014, the total annual dividend was 40 yen, the same as the previous fiscal year. As a result, our payout ratio was 65.5%.

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

We have also acquired approximately 15 billion yen in treasury stock since the year ended March 2004. We will seek further improvement in net cash to continue strengthening investments for growth and to deliver returns to shareholders.

Net Cash on Historical Basis

(Billions of yen)



11-Year Summary of Consolidated Financial Indicators

Financial Performance

	2004	2005	2006	2007	2008
For the Year:	Millions of yen				
Net sales	¥ 52,668	¥ 65,895	¥ 70,253	¥ 74,542	¥ 83,097
Operating income	1,402	7,752	6,580	9,602	13,121
Net income (loss) before income taxes	(6,900)	7,006	6,912	9,986	11,962
Net income (loss)	(9,158)	3,622	6,941	5,852	7,807
Depreciation & amortization	2,081	2,101	1,936	2,774	3,393
Capital expenditures	4,678	1,665	1,600	4,495	4,503
R&D expenses	1,124	1,323	1,864	1,828	2,972

At Year-End:	Millions of yen				
Total assets	¥ 93,096	¥ 106,361	¥ 98,457	¥ 91,478	¥ 93,606
Net assets	31,854	32,491	39,464	45,144	53,660
Net cash	(16,957)	(12,948)	(678)	9,200	13,061

Cash Flows:	Millions of yen				
Cash flows from operating activities	¥ 5,577	¥ 7,977	¥ 13,921	¥ 16,063	¥ 7,452
Cash flows from investing activities	(5,011)	(1,099)	(1,779)	(6,715)	(3,374)
Cash flows from financing activities	(395)	6,251	(18,259)	(15,206)	(2,448)
Net increase (decrease) in cash and cash equivalents	(1,313)	13,406	(4,885)	(5,654)	(2,256)
Cash and cash equivalents at end of year	32,131	45,538	40,652	35,020	32,763

Per Share Data:	Yen				
Net income (loss) per share	¥ (160.91)	¥ 63.37	¥ 125.19	¥ 107.52	¥ 132.90
cash dividends applicable to the year per share	20.00	20.00	20.00	30.00	30.00
Net assets per share	559.66	589.99	716.91	799.35	881.31

Financial Index:					
Operating margin (%)	2.7	11.7	9.4	12.9	15.8
ROE (%)	—	11.3	19.3	13.8	15.8
ROA (%)	—	3.6	6.8	6.2	8.4
Net worth ratio (%)	34.2	30.5	40.1	49.3	57.3
Interest coverage ratio (times)	20.3	30.0	82.6	237.3	103.7
Debt-equity ratio (%)	192.4	227.9	149.4	102.8	74.4

Stock Information:					
Price earnings ratio (times)	—	16.5	9.7	15.7	25.6
Number of outstanding shares (thousands shares)	58,435	58,435	58,435	62,269	66,719
Foreign investors (%)	16.59	14.79	23.35	32.60	27.72

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

2009	2010	2011	2012	2013	2014	2014
Millions of yen					Thousands of U.S. dollars	
¥ 91,878	¥ 66,837	¥ 97,716	¥ 82,065	¥ 94,075	¥ 102,200	\$ 1,001,968
14,618	5,587	14,295	12,318	10,151	10,299	100,979
12,448	1,124	10,807	11,425	3,719	5,315	52,114
8,063	2,167	7,750	6,723	2,973	3,444	33,773
4,143	3,368	3,315	3,123	3,406	4,638	45,473
2,906	2,205	2,758	4,153	8,724	8,064	79,064
2,329	2,125	2,924	2,236	1,982	2,002	19,636
Millions of yen					Thousands of U.S. dollars	
¥ 106,210	¥ 86,621	¥ 90,408	¥ 98,247	¥ 104,365	¥ 96,611	\$ 947,166
59,349	53,956	58,007	59,352	62,828	63,875	626,235
7,378	12,299	27,655	11,348	14,327	22,670	222,259
Millions of yen					Thousands of U.S. dollars	
¥ (551)	¥ 14,320	¥ 22,392	¥ (7,672)	¥ 6,647	¥ 13,201	\$ 129,430
(2,715)	(1,618)	(2,046)	(4,794)	(1,375)	(6,155)	(60,349)
(342)	(10,747)	(12,919)	587	1,162	(15,099)	(148,029)
(4,454)	1,203	5,196	(12,724)	9,235	(5,404)	(52,982)
28,611	29,815	35,011	22,287	31,522	26,118	256,061
Yen					U.S. dollars	
¥ 130.98	¥ 35.71	¥ 131.18	¥ 116.10	¥ 51.64	¥ 61.11	\$ 0.60
35.00	35.00	40.00	40.00	40.00	40.00	0.39
961.38	913.18	981.76	1,030.70	1,091.08	1,135.91	11.14
15.9	8.4	14.6	15.0	10.8	10.1	
14.3	3.8	13.8	11.5	4.9	5.4	
8.1	2.3	8.8	7.1	2.9	3.4	
55.9	62.3	64.2	60.4	60.2	66.1	
—	86.9	155.8	—	62.4	136.8	
79.0	60.5	55.9	65.5	66.1	51.2	
13.3	49.5	12.1	16.3	28.6	32.0	
67,394	67,723	67,723	67,723	67,723	67,723	
33.73	24.22	22.17	27.05	32.37	37.29	

Financial Review

1. Operating Results

Capcom Co., Ltd., consolidated performance in the year ended March 31, 2014, had net sales of 102,200 million yen (up 8.6% from the previous fiscal year). Profits included operating income of 10,299 million yen (up 1.5% from the previous fiscal year) and ordinary income of 10,946 million yen (up 0.0% from the previous fiscal year).

Net income for the current fiscal year was 3,444 million yen (up 15.9% from the previous fiscal year) due to the recognition of a special loss on business restructuring expenses related to the sluggishness of mobile contents.

2. Sales and Profits

(1) Net Sales

This fiscal year, net sales were 102,200 million yen (up 8.6% from the previous fiscal year).

Sales were firm in Digital Contents business, Capcom's core business. Flagship title "Monster Hunter 4" proved a massive hit with over four million units sold worldwide, while "Dead Rising 3" and "Resident Evil Revelations" sold over one million units each in the target markets of Europe and the United States, making all three titles million-sellers. "Monster Hunter 4" also sold well as a download in response to changing distribution formats. Further diversification of our business model also contributed to expanded profitability.

In the Amusement Equipments business, the "Monster Hunter Gekka Raimei" pachislo machine sold 46,000 units. The synergy with home video games resulted in a strong turnout underpinning profitability.

(2) Operating Income

Cost of sales was 72,251 million yen (up 16.7% from the previous fiscal year), gross profit was 29,949 million yen (down 6.9% from the previous fiscal year) and selling, general and administrative expenses were 19,749 million yen (down 10.0% from the previous

fiscal year). This was mainly due to increased development and general costs associated with the sales of major titles in the consumer sub-segment and increased depreciation and amortization resulting from expansion in the number of managed titles in PC Online and Mobile Contents sub-segment. The cost of sales increased 10,300 million yen, causing the cost to sales ratio to rise approximately 4.9 percentage points. At the same time, selling, general and administrative expenses decreased approximately 2,200 million yen due to strict company-wide cost management and thorough profit and loss management per title, resulting in a 4.0 percentage point decline in SG&A as a percentage of sales. As a result, operating income was 10,299 million yen (up 1.5% from the previous fiscal year) and operating margins decreased 0.7 percentage points.

(3) Net Income

Non-operating income this fiscal year was 1,122 million yen due to the recognition of 566 million yen in foreign exchange gains arising from the continued weakening of the yen. Non-operating expenses were 475 million yen.

As a result, ordinary income was 10,946 million yen (up 0.0% from the previous fiscal year) and the ordinary income ratio was 10.7%, down 0.9 percentage points from the previous fiscal year.

Additionally, with overall consideration for the recoverability of mobile online titles affected by sluggish mobile content this fiscal year, we recognized a 5,537 million yen of loss of restructuring, resulting in special losses totaling 5,630 million yen.

As a result, net income for the current fiscal year was 3,444 million yen (up 15.9% from the previous fiscal year) and the net margin was 3.4%.

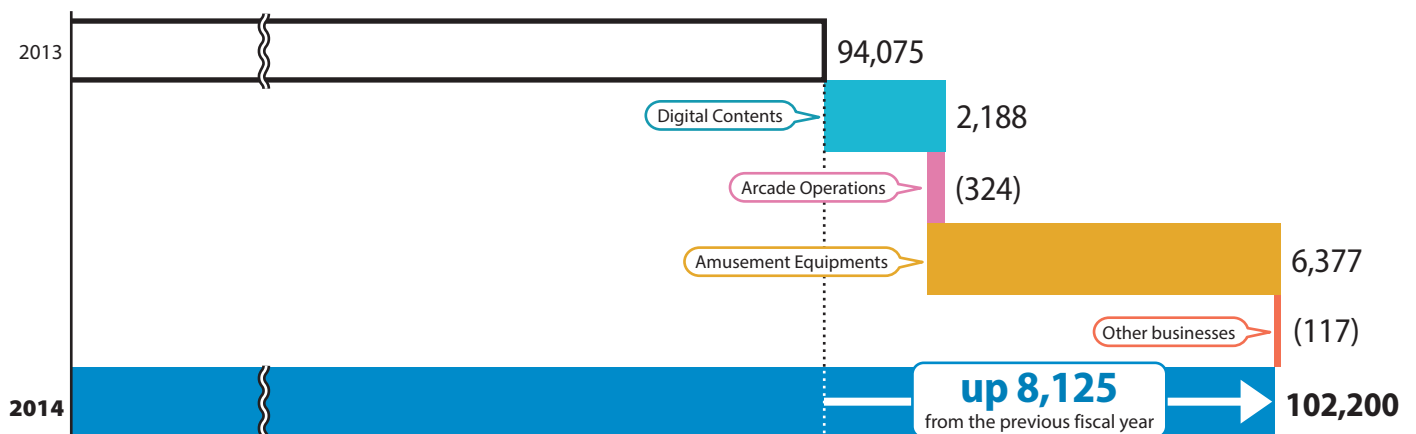
3. Status of Each Operational Department

(1) Digital Content business

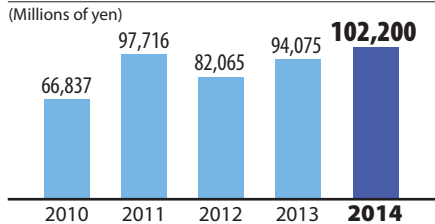
In the Digital Contents business, the aforementioned feature title "Monster Hunter 4" (for Nintendo 3DS) was extremely popular, creating a huge buzz that could be described as a social phenomenon. Moreover, sales of "Dead Rising 3" (for Xbox One) geared toward the European and U.S. markets and "Resident Evil Revelations" (for PlayStation 3, Xbox 360, Wii U and PC) exceeded a

Net Sales

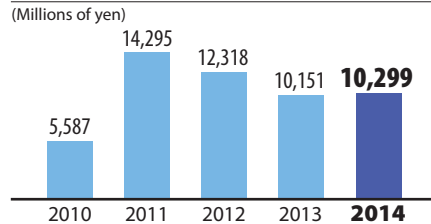
(Millions of yen)



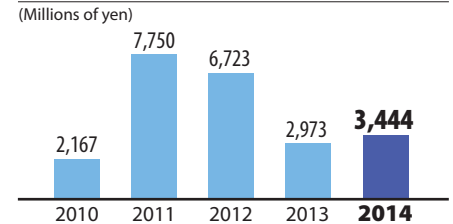
Net Sales



Operating Income



Net Income



million units each, making all three titles million-sellers. In addition, sales of "Dragon's Dogma: Dark Arisen" (for PlayStation 3 and Xbox 360) were firm while "Phoenix Wright: Ace Attorney –Dual Destinies" (for Nintendo 3DS) generally achieved projected sales. Furthermore, "Monster Hunter 4" sold well as a download in response to changing distribution formats, while sales of overseas title "Duck Tales" exceeded forecasts. Further diversification of our business model and significant growth in Japan and overseas also contributed to the growth in sales. Sales of "Lost Planet 3" (for PlayStation 3, Xbox 360 and PC), failed to meet expectations due in part to intensifying competition in the European and U.S. markets.

Online game "Monster Hunter Frontier G" (for PC, Xbox 360, PlayStation 3 and Wii U) also fell short of expectations, but PC browser game "Onimusha Soul", which was distributed in Taiwan with the aim of expanding Capcom's business domain, garnered a great deal of attention and ranked first in popularity. This achievement indicates the subsidiary Capcom established in Taiwan two years ago has begun to gain traction in the market. However, despite the strong performance of "Monster Hunter Hunting Quest", overall mobile content performance was lackluster due in part to an absence of major titles and a fiercely competitive environment.

As a result, net sales were 65,824 million yen (up 3.4% from the previous fiscal year), and operating income was 4,489 million yen (down 36.4% from the previous fiscal year).

(2) Arcade Operations business

In the Arcade Operations business, which continues to be affected by ongoing market stagnation, we made efforts to expand

customer segments and reach potential customers. These efforts include the development of free game experience tours for middle-aged and senior citizens and kid's corners for preschool children. We also attempted to attract a wider range of customers, including core customers, repeat customers and families, by renovating arcades and holding various events.

Nevertheless, insufficient machine traction and increased competition from other forms of entertainment combined with unseasonable weather resulted in fewer customers.

This fiscal year, we promoted a scrap-and-build policy in response to changes in the environment, opening one new arcade in Shizuoka City and closing two unprofitable arcades, bringing the total number of arcades in operation at the end of this fiscal year to 33.

As a result, net sales were 10,620 million yen (down 3.0% from the previous fiscal year), and operating income was 1,617 million yen (down 5.4% from the previous fiscal year).

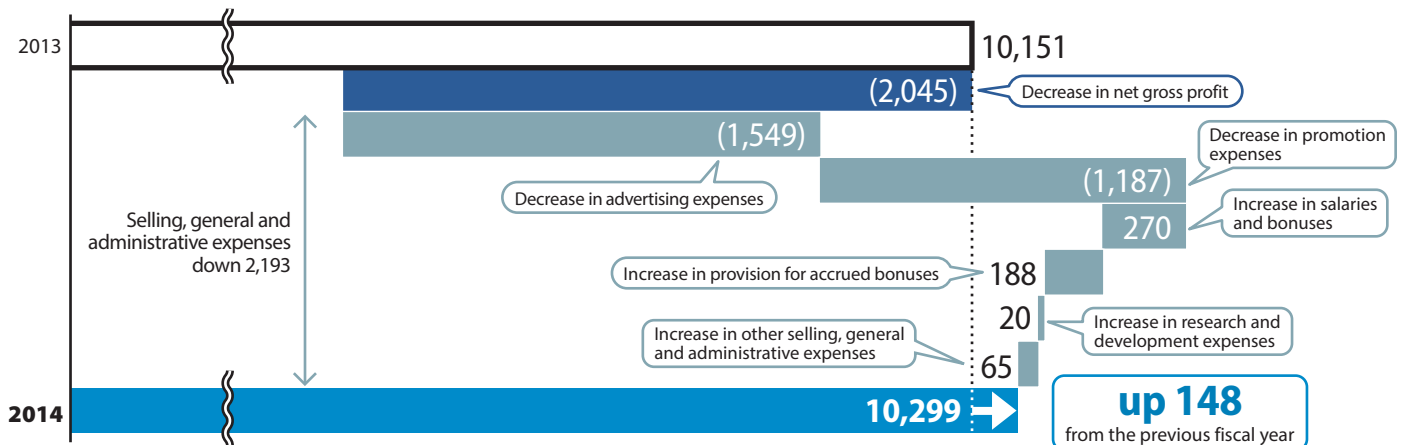
(3) Amusement Equipments business

In the Pachinko & Pachislo business, feature title-themed "Monster Hunter Gekka Raimei" lead the increase in sales and supported earnings with a strong start due to synergy with home video game software. In addition, "DEVIL MAY CRY 4", released last September, performed better than expected, contributing to the increase in sales.

At the same time, in the Arcade Games Sales business, new coin-operated game machines "Monster Hunter Medal Hunting Compact" and "Mario Party –Fushigi no Korokoro Catcher 2" performed solidly.

Operating Income

(Millions of yen)



Financial Review

As a result, net sales were 23,160 million yen (up 38.0% from the previous fiscal year), and operating income was 7,131 million yen (up 45.8% from the previous fiscal year).

(4) Other Businesses

In Other Businesses, which consist mainly of game guides and other publications and sales of characters and other merchandise, net sales were 2,594 million yen (down 4.3% from the previous year), and operating income was 1,001 million yen (up 35.2% from the previous year).

4. Analysis of Assets, Liabilities and Net Assets

(1) Assets

Total assets as of the end of the current fiscal year decreased 7,754 million yen from the end of the previous fiscal year to 96,611 million yen. The primary increase was 6,446 million yen in notes and accounts receivable, trade. The primary decreases were 8,533 million yen in work-in-progress for game software, 1,801 million yen in cash

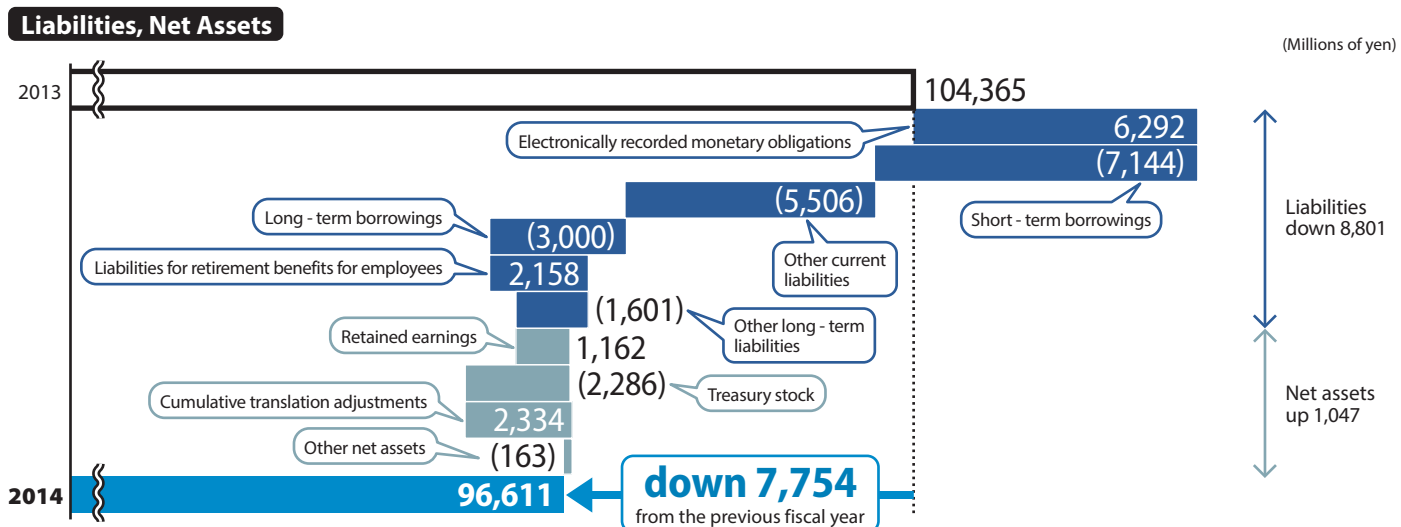
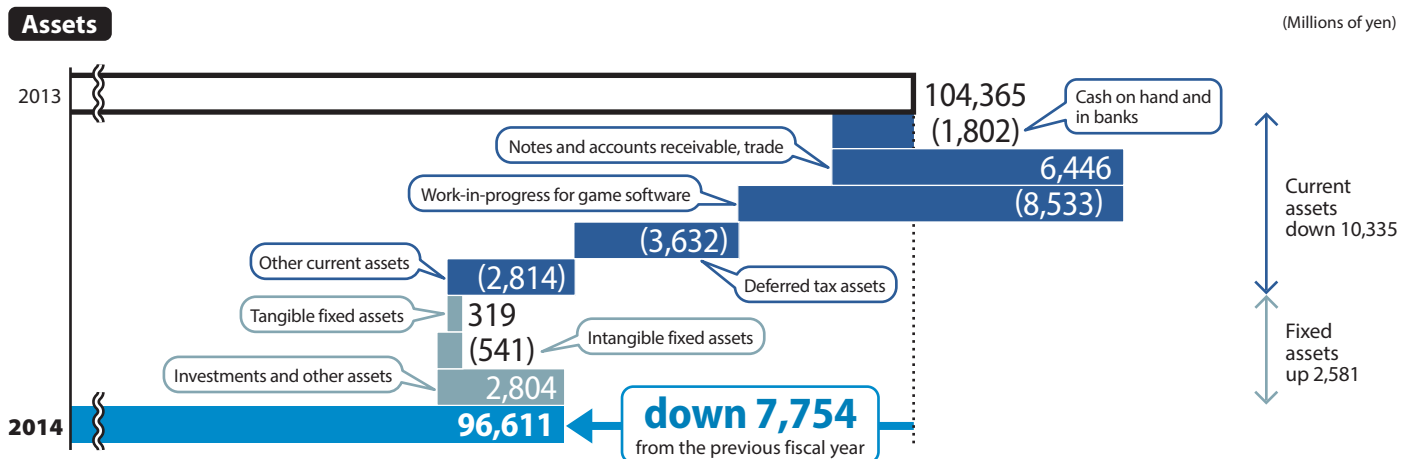
on hand and in banks, 595 million yen in raw materials and supplies and 564 million yen in merchandise and finished goods.

(2) Liabilities

Total liabilities as of the end of the current fiscal year decreased 8,801 million yen from the end of the previous fiscal year to 32,735 million yen. The primary decreases were 7,144 million yen in short-term borrowings, 3,000 million yen in long-term borrowings.

(3) Net assets

Net assets as of the end of the current fiscal year increased 1,047 million yen from the previous fiscal year to 63,875 million yen. The primary increases were 3,444 million yen in net income for the current fiscal year and 2,333 million yen in cumulative translation adjustments which related to foreign exchange translation of the net assets of foreign consolidated subsidiaries. The primary decrease was 2,286 million yen in treasury stock and 2,283 million yen in cash dividends.



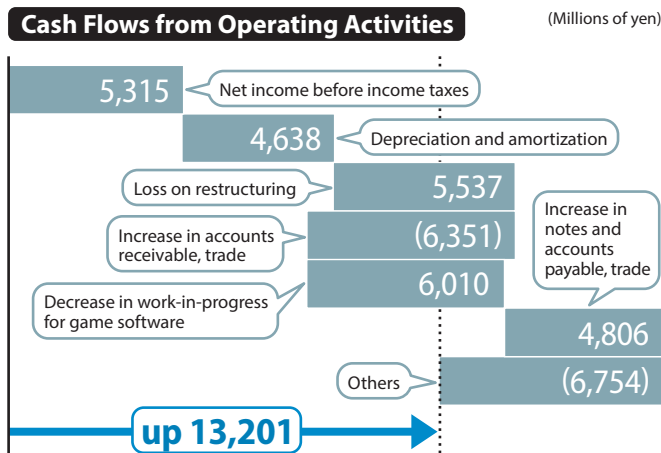
5. Analysis of Cash Flow

Cash and cash equivalents as of the end of the current fiscal year decreased 5,404 million yen from the end of the previous fiscal year to 26,118 million yen. Cash flow positions of each activity and their factors are described below.

(1) Cash flows from operating activities

Net cash gained from operating activities was 13,201 million yen (6,647 million yen in the previous fiscal year).

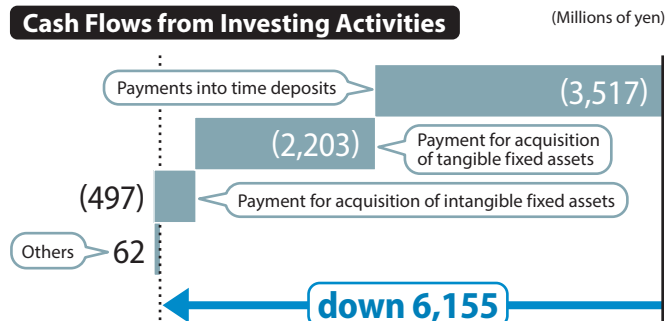
The primary items increasing cash flows were 6,010 million yen decrease in work-in-progress for game software (increase of 2,837 million yen in the previous fiscal year), 5,315 million yen in net income before income taxes (3,719 million yen in the previous fiscal year) and 4,806 million yen increase in notes and accounts payable, trade (decrease of 474 million yen in the previous fiscal year). The primary item decreasing cash flows was 6,351 million yen increase in accounts receivable, trade (decrease of 5,760 million yen in the previous fiscal year).



(2) Cash flows from investing activities

Net cash used in investing activities was 6,155 million yen (1,375 million yen in the previous fiscal year).

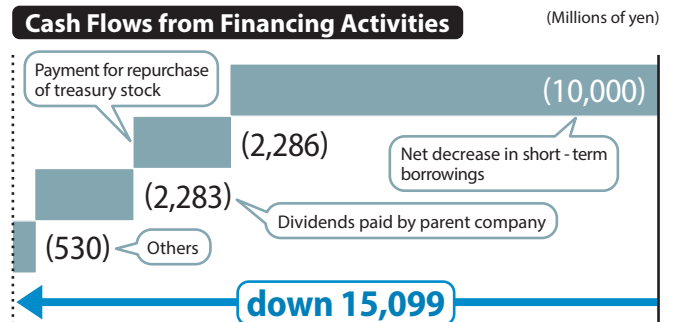
The primary items used were 3,517 million yen in payments into time deposits (no payments in the previous fiscal year) and 2,203 million yen in payment for acquisition of tangible fixed assets (3,086 million yen in the previous fiscal year).



(3) Cash flows from financing activities

Net cash used in financing activities was 15,099 million yen (1,162 million yen provided in the previous fiscal year).

The primary items used were 10,000 million yen net decrease in short-term borrowings (4,290 million yen net increase in the previous fiscal year), 2,286 million yen in payment for repurchase of treasury stock (1 million yen in the previous fiscal year) and 2,283 million yen in dividends paid by parent company (2,298 million yen in the previous fiscal year).



Trends of Cash Flow Indicators

	Year ended March 2012	Year ended March 2013	Year ended March 2014
Shareholders' equity ratio to total assets (%)	60.4	60.2	66.1
Shareholders' equity ratio to total assets based on fair market value (%)	110.8	81.4	114.0
Debt amortization ratio to cash flows (%)	—	258.7	53.4
Interest coverage ratio (times)	—	62.4	136.8

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

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

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

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

- (Note 1) Percentage figures are calculated on a consolidated basis.
 (Note 2) Total market value of shares is calculated based on the number of shares as of the end of the fiscal year excluding treasury stock.
 (Note 3) Cash flows are used for cash flows from operating activities.
 (Note 4) The interest-bearing debt refers to the debts posted in the consolidated balance sheets for which we are paying interests.
 (Note 5) As the cash flows from operating activities fell into red in fiscal year ended March 2012, we have omitted debt amortization ratio to cash flows from operating activities and interest coverage ratio.

Consolidated Balance Sheets

CAPCOM CO., LTD. AND ITS CONSOLIDATED SUBSIDIARIES. MARCH 31, 2014 AND 2013

	Previous fiscal year (As of March 31, 2013)	Current fiscal year (As of March 31, 2014)	Current fiscal year (As of March 31, 2014)
	Millions of yen	Millions of yen	Thousands of U.S. dollars
(Assets)			
Current assets:			
Cash on hand and in banks [Notes 9(1) and 11]	31,522	29,720	291,377
Notes and accounts receivable, trade [Notes 5(3) and 11]	11,687	18,134	177,788
Merchandise and finished goods	1,756	1,191	11,683
Work in progress	906	942	9,236
Raw materials and supplies	1,592	996	9,765
Work in progress for game software	18,888	10,355	101,527
Deferred tax assets [Note 14]	6,497	2,865	28,092
Other	4,054	2,355	23,090
Allowance for doubtful accounts	(64)	(55)	(539)
Total current assets	76,841	66,506	652,022
Fixed assets:			
Tangible fixed assets, net of accumulated depreciation [Note 5(1)]			
Buildings and structures, net [Note 5(2)]	4,907	4,998	49,002
Machinery and vehicles, net	34	15	156
Tools, fixtures and furniture, net	1,105	1,208	11,852
Equipment for amusement facilities, net	1,199	1,431	14,031
Land [Note 5(2)]	5,052	5,052	49,535
Leased assets, net [Note 10(2)]	849	825	8,096
Construction in progress	108	44	434
Total tangible fixed assets	13,258	13,577	133,110
Intangible assets			
Goodwill	200	67	659
Other	7,709	7,300	71,576
Total intangible assets	7,909	7,368	72,235
Investments and other assets			
Investments in securities [Note 12]	515	542	5,320
Claims in bankruptcy and reorganization	66	65	638
Lease deposits [Note 11]	4,341	4,108	40,283
Deferred tax assets [Note 14]	733	3,699	36,272
Other	776	819	8,038
Allowance for doubtful accounts	(78)	(77)	(755)
Total investments and other assets	6,355	9,159	89,798
Total fixed assets	27,523	30,104	295,144
Total assets	104,365	96,611	947,166

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

	Previous fiscal year (As of March 31, 2013)	Current fiscal year (As of March 31, 2014)	Current fiscal year (As of March 31, 2014)
	Millions of yen	Millions of yen	Thousands of U.S. dollars
(Liabilities)			
Current liabilities:			
Notes and accounts payable, trade [Notes 5(3) and 11]	6,304	4,950	48,537
Electronically recorded monetary obligations [Note 11]	634	6,926	67,906
Short - term borrowings [Notes 5(2) , 11 and 20]	11,194	4,050	39,705
Lease obligations [Notes 11 and 20]	364	370	3,630
Accrued income taxes	2,111	758	7,436
Deferred tax liabilities [Note 14]	—	93	918
Accrued bonuses	1,679	1,802	17,668
Allowance for sales returns	187	87	854
Asset retirement obligations [Notes 15 and 21]	20	8	84
Other	9,409	6,499	63,717
Total current liabilities	31,905	25,547	250,461
Long - term liabilities:			
Long - term borrowings [Notes 5(2) , 11 and 20]	6,000	3,000	29,411
Lease obligations [Note 11 and 20]	553	519	5,090
Deferred tax liabilities [Note 14]	2	46	459
Accrued retirement benefits for employees [Note 13]	1,697	—	—
Liabilities for retirement benefits for employees [Note 13]	—	2,158	21,158
Asset retirement obligations [Notes 15 and 21]	329	404	3,961
Other	1,047	1,059	10,388
Total long-term liabilities	9,630	7,187	70,470
Total liabilities	41,536	32,735	320,931
(Net assets)			
Shareholders' equity:			
Common stock	33,239	33,239	325,875
Capital surplus	21,328	21,328	209,107
Retained earnings	27,998	29,160	285,883
Treasury stock	(15,848)	(18,134)	(177,792)
Total shareholders' equity	66,718	65,593	643,073
Accumulated other comprehensive income:			
Net unrealized gain or loss on securities, net of tax	91	99	974
Cumulative translation adjustments	(3,981)	(1,647)	(16,152)
Accumulated adjustments for retirement benefits	—	(169)	(1,660)
Total accumulated other comprehensive income	(3,889)	(1,717)	(16,838)
Total net assets	62,828	63,875	626,235
Total liabilities and net assets	104,365	96,611	947,166

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

Consolidated Statements of Income / Consolidated Statements of Comprehensive Income

Consolidated statements of income

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

	Previous fiscal year (From April 1, 2012 to March 31, 2013)	Current fiscal year (From April 1, 2013 to March 31, 2014)	Current fiscal year (From April 1, 2013 to March 31, 2014)
	Millions of yen	Millions of yen	Thousands of U.S. dollars
Net sales	94,075	102,200	1,001,968
Cost of sales	61,911	72,251	708,350
Gross profit	32,163	29,949	293,617
Reversal of allowance for sales returns	—	100	983
Provision of allowance for sales returns	69	—	—
Net gross profit	32,094	30,049	294,601
Selling, general and administrative expenses [Notes 6(1) and (3)]	21,942	19,749	193,622
Operating income	10,151	10,299	100,979
Non-operating income:			
Interest income	92	97	952
Dividend income	9	10	104
Settlement received	—	210	2,058
Exchange gains, net	745	566	5,551
Other	257	238	2,334
Total	1,105	1,122	11,002
Non-operating expenses:			
Interest expense	107	96	950
Commission fees	60	69	683
Compensation expenses	—	138	1,360
Loss on closing amusement stores	—	142	1,397
Other	144	27	271
Total	312	475	4,664
Ordinary income	10,944	10,946	107,317
Special losses:			
Loss on sales and/or disposal of fixed assets [Note 6(2)]	216	93	917
Impairment loss [Note 6(4)]	58	—	—
Loss on restructuring [Note 6(5)]	6,949	5,537	54,285
Total	7,224	5,630	55,202
Net income before income taxes	3,719	5,315	52,114
Income taxes-current [Note 14]	2,968	950	9,319
Income taxes-deferred [Note 14]	(2,222)	920	9,021
Total	746	1,870	18,340
Net income before minority interests	2,973	3,444	33,773
Net income	2,973	3,444	33,773

Consolidated statements of comprehensive income

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

	Previous fiscal year (From April 1, 2012 to March 31, 2013)	Current fiscal year (From April 1, 2013 to March 31, 2014)	Current fiscal year (From April 1, 2013 to March 31, 2014)
	Millions of yen	Millions of yen	Thousands of U.S. dollars
Net income before minority interests	2,973	3,444	33,773
Other comprehensive income [Note 7(1)]			
Net unrealized gain or loss on securities, net of tax	138	8	79
Cumulative translation adjustments	2,669	2,333	22,879
Total other comprehensive income	2,807	2,341	22,958
Comprehensive income	5,780	5,786	56,732
Comprehensive income attributable to:			
Owners of the parent	5,780	5,786	56,732
Minority interests	—	—	—

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

Consolidated Statements of Changes in Net Assets

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

Millions of yen	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance as of March 31, 2012	33,239	21,328	27,328	(15,846)	66,049
Changes of items during the previous fiscal year					
Cash dividends [Note 8(3)]			(2,303)		(2,303)
Net income			2,973		2,973
Repurchase of treasury stock				(1)	(1)
Disposal of treasury stock		0		0	0
Net changes of items other than shareholders' equity					
Total changes of items during the previous fiscal year	—	0	670	(1)	668
Balance as of March 31, 2013	33,239	21,328	27,998	(15,848)	66,718

Millions of yen	Accumulated other comprehensive income				Total net assets
	Net unrealized gain or loss on securities, net of tax	Cumulative translation adjustments	Accumulated adjustments for retirement benefits	Total accumulated other comprehensive income	
Balance as of March 31, 2012	(46)	(6,650)	—	(6,697)	59,352
Changes of items during the previous fiscal year					
Cash dividends [Note 8(3)]					(2,303)
Net income					2,973
Repurchase of treasury stock					(1)
Disposal of treasury stock					0
Net changes of items other than shareholders' equity	138	2,669	—	2,807	2,807
Total changes of items during the previous fiscal year	138	2,669	—	2,807	3,475
Balance as of March 31, 2013	91	(3,981)	—	(3,889)	62,828

Millions of yen	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance as of March 31, 2013	33,239	21,328	27,998	(15,848)	66,718
Changes of items during the current fiscal year					
Cash dividends [Note 8(3)]			(2,283)		(2,283)
Net income			3,444		3,444
Repurchase of treasury stock				(2,286)	(2,286)
Disposal of treasury stock		0		0	0
Net changes of items other than shareholders' equity					
Total changes of items during the current fiscal year	—	0	1,161	(2,286)	(1,124)
Balance as of March 31, 2014	33,239	21,328	29,160	(18,134)	65,593

Millions of yen	Accumulated other comprehensive income				Total net assets
	Net unrealized gain or loss on securities, net of tax	Cumulative translation adjustments	Accumulated adjustments for retirement benefits	Total accumulated other comprehensive income	
Balance as of March 31, 2013	91	(3,981)	—	(3,889)	62,828
Changes of items during the current fiscal year					
Cash dividends [Note 8(3)]					(2,283)
Net income					3,444
Repurchase of treasury stock					(2,286)
Disposal of treasury stock					0
Net changes of items other than shareholders' equity	8	2,333	(169)	2,172	2,172
Total changes of items during the current fiscal year	8	2,333	(169)	2,172	1,047
Balance as of March 31, 2014	99	(1,647)	(169)	(1,717)	63,875

Thousands of U.S. dollars	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance as of March 31, 2013	325,875	209,107	274,493	(155,374)	654,100
Changes of items during the current fiscal year					
Cash dividends [Note 8(3)]			(22,383)		(22,383)
Net income			33,773		33,773
Repurchase of treasury stock				(22,418)	(22,418)
Disposal of treasury stock		0		0	0
Net changes of items other than shareholders' equity					
Total changes of items during the current fiscal year	—	0	11,390	(22,417)	(11,027)
Balance as of March 31, 2014	325,875	209,107	285,883	(177,792)	643,073

Thousands of U.S. dollars	Accumulated other comprehensive income				Total net assets
	Net unrealized gain or loss on securities, net of tax	Cumulative translation adjustments	Accumulated adjustments for retirement benefits	Total accumulated other comprehensive income	
Balance as of March 31, 2013	894	(39,031)	—	(38,136)	615,963
Changes of items during the current fiscal year					
Cash dividends [Note 8(3)]					(22,383)
Net income					33,773
Repurchase of treasury stock					(22,418)
Disposal of treasury stock					0
Net changes of items other than shareholders' equity	79	22,879	(1,660)	21,298	21,298
Total changes of items during the current fiscal year	79	22,879	(1,660)	21,298	10,271
Balance as of March 31, 2014	974	(16,152)	(1,660)	(16,838)	626,235

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

Consolidated Statements of Cash Flows

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

	Previous fiscal year (From April 1, 2012 to March 31, 2013)	Current fiscal year (From April 1, 2013 to March 31, 2014)	Current fiscal year (From April 1, 2013 to March 31, 2014)
	Millions of yen	Millions of yen	Thousands of U.S. dollars
Cash flows from operating activities:			
Net income before income taxes	3,719	5,315	52,114
Depreciation and amortization	3,406	4,638	45,473
Impairment loss	58	—	—
Amortization of goodwill	132	131	1,287
(Decrease) increase in allowance for doubtful accounts	1	(16)	(165)
Increase (decrease) in accrued bonuses	(474)	88	867
(Decrease) increase in allowance for sales returns	69	(100)	(983)
Increase in accrued retirement benefits for employees	185	—	—
Increase in liabilities for retirement benefits for employees	—	195	1,918
Interest and dividend income	(101)	(107)	(1,057)
Interest expense	107	96	950
Exchange (gains) losses, net	(485)	(435)	(4,269)
Loss on sales and/or disposal of fixed assets	216	93	917
Loss on restructuring	6,949	5,537	54,285
(Increase) decrease in accounts receivable, trade	5,760	(6,351)	(62,267)
Decrease (increase) in inventories	(493)	1,196	11,731
Decrease (increase) in work in progress for game software	(2,837)	6,010	58,930
Increase (decrease) in notes and accounts payable, trade	(474)	4,806	47,119
Decrease (increase) in other current assets	(1,031)	1,975	19,372
Decrease (increase) in other current liabilities	(1,553)	(2,709)	(26,567)
Other	(2,901)	(4,960)	(48,636)
Subtotal	10,253	15,404	151,020
Interest and dividends received	109	86	849
Interest paid	(105)	(98)	(968)
Income taxes paid	(3,610)	(2,190)	(21,471)
Net cash provided by operating activities	6,647	13,201	129,430
Cash flows from investing activities:			
Payments into time deposits [Note 9(1)]	—	(3,517)	(34,481)
Proceeds from withdrawal of time deposits	2,499	—	—
Payment for acquisition of tangible fixed assets	(3,086)	(2,203)	(21,599)
Proceeds from sales of tangible fixed assets	659	1	12
Payment for acquisition of intangible assets	(1,578)	(497)	(4,875)
Payment for purchase of investments in securities	(12)	(12)	(126)
Payment for other investing activities	(453)	(115)	(1,134)
Proceeds from other investing activities	597	189	1,855
Net cash used in investing activities	(1,375)	(6,155)	(60,349)
Cash flows from financing activities:			
Net (decrease) increase in short-term borrowings	4,290	(10,000)	(98,039)
Repayments of long-term borrowings	(499)	(145)	(1,425)
Repayments of lease obligations	(327)	(383)	(3,764)
Payment for repurchase of treasury stock	(1)	(2,286)	(22,417)
Proceeds from sales of treasury stock	0	0	0
Dividends paid by parent company	(2,298)	(2,283)	(22,383)
Net cash (used in) provided by financing activities	1,162	(15,099)	(148,029)
Effect of exchange rate changes on cash and cash equivalents	2,800	2,648	25,966
Net (decrease) increase in cash and cash equivalents	9,235	(5,404)	(52,982)
Cash and cash equivalents at beginning of year	22,287	31,522	309,043
Cash and cash equivalents at end of year [Note 9(1)]	31,522	26,118	256,061

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

1. Major policies in preparing the consolidated financial statements:

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

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

The rate of ¥102 to U.S.\$1.00, the approximate current rate of exchange prevailing on March 31, 2014, has been used for the purpose of presentation of the U.S. dollar amounts in the accompanying consolidated financial statements. These U.S. dollar amounts are included solely for convenience and should not be construed as representations that the Japanese yen amounts actually represent, have been or could be converted into U.S. dollars at this or any other rate.

2. Summary of significant accounting policies:

(1) Principles of consolidation

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

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

The 16 subsidiaries are as follows:

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

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

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

(2) Investments in securities

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

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

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

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

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

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

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

(4) Tangible fixed assets, except for leased assets

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

The primary useful lives are as follows:

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

(5) Intangible assets, except for leased assets

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

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

(6) Leased assets

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

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

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

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

(7) Allowance for doubtful accounts

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

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

(8) Accrued bonuses

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

(9) Attributing retirement benefits to service periods and amortizing liabilities unrealized in profit or loss

In calculating projected benefit obligations, attributing retirement benefits to service periods is based on straight-line method.

Transition obligations (¥552 million (\$5,416 thousand)) are amortized over 15 years.

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

Actuarial net gains or losses are amortized over 8 to 14 years, commencing from the following year in which they arise.

(10) Allowance for sales returns

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

(11) Amortization of goodwill

Goodwill is amortized by the straight-line method over 4 years. When the amount is insignificant, it is amortized at one time.

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

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

(13) Other

Accounting for consumption taxes

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

3. Changes in accounting policies

Effective from the fiscal year ended March 31, 2014, the Companies have adopted "Accounting Standard for Retirement Benefits" (Accounting Standard Board of Japan (ASBJ) Statement No. 26, May 17, 2012, except

for the provision of article 35) and "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25, May 17, 2012, except for the provision of article 67).

This has led to presentation of liabilities for retirement benefits with projected benefit obligations minus fair value of plan assets, which recognize actuarial differences and prior service liabilities.

In applying the above standard and guidance, the Companies have followed the transition measures provided in the provision of article 37 and disclosed the impact caused by this change on the accumulated other comprehensive income.

As a result, the Companies have booked liabilities for retirement benefits of ¥2,158 million (\$21,158 thousand) with accumulated other comprehensive income decreased by ¥169 million (\$1,660 thousand).

The impact on the per share information is disclosed in the pertinent note.

4. Unapplied accounting standards, etc.:

"Accounting Standard for Retirement Benefits" (ASBJ Statement No.26, May 17, 2012) and "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25, May 17, 2012)

(1) Outline

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

(2) Effective date

Amendments related to the determination of retirement benefit obligations and current service costs shall be applied to the fiscal year ending on or after March 31, 2015.

(3) Impact of application of new accounting standard

The impact of this change on the consolidated statement of income for the fiscal year ending March 31, 2015 is expected to be insignificant.

5. Notes to consolidated balance sheets

(1) Accumulated depreciation of tangible fixed assets

	Previous fiscal year (As of March 31, 2013)	Current fiscal year (As of March 31, 2014)	Current fiscal year (As of March 31, 2014)
	Millions of yen	Millions of yen	Thousands of U.S. dollars
Accumulated depreciation of tangible fixed assets	16,890	17,288	169,496

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

(2) Pledged assets and secured debts

	Previous fiscal year (As of March 31, 2013)	Current fiscal year (As of March 31, 2014)	Current fiscal year (As of March 31, 2014)
	Millions of yen	Millions of yen	Thousands of U.S. dollars
① Pledged assets			
Buildings	3,806	1,767	17,330
Land	3,314	2,341	22,956
Total	7,120	4,109	40,286
② Secured debts			
Short - term borrowings	1,050	1,050	10,294
Long - term borrowings due within one year	140	—	0
Total	1,190	1,050	10,294

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

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

	Previous fiscal year (As of March 31, 2013)	Current fiscal year (As of March 31, 2014)	Current fiscal year (As of March 31, 2014)
	Millions of yen	Millions of yen	Thousands of U.S. dollars
Notes receivable	2	—	—
Notes payable	39	—	—

(4) Credit line

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

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

	Previous fiscal year (As of March 31, 2013)	Current fiscal year (As of March 31, 2014)	Current fiscal year (As of March 31, 2014)
	Millions of yen	Millions of yen	Thousands of U.S. dollars
Total credit line	26,500	26,500	259,803
Borrowings	10,000	—	—
Unexercised balance	16,500	26,500	259,803

6. Notes to consolidated statements of income

(1) Major items and the amounts under "Selling, general and administrative expenses"

	Previous fiscal year (From April 1, 2012 to March 31, 2013)	Current fiscal year (From April 1, 2013 to March 31, 2014)	Current fiscal year (From April 1, 2013 to March 31, 2014)
	Millions of yen	Millions of yen	Thousands of U.S. dollars
Advertising expenses	4,907	3,358	32,923
Promotion expenses	2,140	953	9,351
Salaries and bonuses	5,030	5,300	51,967
Provision for accrued bonuses	742	930	9,117
Research and development expenses	1,982	2,002	19,636

(2) The breakdown of "Loss on sales and / or disposal of fixed assets"

	Previous fiscal year (From April 1, 2012 to March 31, 2013)	Current fiscal year (From April 1, 2013 to March 31, 2014)	Current fiscal year (From April 1, 2013 to March 31, 2014)
	Millions of yen	Millions of yen	Thousands of U.S. dollars
Buildings and structures	34	75	744
Tools, fixtures and furniture	56	15	148
Equipment for amusement facilities	7	1	13
Land	101	—	0
Other	17	1	11
Total	216	93	917

(3) Research and development expenses included in general and administrative expenses

	Previous fiscal year (From April 1, 2012 to March 31, 2013)	Current fiscal year (From April 1, 2013 to March 31, 2014)	Current fiscal year (From April 1, 2013 to March 31, 2014)
	Millions of yen	Millions of yen	Thousands of U.S. dollars
Research and development expenses	1,982	2,002	19,636

Notes to Consolidated Financial Statements

(4) Impairment loss

The assets, for which the impairment losses were recognized, were as follows:

Usage	Account	Previous fiscal year	Current fiscal year	Current fiscal year
		(From April 1, 2012 to March 31, 2013)	(From April 1, 2013 to March 31, 2014)	(From April 1, 2013 to March 31, 2014)
		Millions of yen	Millions of yen	Thousands of U.S. dollars
Assets to be disposed of	Equipment for amusement facilities	58	—	—

(Previous fiscal year)

To measure an impairment, assets are principally grouped based on business segments such as "Digital contents," "Arcade operations," etc. Whereas, rental assets, idle assets, assets to be disposed of and online game contents are evaluated as separate groups. The Companies made a decision to dispose of some assets. As a result of the decision, the Companies did not make sure of the recoverability of the book value of the assets to be disposed of and recognized the impairment loss as shown above.

(Current fiscal year)

Not applicable

(5) Loss on restructuring

① Previous fiscal year (From April 1, 2012 to March 31, 2013)

The Companies restructured the developmental organization of the digital contents business. As a result, the Companies booked a loss on restructuring after reviewing future profitability.

② Current fiscal year (From April 1, 2013 to March 31, 2014)

The Companies restructured the developmental organization of the digital contents business and developmental process.

As a result, the Companies booked a loss on restructuring after reviewing future profitability.

7. Notes to consolidated statements of comprehensive income

(1) Amount of recycling and income tax effect associated with other comprehensive income

	Previous fiscal year	Current fiscal year	Current fiscal year
	(From April 1, 2012 to March 31, 2013)	(From April 1, 2013 to March 31, 2014)	(From April 1, 2013 to March 31, 2014)
		Millions of yen	Thousands of U.S. dollars
Net unrealized gain or loss on securities			
Amount arising during the fiscal year	138	8	79
Amount of recycling	—	—	—
Net gain before income tax effect	138	8	79
Income tax effect	—	—	—
Net unrealized gain or loss on securities, net of tax	138	8	79
Cumulative translation adjustment			
Amount arising during the fiscal year	2,669	2,333	22,879
Total other comprehensive income	2,807	2,341	22,958

8. Notes to consolidated statements of changes in net assets

Previous fiscal year (From April 1, 2012 to March 31, 2013)

(1) Number of outstanding shares

Type of shares	Number of shares as of April 1, 2012	Increase in the number of shares	Decrease in the number of shares	Number of shares as of March 31, 2013
Common stock (thousand shares)	67,723	—	—	67,723

(Note) No change in the number of shares during the previous fiscal year

(2) Number of treasury stocks

Type of shares	Number of shares as of April 1, 2012	Increase in the number of shares	Decrease in the number of shares	Number of shares as of March 31, 2013
Common stock (thousand shares)	10,138	0	0	10,139

(Note) The reasons for the increase or decrease in the number of shares were as follows:

Increase due to purchase of less-than-one-unit shares

0 thousand shares

Decrease due to request for purchase of less-than-one-unit shares by shareholders

0 thousand shares

(3) Dividend

① Amount of dividends paid

Resolution	Type of shares	Amount of dividends	Dividend per share (yen)	Record date	Effective date
General shareholders' meeting held on June 15, 2012	Common stock	¥1,439 million	25	March 31, 2012	June 18, 2012
Board of Directors' meeting held on October 31, 2012	Common stock	¥863 million	15	September 30, 2012	November 19, 2012

② Dividends whose effective date was to be after the end of current fiscal year and record date was included in the previous fiscal year.

Resolution	Type of shares	Amount of dividends	Source of dividends	Dividend per share (yen)	Record date	Effective date
General shareholders' meeting held on June 18, 2013	Common stock	¥1,439 million	Retained earnings	25	March 31, 2013	June 19, 2013

Current fiscal year (From April 1, 2013 to March 31, 2014)

(1) Number of outstanding shares

Type of shares	Number of shares as of April 1, 2013	Increase in the number of shares	Decrease in the number of shares	Number of shares as of March 31, 2014
Common stock (thousand shares)	67,723	—	—	67,723

(Note) No change in the number of shares during the current fiscal year

(2) Number of treasury stocks

Type of shares	Number of shares as of April 1, 2013	Increase in the number of shares	Decrease in the number of shares	Number of shares as of March 31, 2014
Common stock (thousand shares)	10,139	1,350	0	11,490

(Note) The reasons for the increase or decrease in the number of shares were as follows:

Increase due to purchase of treasury stock	1,347 thousand shares
Increase due to purchase of less-than-one-unit shares	3 thousand shares
Decrease due to request for purchase of less-than-one-unit shares by shareholders	0 thousand shares

(3) Dividend

① Amount of dividends paid

Resolution	Type of shares	Amount of dividends	Dividend per share (yen)	Record date	Effective date
General shareholders' meeting held on June 18, 2013	Common stock	¥1,439 million	25	March 31, 2013	June 19, 2013
Board of Directors' meeting held on October 31, 2013	Common stock	¥843 million	15	September 30, 2013	November 18, 2013

Resolution	Type of shares	Amount of dividends	Dividend per share (U.S. dollars)	Record date	Effective date
General shareholders' meeting held on June 18, 2013	Common stock	\$14,113 thousand	0.25	March 31, 2013	June 19, 2013
Board of Directors' meeting held on October 31, 2013	Common stock	\$8,269 thousand	0.15	September 30, 2013	November 18, 2013

② Dividends whose effective date was to be after the end of current fiscal year and record date was included in the current fiscal year.

Resolution	Type of shares	Amount of dividends	Source of dividends	Dividend per share (yen)	Record date	Effective date
General shareholders' meeting held on June 16, 2014	Common stock	¥1,405 million	Retained earnings	25	March 31, 2014	June 17, 2014

Resolution	Type of shares	Amount of dividends	Source of dividends	Dividend per share (U.S. dollars)	Record date	Effective date
General shareholders' meeting held on June 16, 2014	Common stock	\$13,782 thousand	Retained earnings	0.25	March 31, 2014	June 17, 2014

Notes to Consolidated Financial Statements

9. Notes to consolidated statements of cash flows

(1) Cash and cash equivalents at end of year

	Previous fiscal year (As of March 31, 2013)	Current fiscal year (As of March 31, 2014)	Current fiscal year (As of March 31, 2014)
	Millions of yen	Millions of yen	Thousands of U.S. dollars
Cash on hand and in banks	31,522	29,720	291,377
Time deposits with maturities over three months	—	(3,602)	(35,315)
Cash and cash equivalents	31,522	26,118	256,061

10. Accounting for leases

(1) Capital leases which do not transfer ownership of the leased assets to the lessee and were made on or before March 31, 2008.

The note is omitted due to the insignificance of the total amount.

(2) Capital leases which were made on or after April 1, 2008.

① Capital leases which transfer ownership of the leased assets to the lessee. ② Capital leases which do not transfer ownership of the leased assets to the lessee.

• Leased assets:

Intangible assets

Major assets are software for "Amusement equipments" segment.

• Depreciation method:

See Note 2(6), "Summary of significant accounting policies - Leased assets."

• Leased assets:

Tangible fixed assets

Major assets are equipment for amusement facilities for the "Arcade operations" segment.

• Depreciation method:

See Note 2(6), "Summary of significant accounting policies - Leased assets."

(3) Operating leases

① Future lease payments

	Previous fiscal year (From April 1, 2012 to March 31, 2013)	Current fiscal year (From April 1, 2013 to March 31, 2014)	Current fiscal year (From April 1, 2013 to March 31, 2014)
	Millions of yen	Millions of yen	Thousands of U.S. dollars
Due within one year	388	487	4,781
Due over one year	2,347	2,208	21,655
Total	2,736	2,696	26,436

11. Financial instruments

① Conditions of financial instruments

(1) Management policy

The Companies' fund management policy is to invest in financial instruments that have high levels of safety concerning the repayment of the principal and the receipt of interest, taking safety, liquidity (negotiability, marketability) and profitability into consideration.

The Companies raise funds through borrowings from financial institutions, such as banks, etc.

The Companies also utilize derivative financial instruments in order to hedge foreign currency exchange risk and interest fluctuation rate risk, and do not enter into derivative financial instruments for speculative purposes.

(2) Financial instruments, risks, and risk management

Notes and accounts receivable, trade are exposed to credit risk of customers. To minimize such risk, the Companies regularly monitor the credit status of major customers as well as perform due date control and balance control for each customer according to importance of business in accordance with credit exposure management rules.

The investments in securities the Company holds consist mainly of listed equity securities of its business partners. These securities are exposed to stock price volatility risk. To minimize such risk, the Company states the fair value of these securities on a quarterly basis to report it to the board of directors' meeting.

As for notes and accounts payable, trade, due date of payment is within one year.

Short-term borrowings are mainly for normal operating activities, and long-term borrowings are mainly for capital investments.

Notes and accounts payable, trade and borrowings are exposed to liquidity risk.

The Companies minimize such risk by forecasting cash flows on a monthly basis.

(3) Supplemental information on the fair value of financial instruments

Not applicable

② Fair value of financial instruments

The carrying value on the consolidated balance sheets, fair value and any differences between the two were as follows:

(1) Previous fiscal year (As of March 31, 2013)

	Millions of yen		
	Carrying value	Fair value	Difference
(1) Cash on hand and in banks	31,522	31,522	—
(2) Notes and accounts receivable, trade	11,687	11,687	—
(3) Lease deposits	4,341	4,325	(16)
Total	47,551	47,535	(16)
(1) Notes and accounts payable, trade	6,304	6,304	—
(2) Electronically recorded monetary obligations	634	634	—
(3) Short-term borrowings	11,194	11,194	—
(4) Long-term borrowings	6,000	6,024	23
Total	24,133	24,157	23

(2) Current fiscal year (As of March 31, 2014)

	Millions of yen			Thousands of U.S. dollars		
	Carrying value	Fair value	Difference	Carrying value	Fair value	Difference
(1) Cash on hand and in banks	29,720	29,720	—	291,377	291,377	—
(2) Notes and accounts receivable, trade	18,134	18,134	—	177,788	177,788	—
(3) Lease deposits	4,108	4,087	(21)	40,283	40,073	(210)
Total	51,963	51,942	(21)	509,449	509,239	(210)
(1) Notes and accounts payable, trade	4,950	4,950	—	48,537	48,537	—
(2) Electronically recorded monetary obligations	6,926	6,926	—	67,906	67,906	—
(3) Short-term borrowings	4,050	4,050	—	39,705	39,705	—
(4) Long-term borrowings	3,000	3,009	9	29,411	29,507	95
Total	18,927	18,937	9	185,561	185,657	95

(Note 1) Fair value measurement of financial instruments

Assets

- (1) Cash on hand and in banks and (2) Notes and accounts receivable, trade
The fair value is assumed to be the same as the carrying value as it approximates fair value because of the short maturity of these instruments.
- (3) Lease deposits
The fair value is measured at the present value of future cash flows discounted using the yield of national government bonds according to periods until repayment.

Liabilities

- (1) Notes and accounts payable, trade, (2) Electronically recorded obligations and (3) Short-term borrowings

The fair value is assumed to be the same as the carrying value as it approximates fair value because of the short maturity of these instruments.

- (4) Long-term borrowings
The fair value of long-term borrowings with variable interest rates is measured at the carrying value as it approximates fair value.
(The market interest rate fluctuation is reflected in the variable interest rates in the short term and the credit status of the Company does not change remarkably after raising funds through long-term borrowings with variable interest rates.)
The fair value of long-term borrowings with fixed rates is measured at the present value of future cash flow (principal plus interest) discounted using the assumed interest rate of similar new borrowings.

(Note 2) Redemption schedule for monetary assets with maturity dates subsequent to the consolidated balance sheets date

(1) Previous fiscal year (As of March 31, 2013)

	Millions of yen			
	April 1, 2013 to March 31, 2014	April 1, 2014 to March 31, 2018	April 1, 2018 to March 31, 2023	April 1, 2023 and thereafter
(1) Cash on hand and in banks	31,522	—	—	—
(2) Notes and accounts receivable, trade	11,687	—	—	—
(3) Lease deposits	1,290	2,774	274	2
Total	44,500	2,774	274	2

(2) Current fiscal year (As of March 31, 2014)

	Millions of yen				Thousands of U.S. dollars			
	April 1, 2014 to March 31, 2015	April 1, 2015 to March 31, 2019	April 1, 2019 to March 31, 2024	April 1, 2024 and thereafter	April 1, 2014 to March 31, 2015	April 1, 2015 to March 31, 2019	April 1, 2019 to March 31, 2024	April 1, 2024 and thereafter
(1) Cash on hand and in banks	29,720	—	—	—	291,377	—	—	—
(2) Notes and accounts receivable, trade	18,134	—	—	—	177,788	—	—	—
(3) Lease deposits	1,484	2,325	296	2	14,555	22,796	2,905	25
Total	49,339	2,325	296	2	483,721	22,796	2,905	25

(Note 3) Repayment schedule for long-term borrowings and lease obligations with maturity dates subsequent to the consolidated balance sheets date

Notes to Consolidated Financial Statements

(1) Previous fiscal year (As of March 31, 2013)

	Millions of yen					
	April 1, 2013 to March 31, 2014	April 1, 2014 to March 31, 2015	April 1, 2015 to March 31, 2016	April 1, 2016 to March 31, 2017	April 1, 2017 to March 31, 2018	April 1, 2018 and thereafter
(1) Short-term borrowings	11,194	—	—	—	—	—
(2) Long-term borrowings	—	3,000	3,000	—	—	—
Total	11,194	3,000	3,000	—	—	—

(2) Current fiscal year (As of March 31, 2014)

	Millions of yen					
	April 1, 2014 to March 31, 2015	April 1, 2015 to March 31, 2016	April 1, 2016 to March 31, 2017	April 1, 2017 to March 31, 2018	April 1, 2018 to March 31, 2019	April 1, 2019 and thereafter
(1) Short-term borrowings	4,050	—	—	—	—	—
(2) Long-term borrowings	—	3,000	—	—	—	—
Total	4,050	3,000	—	—	—	—

	Thousands of U.S. dollars					
	April 1, 2014 to March 31, 2015	April 1, 2015 to March 31, 2016	April 1, 2016 to March 31, 2017	April 1, 2017 to March 31, 2018	April 1, 2018 to March 31, 2019	April 1, 2019 and thereafter
(1) Short-term borrowings	39,705	—	—	—	—	—
(2) Long-term borrowings	—	29,411	—	—	—	—
Total	39,705	29,411	—	—	—	—

12. Investments in securities

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

① Previous fiscal year (As of March 31, 2013)

Classification	Millions of yen		
	Carrying value	Acquisition cost	Difference
Securities with book value exceeding acquisition cost			
(1) Equity securities	477	386	91
(2) Bonds	—	—	—
(3) Others	—	—	—
Subtotal	477	386	91
Securities with book value not exceeding acquisition cost			
(1) Equity securities	—	—	—
(2) Bonds	—	—	—
(3) Others	—	—	—
Subtotal	—	—	—
Total	477	386	91

② Current fiscal year (As of March 31, 2014)

Classification	Millions of yen			Thousands of U.S. dollars		
	Carrying value	Acquisition cost	Difference	Carrying value	Acquisition cost	Difference
Securities with book value exceeding acquisition cost						
(1) Equity securities	498	399	99	4,888	3,914	974
(2) Bonds	—	—	—	—	—	—
(3) Others	—	—	—	—	—	—
Subtotal	498	399	99	4,888	3,914	974
Securities with book value not exceeding acquisition cost						
(1) Equity securities	—	—	—	—	—	—
(2) Bonds	—	—	—	—	—	—
(3) Others	—	—	—	—	—	—
Subtotal	—	—	—	—	—	—
Total	498	399	99	4,888	3,914	974

(2) Investments in securities sold during the fiscal year

① Previous fiscal year (From April 1, 2012 to March 31, 2013)
Not applicable② Current fiscal year (From April 1, 2013 to March 31, 2014)
Not applicable**13. Retirement benefits for employees**

Previous fiscal year (From April 1, 2012 to March 31, 2013)

1. Summary of retirement benefit plans

The Company and its domestic subsidiaries have unfunded lump-sum benefit plans and defined contribution pension plans. Some foreign subsidiaries have defined contribution pension plans.

2. Accrued retirement benefits

	Millions of yen
A. Projected benefit obligations	(1,973)
B. Fair value of plan assets	—
C. Unfunded benefit obligations (A+B)	(1,973)
D. Unrecognized transition obligations	31
E. Unrecognized actuarial differences	314
F. Unrecognized prior service liabilities	(69)
G. Accrued pension liabilities recognized on the consolidated balance sheets (C+D+E+F)	(1,697)
H. Prepaid pension expenses	—
I. Accrued retirement benefits for employees (G - H)	(1,697)

(Note) Some subsidiaries apply a simplified method of computing pension liabilities.

3. Retirement and pension cost

	Millions of yen
A. Service costs	160
B. Interest costs	21
C. Expected return on plan assets	—
D. Amortization of transition obligations	15
E. Amortization of actuarial differences	28
F. Amortization of prior service liabilities	(10)
G. Net periodic benefit costs (A+B+C+D+E+F)	214
H. Other	242
I. Total (G+H)	457

(Note) 1. Retirement costs for some subsidiaries which have adopted the simplified method are included in the "Service costs."

2. "Other" means the contribution to the defined contribution pension plans.

4. Assumptions used in the calculation of retirement benefits for employees

A. Method of attributing projected benefits to periods of service	Straight - line
B. Discount rate	1.5%
C. Long - term rate of return on plan assets	—
D. Amortization period for prior service liabilities	8 years (based on the straight-line method over the average estimated service years of employees)
E. Amortization period for actuarial differences	8 to 14 years (based on the straight-line method over the average estimated service years of employees from the next fiscal period of year when the differences are computed)
F. Amortization period for transition obligations	15 years

Notes to Consolidated Financial Statements

Current fiscal year (From April 1, 2013 to March 31, 2014)

1. Summary of retirement benefit plans

The Company and its domestic subsidiaries have unfunded lump-sum benefit plans and defined contribution pension plans. Some foreign subsidiaries have defined contribution pension plans.

2. Defined benefit plans (excluding simplified method)

(1) Change in projected benefit obligations

	Millions of yen	Thousands of U.S. dollars
Projected benefit obligations at beginning of year	1,951	19,130
Service costs	167	1,642
Interest costs	24	236
Actuarial gain or loss incurred	15	147
Payment of retirement benefits	(34)	(339)
Projected benefit obligations at end of year	2,123	20,816

(2) Change in plan assets

Not applicable

(3) Reconciliation of projected benefit obligations to liabilities for retirement benefits for employees

	Millions of yen	Thousands of U.S. dollars
Projected benefit obligations for unfunded plan	2,123	20,816
Net balance presented in the consolidated balance sheet	2,123	20,816
Liabilities for retirement benefits for employees	2,123	20,816
Net balance presented in the consolidated balance sheet	2,123	20,816

(4) Breakdown of retirement and pension cost

	Millions of yen	Thousands of U.S. dollars
Service costs	167	1,642
Interest costs	24	236
Amortization of actuarial differences	25	245
Amortization of prior service costs	(12)	(118)
Amortization of transition obligations	15	154
Net periodic benefit costs	220	2,160

(5) Accumulated adjustments for retirement benefits

The breakdown of accumulated adjustments of retirement benefits before tax was as follows.

	Millions of yen	Thousands of U.S. dollars
Unrecognized actuarial differences	304	2,984
Unrecognized prior service liabilities	(57)	(565)
Unrecognized transition obligations	15	154
Total	262	2,573

(6) Plan assets

① Breakdown of plan assets

Not applicable

② Long-term rate of return on plan assets

Not applicable

(7) Actuarial assumption

Major actuarial assumption for the current fiscal year (on weighted average)

Discount rate: 1.5%

3. Defined benefit plans for simplified method
(1) Change in projected benefit obligations

	Millions of yen	Thousands of U.S. dollars
Projected benefit obligations at beginning of year	22	218
Service costs	14	142
Payment of retirement benefits	(4)	(45)
Other	2	25
Projected benefit obligations at end of year	34	341

(2) Reconciliation of projected benefit obligations to liabilities for retirement benefits for employees

	Millions of yen	Thousands of U.S. dollars
Projected benefit obligations for unfunded plan	34	341
Net balance presented in the consolidated balance sheet	34	341
Liabilities for retirement benefits for employees	34	341
Net balance presented in the consolidated balance sheet	34	341

(3) Retirement and pension cost

Retirement and pension cost for simplified method: ¥14million (\$142 thousand)

4. Defined contribution plans

The Companies contributed ¥281 million (\$2,758 thousand) to their defined contribution plans.

14. Accounting for income taxes

(1) Significant components of deferred tax assets and liabilities

	Previous fiscal year (As of March 31, 2013)	Current fiscal year (As of March 31, 2014)	Current fiscal year (As of March 31, 2014)
	Millions of yen	Millions of yen	Thousands of U.S. dollars
(Deferred tax assets)			
Accrued bonuses	640	540	5,299
Accrued retirement benefits for employees	599	—	—
Liabilities for retirement benefits for employees	—	761	7,468
Accrued retirement benefits for directors	141	133	1,308
Inventories	4,677	831	8,149
Unearned revenue	545	344	3,381
Investments in subsidiaries and affiliated companies	176	176	1,733
Allowance for sales returns	71	30	303
Tax loss carryforwards in the Company	—	1,939	19,017
Tax loss carryforwards in the subsidiaries	25	845	8,286
Tax credits carryforwards in the subsidiaries	595	766	7,510
Intangible assets	232	1,479	14,509
Depreciation and amortization	366	324	3,177
Impairment loss	44	17	174
Other	1,056	957	9,384
Subtotal	9,173	9,149	89,703
Valuation allowance	(1,574)	(1,899)	(18,620)
Total deferred tax assets	7,598	7,250	71,083
(Deferred tax liabilities)			
Tax deductible inventories for a foreign subsidiary	(186)	(430)	(4,220)
Other	(182)	(395)	(3,876)
Total deferred tax liabilities	(369)	(825)	(8,096)
Net deferred tax assets	7,229	6,424	62,987
Net deferred tax assets are reflected in the consolidated balance sheets as follows:			
Current assets—deferred tax assets	6,497	2,865	28,092
Fixed assets—deferred tax assets	733	3,699	36,272
Current liabilities—deferred tax liabilities	—	(93)	(918)
Long-term liabilities—deferred tax liabilities	(2)	(46)	(459)

Notes to Consolidated Financial Statements

(2) Reconciliation of the difference between the statutory tax rate and the effective income tax rate

	Previous fiscal year (As of March 31, 2013)	Current fiscal year (As of March 31, 2014)
	%	%
Statutory income tax rate	37.9	37.9
(Reconciliation)		
Change in valuation allowance	(1.7)	2.0
Tax credit	(16.1)	(0.4)
Amortization of goodwill	1.4	0.9
Different tax rates applied to foreign subsidiaries	(4.1)	(3.0)
Permanent difference (meals and entertainment, etc.)	1.0	0.3
Unappropriated retained earnings of foreign subsidiaries	2.5	1.2
Tax adjustments resulting from consolidation elimination entries, etc.	7.5	(6.6)
Decrease in deferred tax assets due to change in statutory income tax rate	—	4.0
Others	(8.2)	(1.2)
Effective income tax rate	20.1	35.2

(3) Change in deferred tax assets and liabilities due to change of corporate tax rate

The "Act for Partial Amendment of the Income Tax Act, etc.," was promulgated on March 31, 2014. And effective from the fiscal year starting on 1 April, 2014, the special corporate tax for reconstruction has been abolished.

In response, the Company and its domestic subsidiaries changed their statutory income tax rate to compute the deferred tax assets and the deferred tax liabilities as of March 31, 2014 which were expected to be realized or settled in the fiscal year starting on April 1, 2014 from 37.9% for the previous fiscal year to 35.5%.

As a result, the balance of deferred tax assets (net of deferred tax liabilities) decreased by ¥214 million (\$2,105 thousand) and the amount of income tax - deferred increased by ¥214 million (\$2,105 thousand) for the current fiscal year.

15. Asset retirement obligations

Asset retirement obligations on the balance sheet.

① Outline of asset retirement obligations

Obligations to restore business offices and amusement stores in the "Arcade operations" segment to their original state, which are specified in the real estate lease agreements.

② Calculation of asset retirement obligations

Asset retirement obligations are calculated with the future cash flows discounted.

For the business offices, their depreciation periods (mainly 15 years) are regarded as their estimated periods of use and the yields of the national government bonds, which correspond to respective depreciation periods are used as their discount rates (mainly 1.060 to 1.885%).

For the amusement facilities, their lease periods (mainly 6 to 15 years) are regarded as their estimated periods of use and the yields of the national government bonds, which corresponds to respective lease periods are used as their discount rates (mainly 0.564 to 1.885%).

③ Increase or decrease in asset retirement obligations

	Previous fiscal year (From April 1, 2012 to March 31, 2013)	Current fiscal year (From April 1, 2013 to March 31, 2014)	Current fiscal year (From April 1, 2013 to March 31, 2014)
	Millions of yen	Millions of yen	Thousands of U.S. dollars
Beginning balance	344	349	3,429
Increase due to purchase of tangible fixed assets	19	141	1,390
Adjustment due to passage of time	4	4	42
Decrease due to settlement of asset retirement obligations	(19)	(83)	(816)
Ending balance	349	412	4,045

16. Investment and rental property

The note is omitted due to the insignificance of the total amount.

17. Segment information

1. Outline of reportable segments

(1) Classification of reportable segments

The reportable segments the Company reports are the business units for which the Company is able to obtain separate financial information in order for the Board of Directors to conduct periodic investigations to determine the distribution of operational resources and to evaluate business performance.

The Company has several operational headquarters, which plan comprehensive business strategies in the domestic and overseas markets for their products and services, and develop its business activities.

Therefore the Company's reportable segments are based on the products and services its operational headquarters deal in and are composed of the following 3 segments: "Digital contents," "Arcade operations" and "Amusement equipments."

(2) Product and service line

The "Digital contents" segment develops and distributes video and mobile games for consumers.

The "Arcade operations" segment operates amusement stores which install amusement equipments.

The "Amusement equipments" segment manufactures arcade game machines and pachinko gambling machines, etc. to be distributed to arcade operators and pachinko parlors.

2. Method of calculating sales and income (loss), identifiable assets and liabilities and other items by reportable segment

The accounting procedures for the reportable segment are based on those in "Summary of significant accounting policies."

Income by reportable segment is calculated based on operating income on the consolidated statements of income.

3. Information on net sales and operating income (loss), identifiable assets and liabilities and other items by reportable segment

① Previous fiscal year (From April 1, 2012 to March 31, 2013)

	Millions of yen							
	Reportable segment				Other (Note 1)	Total	Adjustment (Note 2)	Consolidated total (Note 3)
	Digital contents	Arcade operations	Amusement equipments	Total				
Net sales								
(1) Customers	63,636	10,944	16,783	91,363	2,711	94,075	—	94,075
(2) Intersegment	—	—	—	—	—	—	—	—
Total	63,636	10,944	16,783	91,363	2,711	94,075	—	94,075
Segment income	7,062	1,709	4,892	13,664	740	14,405	(4,253)	10,151
Segment assets	44,950	7,046	13,054	65,051	4,236	69,288	35,076	104,365
Other items								
Depreciation	1,067	1,186	235	2,489	253	2,743	663	3,406
Increase in tangible and intangible fixed assets	6,091	698	278	7,068	1,458	8,526	197	8,724

(Note) 1. "Other" incorporates operations not included in reportable segments, including the character contents business, etc.

2. Adjustments were as follows:

(1) Adjustments of segment income of (¥4,253) million include unallocated corporate operating expenses of (¥4,253) million. The corporate operating expenses, which do not belong to any reportable segments mainly consist of administrative expenses.

(2) Adjustments of segment assets of ¥35,076 million include unallocated corporate identifiable assets of ¥35,076 million.

(3) Adjustments of increase in tangible and intangible fixed assets of ¥197 million are capital investments by headquarters.

3. Segment income is adjusted on operating income of the consolidated statements of income.

② Current fiscal year (From April 1, 2013 to March 31, 2014)

	Millions of yen							
	Reportable segment				Other (Note 1)	Total	Adjustment (Note 2)	Consolidated total (Note 3)
	Digital contents	Arcade operations	Amusement equipments	Total				
Net sales								
(1) Customers	65,824	10,620	23,160	99,605	2,594	102,200	—	102,200
(2) Intersegment	—	—	—	—	—	—	—	—
Total	65,824	10,620	23,160	99,605	2,594	102,200	—	102,200
Segment income	4,489	1,617	7,131	13,238	1,001	14,240	(3,940)	10,299
Segment assets	35,708	6,657	20,083	62,449	4,331	66,780	29,830	96,611
Other items								
Depreciation	2,529	998	385	3,913	249	4,162	475	4,638
Increase in tangible and intangible fixed assets	6,227	881	327	7,436	127	7,563	500	8,064

Notes to Consolidated Financial Statements

	Thousands of U.S. dollars							
	Reportable segment				Other (Note 1)	Total	Adjustment (Note 2)	Consolidated total (Note 3)
	Digital contents	Arcade operations	Amusement equipments	Total				
Net sales								
(1) Customers	645,342	104,121	227,064	976,528	25,440	1,001,968	—	1,001,968
(2) Intersegment	—	—	—	—	—	—	—	—
Total	645,342	104,121	227,064	976,528	25,440	1,001,968	—	1,001,968
Segment income	44,011	15,858	69,921	129,790	9,820	139,611	(38,631)	100,979
Segment assets	350,084	65,267	196,895	612,248	42,466	654,714	292,452	947,166
Other items								
Depreciation	24,802	9,790	3,776	38,368	2,444	40,812	4,660	45,473
Increase in tangible and intangible fixed assets	61,052	8,643	3,210	72,906	1,250	74,156	4,907	79,064

(Note) 1. "Other" incorporates operations not included in reportable segments, including the character contents business, etc.

2. Adjustments were as follows:

- (1) Adjustments of segment income of (¥3,940) million ((\$38,631) thousand) include unallocated corporate operating expenses of (¥3,940) million ((\$38,631) thousand). The corporate operating expenses, which do not belong to any reportable segments mainly consist of administrative expenses.
- (2) Adjustments of segment assets of ¥29,830 million (\$29,452 thousand) include unallocated corporate identifiable assets of ¥29,830 million (\$29,452 thousand).
- (3) Adjustments of increase in tangible and intangible fixed assets of ¥500 million (\$4,907 thousand) are capital investments by headquarters.

3. Segment income is adjusted on operating income of the consolidated statements of income.

[Related information]

1. Information by product and service line

The information is omitted as the same kind of information is disclosed in Note 17, "Segment information."

2. Information by country or region

(1) Net sales

① Previous fiscal year (From April 1, 2012 to March 31, 2013)

Millions of yen				
Japan	North America	Europe	Other regions	Total
63,531	19,012	8,312	3,218	94,075

② Current fiscal year (From April 1, 2013 to March 31, 2014)

Millions of yen					Thousands of U.S. dollars				
Japan	North America	Europe	Other regions	Total	Japan	North America	Europe	Other regions	Total
76,685	19,133	4,233	2,148	102,200	751,820	187,587	41,500	21,060	1,001,968

(Note) 1. The sales amounts are classified by country or region where customers are located.

2. Countries or regions that are not in Japan

- (1) North America.....United States of America
- (2) Europe.....European countries
- (3) Other regions.....Asia and others

(2) Tangible fixed assets

The information is omitted as the balance of tangible fixed assets in Japan exceeded 90% or more of the total balance of tangible fixed assets of the consolidated balance sheet.

3. Information by major customer

① Previous fiscal year (From April 1, 2012 to March 31, 2013)

Millions of yen		
Customer	Amount of net sales	Reportable segment
Fields Corporation	12,513	Amusement equipments

② Current fiscal year (From April 1, 2013 to March 31, 2014)

Millions of yen			Thousands of U.S. dollars		
Customer	Amount of net sales	Reportable segment	Customer	Amount of net sales	Reportable segment
Fields Corporation	18,918	Amusement equipments	Fields Corporation	185,479	Amusement equipments

[Impairment loss by reportable segment]

(1) Previous fiscal year (From April 1, 2012 to March 31, 2013)

	Millions of yen				
	Reportable segment		Other	Corporate or elimination	Total
	Arcade operations	Subtotal			
Impairment loss	58	58	—	—	58

(2) Current fiscal year (From April 1, 2013 to March 31, 2014)

Not applicable

[Amortization and balance of goodwill by reportable segment]

(1) Previous fiscal year (From April 1, 2012 to March 31, 2013)

	Millions of yen					
	Reportable segment			Other	Corporate or elimination	Total
	Digital contents	Amusement equipments	Subtotal			
Amortization	118	14	132	—	—	132
Balance	200	—	200	—	—	200

(2) Current fiscal year (From April 1, 2013 to March 31, 2014)

	Millions of yen					Thousands of U.S. dollars				
	Reportable segment		Other	Corporate or elimination	Total	Reportable segment		Other	Corporate or elimination	Total
	Digital contents	Subtotal				Digital contents	Subtotal			
Amortization	131	131	—	—	131	1,287	1,287	—	—	1,287
Balance	67	67	—	—	67	659	659	—	—	659

[Negative goodwill by reportable segment]

(1) Previous fiscal year (From April 1, 2012 to March 31, 2013)

Not applicable

(2) Current fiscal year (From April 1, 2013 to March 31, 2014)

Not applicable

18 . Per share information

	Previous fiscal year (From April 1, 2012 to March 31, 2013)	Current fiscal year (From April 1, 2013 to March 31, 2014)	Current fiscal year (From April 1, 2013 to March 31, 2014)
	Yen	Yen	U.S. dollars
Net assets per share	1,091.08	1,135.91	11.14
Net income per share	51.64	61.11	0.60

(Note) 1. The diluted net income per share for the current fiscal year is omitted as the Companies have no residual securities.

2. As described in "Changes in accounting policies", the Companies have adopted the new accounting standard and its guidance and followed the transition measures provided in article 37 of the standard. As a result, net assets per share have decreased by ¥3.01 (\$0.03).

3. The basis for computation of net assets per share was as follows:

	Previous fiscal year (As of March 31, 2013)	Current fiscal year (As of March 31, 2014)	Current fiscal year (As of March 31, 2014)
	Millions of yen	Millions of yen	Thousands of U.S. dollars
Total amount of net assets	62,828	63,875	626,235
Amounts to be deducted from total amount of net assets	—	—	—
Ending balance of net assets attributable to common stock	62,828	63,875	626,235
Number of shares of common stocks used for computation of net assets per share (thousand shares)	57,583	56,233	56,233

Notes to Consolidated Financial Statements

4. The basis for the computation of net income per share was as follows:

	Previous fiscal year (From April 1, 2012 to March 31, 2013)	Current fiscal year (From April 1, 2013 to March 31, 2014)	Current fiscal year (From April 1, 2013 to March 31, 2014)
	Millions of yen	Millions of yen	Thousands of U.S. dollars
Net income	2,973	3,444	33,773
Amount not allocated to common stock	—	—	—
Net income allocated to common stock	2,973	3,444	33,773
Average number of shares of common stock outstanding during the fiscal year (thousand shares)	57,584	56,377	56,377

19. Supplemental schedules of bonds

Not applicable

20. Supplemental schedules of borrowings

Category	Balance as of April 1, 2013 (¥ million)	Balance as of March 31, 2014 (¥ million)	Average interest rate (%)	Date of maturity
Short-term borrowings	11,050	1,050	0.7	—
Current portion of long-term borrowings due within one year	144	3,000	0.7	—
Current portion of lease obligations	364	370	1.3	—
Long-term borrowings (Excluding current portion)	6,000	3,000	0.8	2015
Lease obligations (Excluding current portion)	553	519	1.3	From 2015 to 2019
Other interest bearing debt	—	—	—	—
Total	18,112	7,939	—	—

Category	Balance as of April 1, 2013 (\$ thousand)	Balance as of March 31, 2014 (\$ thousand)	Average interest rate (%)	Date of maturity
Short-term borrowings	108,333	10,294	0.7	—
Current portion of long-term borrowings due within one year	1,418	29,411	0.7	—
Current portion of lease obligations	3,568	3,630	1.3	—
Long-term borrowings (Excluding current portion)	58,830	29,411	0.8	2015
Lease obligations (Excluding current portion)	5,426	5,090	1.3	From 2015 to 2019
Other interest bearing debt	—	—	—	—
Total	177,577	77,838	—	—

(Note) 1. The average interest rate represents the weighted average rate applicable to the ending balance.

2. The following table shows the aggregate annual maturities of long-term borrowings and lease obligations for five years subsequent to March 31, 2015 (excluding the current portion).

	Due after 1 year but within 2 years (¥ million)	Due after 2 years but within 3 years (¥ million)	Due after 3 years but within 4 years (¥ million)	Due after 4 years but within 5 years (¥ million)
Long-term borrowings	3,000	—	—	—
Lease obligations	289	143	69	16

	Due after 1 year but within 2 years (\$ thousand)	Due after 2 years but within 3 years (\$ thousand)	Due after 3 years but within 4 years (\$ thousand)	Due after 4 years but within 5 years (\$ thousand)
Long-term borrowings	29	—	—	—
Lease obligations	2,838	1,405	682	163

21. Supplemental schedules of asset retirement obligations

The note is omitted because the balance of the asset retirement obligations as of the beginning and the end of the current fiscal year were 1 % or less than the total balance of the liabilities and the net assets as of the beginning and the end of the current fiscal year, respectively.

22. Supplemental schedules of other

Quarterly sales, etc., for the current fiscal year

	1st quarter (From April 1, 2013 to June 30, 2013)	2nd quarter (From April 1, 2013 to September 30, 2013)	3rd quarter (From April 1, 2013 to December 31, 2013)	4th quarter (From April 1, 2013 to March 31, 2014)
Net sales (¥ million)	17,457	53,234	75,221	102,200
Net income before income taxes (¥ million)	1,112	7,801	8,750	5,315
Net income (¥ million)	828	4,950	5,957	3,444
Net income per share (yen)	14.58	87.59	105.58	61.11

	1st quarter (From April 1, 2013 to June 30, 2013)	2nd quarter (From April 1, 2013 to September 30, 2013)	3rd quarter (From April 1, 2013 to December 31, 2013)	4th quarter (From April 1, 2013 to March 31, 2014)
Net sales (\$ thousand)	171,154	521,904	737,465	1,001,968
Net income before income taxes (\$ thousand)	10,904	76,483	85,790	52,114
Net income (\$ thousand)	8,120	48,536	58,406	33,773
Net income per share (U.S. dollars)	0.14	0.86	1.04	0.60

	1st quarter (From April 1, 2013 to June 30, 2013)	2nd quarter (From July 1, 2013 to September 30, 2013)	3rd quarter (From October 1, 2013 to December 31, 2013)	4th quarter (From January 1, 2014 to March 31, 2014)
Net income per share (yen)	14.58	73.31	17.90	(44.68)

	1st quarter (From April 1, 2013 to June 30, 2013)	2nd quarter (From July 1, 2013 to September 30, 2013)	3rd quarter (From October 1, 2013 to December 31, 2013)	4th quarter (From January 1, 2014 to March 31, 2014)
Net income per share (U.S. dollars)	0.14	0.72	0.18	(0.44)

Independent Auditor's Report

To the Board of Directors of CAPCOM Co., Ltd.

We have audited the accompanying consolidated financial statements of CAPCOM Co., Ltd. ("the Company") and its consolidated subsidiaries, which comprise the consolidated balance sheets as at March 31, 2014 and 2013, and the consolidated statements of income and consolidated statements of comprehensive income, consolidated statements of changes in net assets and consolidated statements of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, while the objective of the financial statement audit is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company and its consolidated subsidiaries as at March 31, 2014 and 2013, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

The U.S. dollars amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2014 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollars amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA LLC

July 30, 2014
Osaka, Japan



Head Office



Tokyo Branch



R&D Building

Corporate Profile

Name of Company	CAPCOM CO., LTD.
Date of Establishment	May 30, 1979
Date of Initiation	June 11, 1983
Business Segments	Planning, development, manufacture and sale of home video games, online games, mobile games and arcade games as well as management of amusement arcades.
Paid-in Capital	¥ 33,239 million
End of Term	March 31
Number of Employees	2,601 (Including consolidated subsidiaries) 1,951 (Capcom CO., LTD.)

Capcom's Subsidiaries

- CAPTRON CO., LTD.**
 3-1-3 Uchihirano-machi, Chuo-ku, Osaka, 540-0037, Japan
 PHONE: 81-6-6920-3626 FAX: 81-6-6920-5126
 Paid-in Capital: ¥ 1,640 million
 Business Segment: Rent, lease and operation of real estate properties
- K2 CO., LTD.**
 7th Floor, Shogyo Building, 5-6-10 Toyosaki, Kita-ku, Osaka, 531-0072, Japan
 PHONE: 81-6-4802-4557 FAX: 81-6-4802-4559
<http://www.kei-two.co.jp/>
 Paid-in Capital: ¥ 3 million
 Business Segment: Development of home video games
- ENTERRISE CO., LTD.**
 3rd Floor, Arcadia Ueno Building, 2-13-8 Higashi-ueno, Taitou-ku, Tokyo, 110-0015, Japan
 PHONE: 81-3-5812-8725 FAX: 81-3-5812-8731
<http://www.enterrise.co.jp/>
 Paid-in Capital: ¥ 30 million
 Business Segment: Sale and manufacture of amusement equipment
- BEELINE INTERACTIVE JAPAN, CO., LTD.**
 10F, Eslead Otedoori, 3-1-2 Otedori, Chuo-ku, Osaka, 540-0021, Japan
 PHONE: 81-6-6920-7011 FAX: 81-6-6947-0191
<http://www.beeline-i.info/bij/index.html>
 Paid-in Capital: ¥ 300 million
 Business Segment: Development and distribution of mobile phone content
- CAPCOM U.S.A., INC.**
 800 Concar Drive, Suite 300 San Mateo, California 94402, U.S.A.
 PHONE: 1-650-350-6500 FAX: 1-650-350-6655
<http://www.capcom.com/us/>
 Paid-in Capital: US\$ 159,949 thousand
 Business Segment: Development and sale of home video games
- CAPCOM ASIA CO., LTD.**
 Unit 504-5, New East Ocean Centre, No.9 Science Museum Road, Tsimshatsui East, Kowloon, Hong Kong
 PHONE: 852-2366-1001 FAX: 852-2366-1985
<http://www.capcomasia.com.hk/>
 Paid-in Capital: HK\$ 21,500 thousand
 Business Segment: Sale of home video games
- CE EUROPE LTD.**
 The Metro Building 3rd Floor, 1 Butterwick, Hammersmith, London W6 8DL, U.K.
 PHONE: 44-20-8600-6100 FAX: 44-20-8600-6197
<http://www.capcom-europe.com/>
 Paid-in Capital: £ 1 million
 Business Segment: Sale of home video games
- CAPCOM ENTERTAINMENT GERMANY GmbH**
 Borselstraße 20, 22765 Hamburg, Germany
 PHONE: +49-40-6964620 FAX: +49-40-696562-22
 Paid-in Capital: € 25 thousand
 Business Segment: Sale of home video games
- BEELINE INTERACTIVE, INC.**
 10960 Wilshire Blvd. Suite 1500, Los Angeles, CA 90024, U.S.A.
 PHONE: 1-310-943-5470 FAX: 1-310-943-5489
<http://www.beeline-i.com/>
 Paid-in Capital: US\$ 0 thousand
 Business Segment: Distribution of mobile phone games
- BEELINE INTERACTIVE CANADA, INC.**
 401 The West Mall, Suite 415, Toronto ON, Canada, M9C 5J5
 PHONE: 1-647-788-1600 FAX: 1-647-788-1601
 Paid-in Capital: Canada\$ 0 thousand
 Business Segment: Development and distribution of mobile phone games
- CAPCOM ENTERTAINMENT KOREA CO., LTD.**
 13F, Yeon-Bong Bldg, 416 Teheran-ro, Gangnam-gu, Seoul, Korea
 PHONE: 82-2-525-2160 FAX: 82-2-525-2161
<http://www.capcomkorea.com/>
 Paid-in Capital: KRW 1,000 million
 Business Segment: Sale of home video games, operation and development of online games
- CAPCOM ENTERTAINMENT FRANCE, SAS**
 17, rue St Louis - 2ième Etage FR.78100 ST GERMAIN-EN-LAYE, France
 PHONE: +33-1-30-61-86-60 FAX: +33-1-39-73-16-15
 Paid-in Capital: € 37 thousand
 Business Segment: Sale of home video games
- CAPCOM GAME STUDIO VANCOUVER, INC.**
 4401 Still Creek Drive, Suite 200 Burnaby, British Columbia, Canada V5C 6G9
 PHONE: 1-604-299-5626 FAX: 1-604-299-5653
<http://capcomvancouver.com/>
 Paid-in Capital: Canada\$ 4,760 thousand
 Business Segment: Development of home video games
- BEELINE INTERACTIVE EUROPE LTD.**
 The Metro Building 3rd Floor, 1 Butterwick, Hammersmith, London W6 8DL, U.K
 PHONE: 44-20-8600-6100 FAX: 44-20-8600-6197
 Paid-in Capital: € 2,500 thousand
 Business Segment: Development and distribution of mobile phone games
- CAPCOM TAIWAN CO., LTD.**
 Rm. A, 10F., No.245, Sec. 1, Dunhua S. Rd., Da'an Dist., Taipei City 106, Taiwan (R.O.C.)
 PHONE: 886-2-2752-6603 FAX: 886-2-2771-2084
<http://www.capcom.com.tw/>
 Paid-in Capital: NT\$ 80 million
 Business Segment: Operation and development of online games

Major Offices

Head Office	3-1-3 Uchihirano-machi, Chuo-ku, Osaka, 540-0037, Japan PHONE: 81-6-6920-3600 FAX: 81-6-6920-5100
R&D Building	3-2-8 Uchihirano-machi, Chuo-ku, Osaka, 540-0037, Japan PHONE: 81-6-6920-7600 FAX: 81-6-6920-7698
Tokyo Branch	Shinjuku Mitsui Building 2-1-1 Nishi Shinjuku, Shinjuku-ku, Tokyo, 163-0448, Japan PHONE: 81-3-3340-0710 FAX: 81-3-3340-0711
Ueno Facility	3902 Hatta, Iga, Mie, 518-1155, Japan PHONE: 81-595-20-2030 FAX: 81-595-20-2044

A – D

Amusement arcades

Amusement arcades are operated in many types of formats. Two frequent formats are arcades within shopping centers and arcades in separate buildings along highways.

Amusement equipment (commercial use)

These arcade machines that are used at amusement arcades and other locations allow visitors to enjoy games in a manner that is not possible at home. Categories of these machines include medal games, prize games, video games and other types of games.

Browser Games

The games don't require installation on a device and can be played using a web browser. These games have become popular through SNS such as Facebook.

Cannibalization

When user movement between different genres, such as home video games, online games and mobile games, causes erosion and competition in the market.

Casual users

Beginner game players who usually do not play video games for a long time.

CERO

The Computer Entertainment Rating Organization, which is a non-profit organization located in Japan, issues age-appropriateness ratings for computer games as the selection of these games becomes more diverse along with the increasing popularity of computer entertainment. These ratings provide information that is required to select game software. The objectives are to contribute to the sound development of young people and to maintain a proper level of social ethical standards. (from CERO website) Capcom receives a CERO rating before launching new home video game titles.

Consumer (Consumer business)

This is the collective designation for Package Games and digital download contents (DLC). These are games for stationary consoles.

Core users (heavy users)

Core users are people who are very knowledgeable about video games and have

become experts regarding specific games by playing these games for a long time.

Developer

A company or organization that develops game content.

Digital download contents (DLC)

Downloadable content is an intangible form of game content that is sold (distributed) through the Internet and thus requires no physical packaging. This content is available on networks linked to home video game consoles, such as PlayStation Network, Xbox Live and Nintendo eShop. This content can also be downloaded to a computer and obtained in other ways.

F – H

First party

A company or organization that supplies game hardware or platforms.

Freemium

Freemium is a business model in which users can download a basic game or service at no charge and then pay for additional components and special functions. Freemium is also a generic name of games played in this fashion. It is rapidly increasing market share as game content for mobile phones and smartphones.

Game content

Game content encompasses game software along with the game's characters, music, images and all other components. This is also called digital content when the content is stored digitally using an intangible format rather than on a physical object such as a disk.

Hardware (home video game console)

A dedicated device that is required to operate game software.

Home video games

Home video games are games being played on a specific type of console. These games are made for home consoles such as the PlayStation 3, Xbox 360 and Wii as well as handheld consoles such as the Nintendo 3DS and PlayStation Vita etc. Capcom has developed these games for a broad array of consoles.

I – L

Internally produced

The process of developing a product entirely within a single company, rather than outsourcing tasks to a third-party company or organization.

Launch title

Launch title is either the introduction of a title simultaneously with the introduction of a new game console or the product that is launched simultaneously.

License-out

Granting rights to a third-party company or organization for the use of a Capcom character, title logo or other item.

M – P

Management business

Unlike sellout businesses selling package software to retailers, this business model earns revenue after software sales and digital distribution by developing timely updates based on user trends and events within games. This model is expected to bring in stable earnings compared to the sellout model.

Monetize

Generating earnings from basic free services. In the Mobile and PC Online business, this means the distribution of additional content and items that generate revenue.

MT Framework

"MT Framework" is an integrated game development environment created by Capcom. In particular, this framework provides shared software development tools for about 80% of the development process for games used on the Xbox 360, PlayStation 3 and PCs. Using this shared process greatly reduces game development expenses and cuts development time by two-thirds. In response to market needs, Capcom has made the MT Framework compatible with more types of consoles. Currently, the framework can also be used to develop games for the Nintendo 3DS, Wii and iPhone. "MT" stands for meta-tool, multi-thread, multi-target and other characteristics of this framework.

Multi-platform

With the multi-platform approach, game content is supplied for a variety of platforms rather than only a single platform. This makes it possible to reach more people, maximize profitability and reduce the time and cost needed to develop content. This is one of Capcom's core strategies. Furthermore, Capcom uses its exclusive MT Framework, an integrated game development environment, to make the development process more efficient.

Native Apps

Applications that can be downloaded from the App Store or Google Play directly onto devices without the need for a web browser to play. The share of these games in the market is growing in tandem with the adoption of smartphones.

Next-generation console

New types of game consoles are usually released about every five years in the home video game market. These next-generation consoles offer users new functions along with new or additional ways to play games.

Online (Online business)

This is the collective designation for two businesses within the Digital Contents business: Mobile Contents and PC Online. The first pillar of our growth strategy is to strengthen the Online business, which has high-growth potential.

Original content

Original content is content created by using completely original elements. There can be no other original story or third-party oversight. Capcom is able to use its content in many ways due to the ability to create a large volume of original game content.

Outsourcing

Outsourcing is the process of placing an order to a third-party company or other organization to develop all or part of a particular product.

Packaged software

This is generally software or media that is sold at stores or on the Internet for use with home video game consoles. Software is sold on DVDs, Blu-ray discs and other media depending on the format of each console.

PC online games

These are games that can be played over the Internet on a PC because they do not require

a dedicated game console. Players can play a game along with or against other players via a network of users established by accessing the portal site for that game.

Platform

A platform is the environment required to operate game content. Capcom supplies game content for home video game consoles and PCs as well as for cell phones, smartphones and a steadily increasing number of other devices.

Premium

A conventional generic name used to refer to mobile content service. It refers to a business model designed as a pay-service for a single content or other services, or a fixed monthly rate membership service for game content.

Publisher

A company or organization that develops and sells game content.

R – W

Rating

Video games receive age-appropriateness ratings based on the characteristics of each game after undergoing an examination by the CERO (Computer Entertainment Rating Organization). In Japan, all home video games must undergo this examination and display the resulting rating (A, B, C, D or Z) along with the associated precaution icon.

Remake

The process of updating an older game to utilize the advanced capabilities of a new game console or platform or the updated product itself.

Series

A game series consists of number of titles based on the same content. This is also called a franchise. Capcom has created many very successful game franchises, including Street Fighter, Resident Evil, Monster Hunter and others.

Single Content Multiple Usage

Single Content Multiple Usage is a core Capcom strategy in which the company's popular original content is used for home video games as well as for character merchandise, movies and many other uses in order to maximize earnings.

Social games

Social games are online games that are played

with others by communicating over a network rather than alone. These games are provided over social networking services (SNS) and each game incorporates a link to its respective SNS. The popularity of social games is increasing rapidly on a global scale as people discover this new way to enjoy games.

Software (home video games, consumer games)

Software refers to game content that is either incorporated in a game console or installed separately on a computer, cell phone or other device. Software is sold mainly in packages or through Internet downloads.

Spin-off titles

A title in a game series that, rather than being a pure sequel, uses selected components of the game to create a side story or other new elements.

Standing console

Refers to game console hardware that is set up in a fixed location, usually connected to a TV or monitor.

Third party

A third party is a company or organization that supplies software or game content to the first party.

Title

A title is a particular game or the name of a particular game.

Transition period

This is the transition period between a current game console and the launch of its next-generation version. Normally, sales of the current game console decrease during this transition period to the next generation.

Transplanting

Transplanting is the process of altering specifications of the original game software so that it can be released again for use on a different platform (game console).

Work-in-progress for game software

This accounting term refers to game software development expenses that are treated as future assets. These expenses are included in the assets section of the balance sheet until the game launch date.

Stock Data

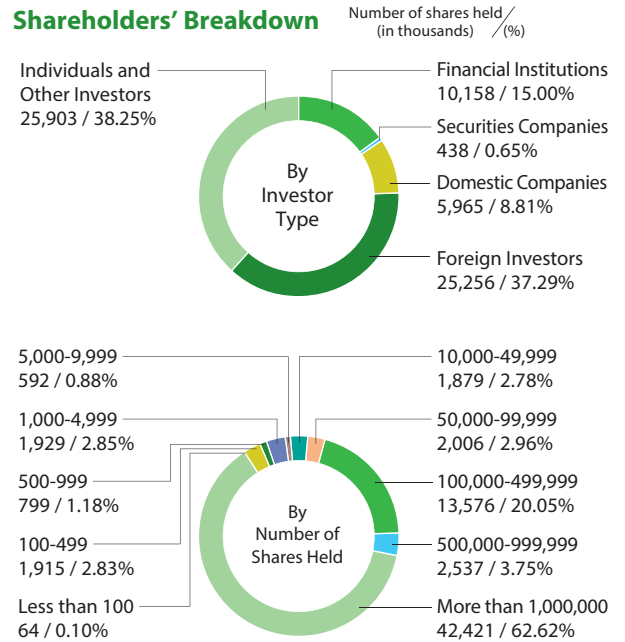
Number of Shares Authorized ————— 150,000,000 shares
 Number of Shares Issued ————— 67,723,244 shares
 Number of Shareholders ————— 15,741

Major Shareholders (Top 10)

Major Shareholders	Number of Shares Held (in thousands)	Percentage of Shareholding (%)
Crossroad Limited	5,276	9.38
J.P. Morgan Chase Bank 385632	4,322	7.69
818517 Nomura Bank (Luxembourg) S.A. S/A Nomura Multi Currency JP Stock Leaders Fd	2,604	4.63
Kenzo Tsujimoto	2,008	3.57
Misako Tsujimoto	1,964	3.49
State Street Bank and Trust Company 505223	1,920	3.41
The Master Trust Bank of Japan, Ltd. (Trust Account)	1,803	3.21
Japan Trustee Services Bank, Ltd. (Trust Account)	1,709	3.04
Yoshiyuki Tsujimoto	1,669	2.97
State Street Bank and Trust Company	1,654	2.94

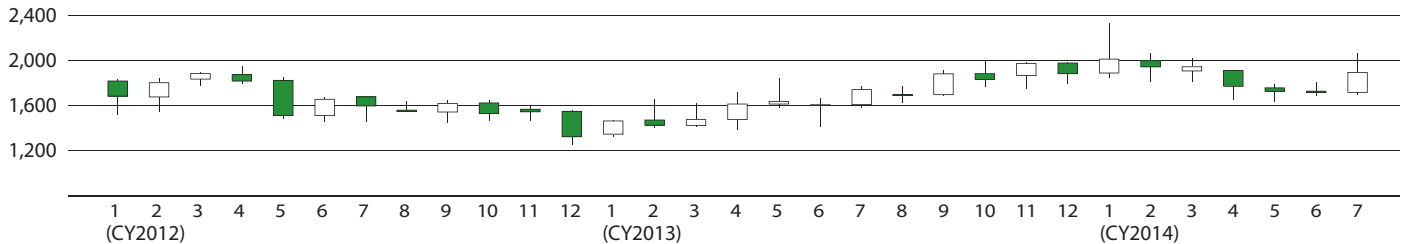
* Capcom owns 11,490 thousand stocks as treasury stocks.
 The stocks owned by the company are excluded from the above list.

Shareholders' Breakdown



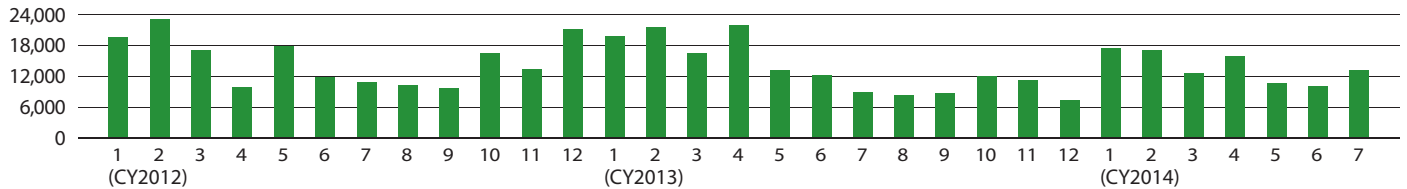
Stock Price Range

Stock Price (Yen)



Trading Volume

Trading Volume (thousand shares)



11-Year Trend of Stock Price and Trading Volume

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Stock Price	1,032	1,047	1,209	1,692	3,400	1,746	1,766	1,590	1,891	1,476	1,958
High	1,685	1,246	1,450	2,445	3,490	3,640	2,010	1,907	2,311	1,959	2,330
Low	857	880	1,000	1,102	1,660	1,475	1,297	1,145	1,473	1,250	1,396
Trading Volume	109,462,300	90,898,400	93,995,100	137,965,900	191,795,000	179,636,900	181,065,800	149,613,900	227,386,800	178,008,200	150,408,300

(YEARS ENDED MARCH 31)



CAPCOM of Japan Has Transformed Itself into CAPCOM of the World.

Products History

Jul. 1983

Released our first originally developed coin-op "Little League".



May 1984

Released our first arcade video game "Vulgus".



Dec. 1985

Released our first home video game "1942" for Nintendo Entertainment System (NES).



Dec. 1987

Released "Mega Man" for NES.

Mar. 1991

Released the arcade video game "Street Fighter II" and it triggered the "Street Fighter II" boom.



Jul. 1993

Opened "CapcoCircus Nigata East", the largest arcade in Nigata.

Dec. 1994

Premiere of the Hollywood movie "Street Fighter".

Mar. 1996

Released "Resident Evil" for PlayStation, a long selling title which had record breaking sales, and established the genre of survival horror.

Aug. 2001

Released "Devil May Cry" for PlayStation 2, and it was a mega-hit.

Oct. 2001

Released "Phoenix Wright: Ace Attorney" for Game Boy Advance, and it drew public attention as a courtroom battle title.

Jul. 2005

Released "Sengoku BASARA" for PlayStation 2, which enjoyed popularity especially among young gamers for its innovative worldview.

Aug. 2006

Released "Dead Rising" for Xbox 360. More than 1 million units were sold, an extraordinary feat for a new title for a new game console.

Dec. 2006

Released software "Lost Planet" for Xbox 360. Over 1 million units were sold following the trails of "Dead Rising", another exceptional accomplishment for a new title.

Nov. 2010

Distribution of social game "Smurfs' Village" for iPhone began. It became the top download in 80 countries around the world.



Sep. 2013

Released "Monster Hunter 4" for Nintendo 3DS. The "Monster Hunter Craze" sparked again with the sales over 4 million units sales.



Nov. 2013

Released "Dead Rising 3" for Xbox One. Capcom's first title for this new game console, marked over 1 million units sales.



Feb. 2014

"Sengoku BASARA" was used by police departments in three Kinki region prefectures as part of a campaign to prevent auto break-in.

Corporate History

May 1979

Established I.R.M Corporation (capital of 10 million yen) with objectives of developing and selling electric applied game machines in Matsubara, Osaka.

May 1981

Established the subsidiary JAPAN CAPSULE COMPUTER CO., LTD.

Sep. 1981

Corporate name was changed to SAMBI CO., LTD., and the head office was moved to Habikino, Osaka.

Jun. 1983

Established old CAPCOM CO., LTD., (capital of 10 million yen) in Hirano, Osaka for the purpose of selling software.

Oct. 1983

Established Tokyo Branch in Shinjuku, Tokyo.

Jan. 1989

Old CAPCOM CO., LTD., was merged with SANBI. Corporate name was changed to CAPCOM CO., LTD., and the head office was moved to Higashi-ku, Osaka.

Oct. 1990

Stocks registered as OTC securities with the Japan Securities Dealers Association.

Oct. 1993

Stock was listed on the second section of the Osaka Stock Exchange.

Jul. 1994

Constructed head office, which was relocated to Uchihirano-machi, Chuo-ku, Osaka.

Sep. 1999

Stock changed listing to the First Section of the Osaka Securities Exchange.

Oct. 2000

Stock was listed on the First Section of the Tokyo Stock Exchange.

separate volume The Latest Development Report 2014

It takes the best to create the best



p1 Development Management

Creating Hit Titles through Development with Vision and Flexibility

Katsuhiko Ichii

Director and Executive Corporate Officer in charge of Consumer Games Business

p3 Digital Contents business (Home Video Games)

"Monster Hunter" Continues to Evolve, Moving with Fans

Kaname Fujioka

Director, Consumer Games Development Division 3 Department 3 Project Planning Section

p5 Digital Contents business (Online)

Breathing New Life into Next-Generation Consoles with "deep down"

Teruki Miyashita

Senior Manager of Consumer Games Development Division 2 Department 2 Producers Section

p7 Digital Contents business (Online)

Anticipating User Needs to Create New Games

Kazunori Sugiura

General Manager of Consumer Games Development Division 2 Department 2

p9 Digital Contents business (Online)

Taking the Initiative in Base Region Taiwan and Other Asian Markets

Yoshinori Ono

Corporate Officer Head of Consumer Games Development Division 2

p11 Amusement Equipments business

The First Pachislo Machine Made In-House Based on "Monster Hunter" to Sell More than 50,000 Units

Osamu Izumi

General Manager of P&S Software Development Department, P&S Business Division

p13 Arcade Operations business

Aiming to Attract New Customer Segments with through the Concept of Safety, Peace of Mind and Health

Junya Aoki

General Manager of Arcade Operations Department

p15 Special Feature Development Personnel Diversity

Nariyuki Nobuyama, Consumer Games R&D Human Resources Division
Jeffrey Windham, Localization Director, Global R&D Section

Yoko Kinoshita, Animator, Animation Section

Sachio Kuno, Planner, Game Design Section

Miwako Chinone, Composer, Audio Design and Production Section

Haruna Akuzawa, Programmer, Technology Section

Mikhail Ignatov, Production Manager Global Development Section

Capcom Investor Relations Website

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

We have been focusing on IR activities by providing our shareholders and investors with timely and updated information through our website. The CAPCOM IR website provides a whole range of information, such as interviews with developers and analysts' consensus, in addition to stock information and management strategies.



Smartphone Access

In addition to financial result summaries and stock information, Capcom's closing stock price and latest press release information can be obtained by accessing the Capcom website from a smartphone. If you have a smartphone that reads QR codes (two-dimensional bar codes), scan the image on the right for easy access to the site.



CAPCOM CO., LTD.

3-1-3 Uchihirano-machi, Chuo-ku,
Osaka, 540-0037, Japan
PHONE: 81-6-6920-3600
FAX: 81-6-6920-5100

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



The print of this catalog uses
environment-friendly vegetable oil ink.

CAPCOM

The Latest
Development Report
2014



It takes the best to create the best



Creating Hit Titles through Development with Vision and Flexibility

Since its founding in 1983, Capcom has embraced the spirit of challenge to create games for a variety of platforms, from arcades and home video games to smartphones and next generation consoles. We will succeed in the diversifying game industry by executing a flexible strategy through careful selection and concentration.



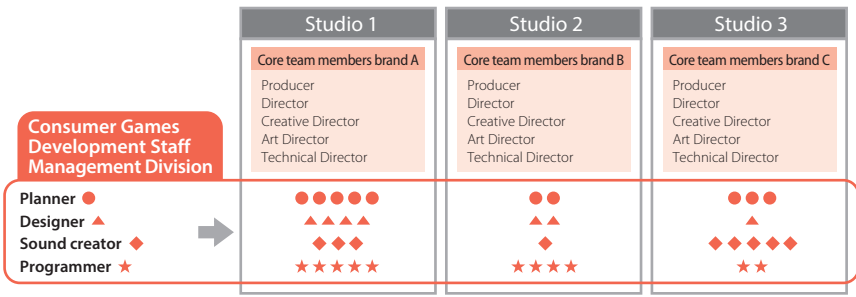
Focusing on Optimal Game Development by Ascertaining Market Needs

Given the upheaval in the game industry, how should Capcom proceed? We have always promoted development to bring unique and attractive games to the platforms users want to play on, including home game consoles, PCs and smartphones. Unfortunately, changes in the market have been more severe than anticipated, dictating the fate of Capcom's business.

Home video games (including digital download contents) performed well, with sales of "Monster Hunter 4", released in September 2013 for Nintendo 3DS, exceeding four million units, while "Dead Rising 3", released in November for the Xbox One, sold more than one million units. However, our mobile contents fought an uphill battle, failing to satisfy market needs for casual games in terms of simplicity and game elements. In addition, we suspended the development of a few titles with questionable quality in the mobile and PC online segments.

To overcome this situation, we reviewed titles under development and reorganized our development structure so we can focus on optimizing development for the market.





***Capcom development studio**
 Core team members (consisting of 10-30 developers) are assigned to each brand to advance development planning and strengthen brands over the medium- to long-term. Development staff belonging to the Consumer Games R&D Human Resources Division (planners, designers, sound creators, programmers) are assigned to each title to create an optimized and flexible development structure.

Reorganizing Our Development Structure to Strengthen Cooperation Among Divisions

To become more aggressive in our development of home video games, we identified the strongest titles to move forward with and restructured development to function more like studio*. To enable systematic development, each studio maintains a mid-term perspective and is responsible for quality and profits. Titles will be developed strategically over a long time span to heighten brand power.

We will continue to focus efforts on the expected growth of PC online games, moving forward with plans to establish several pillars of growth over the next 2-3 years in addition "Monster Hunter Frontier G". In mobile games, we will ensure our employees have the necessary skills and revisit initiatives to provide the mobile games business with a custom-built organization and unique game system.

Since 2013, our CEO has chaired marketing conferences attended by marketing, development and studio heads from Japan, North America, Europe and Asia. They engage in detailed discussions about the promotion and sales launch of each title in an effort to ensure the best timing for release.

Concentrating Capcom's Power to Meet User Expectations

No matter how the market may change, Capcom rides out the storm with ideas and technological capabilities that craft unique and high quality games. We want to meet user expectations without ever losing sight of the Capcom identity, creating titles with flexibility, making adjustments when there are signs of changes in the market, and having vision through a focus on market needs in Japan and overseas.

Moving to the next generation, Capcom is making an effort to streamline its development environment and cultivate human resources. Two new R&D buildings were constructed in Osaka, with plans to introduce the cutting-edge equipment necessary for next generation console development. Furthermore, we plan to hire approximately 100 new developers each year starting in April 2012 to strengthen human resource development. To bolster our competitiveness, we will increase the proportion of internally produced games to strengthen our development capabilities and accumulate expertise. I am confident Capcom will focus all these capabilities into the development of each and every title, without compromise, to forge ahead into the next generation.



Director and Executive Corporate Officer in charge of Consumer Games Business

Katsuhiko Ichii

Profile
 After integrating marketing, appointed as Managing Corporate Officer in 2006. From April 2011, appointed as General Manager of Consumer Entertainment Business Management Group and Head of Consumer Games Development, focusing on restructuring development organization and global development. At current post since June 2011.

Digital Contents business (Home Video Games)

The Series Concept: An Action Game Everyone Can Play Together

Note: Hereinafter, "Monster Hunter" is written as "MH".

"MH" was born more than ten years ago, around the time Internet optical line services launched in Japan. Anticipating a day when people would go online to play games together, we began full-fledged development of an online game for home game consoles based on the concept of a massively multiplayer online action game in which anyone could participate.

Word of mouth fueled the popularity of the first edition of "MH", released in 2004 for PlayStation 2, we decided to release "MHG" version just ten months later. As the "MH" name grew and user numbers expanded, we began the "MH Portable" project for handheld devices. This game enabled friends with mobile devices to get together and play. The game became a massive hit and "MH" was firmly established in the game world.

However, we were also developing "MH2 (Dos)" at that time, and ended up filling the game with too many new elements, creating problems for the development environment. Wanting to overcome this obstacle and move "MH" forward, we reviewed our development structure and procedures and I went on to direct "MH3 (Tri)" for Wii. This title for next-generation consoles replacing existing consoles was the first in the series to become a million-seller.

Continuing to Meet User Expectations with Ideas and Technological Capabilities

Some users might say the new "MH4G" is a way of saying thank you for enjoying "MH4". So users who played the previous edition can enjoy this new title even more, we provide nearly seamless continuation on data saved from the previous title, as well as upgraded communication functions enhancing the cooperative play environment

among friends in pursuit of more enjoyment and ease of play.

"MH4" was a big challenge for the development team. They created dynamic action and monster battles with the ups and downs of the field as an enjoyable element of the new hunt. The developers sensed a positive response when the title first launched, giving rise to the new objective of making users happier amidst continually changing user needs. This energy is the source behind the ideas and technological capabilities aimed at cutting through user needs to develop "MH4G".

The Next Ten Years: Fan Appreciation, Renewed Determination

We are currently developing "MH4 Ultimate", which will be launched overseas in North America and Europe. Localization staff is working on language and nuance while keeping the "Monster Hunter" world wholly intact.

"Monster Hunter" Continues to Evolve, Moving with Fans

"Monster Hunter" is a Capcom flagship title that, as a series, has sold more than 28 million copies. As this year marks the 10th anniversary of this title, we plan to hold a variety of events aimed at expressing appreciation to all our fans as we continue to develop this series.



In an aggressive appeal, we previewed the demo version at E3, the world's largest game show. Some say market dynamics and cultural differences make it difficult to take this title overseas, but we believe we can surely overcome those obstacles by offering a unique title so compelling people will want to play it.

In 2014, the 10th anniversary of the series, we plan to conduct collaborative events with Universal Studios Japan, hold "Monster Hunter" exhibits and orchestra concerts, and develop collaborative merchandise. We will convey our thanks and appreciation for the past ten years of dedication from fans and staff while looking forward to the next ten years. We will develop "Monster Hunter" over the long term, aiming to make this a truly national title well-known among both young and old.



Director,
Consumer Games Development
Division 3 Department 3 Project
Planning Section

Kaname Fujioka

Profile

Began work at Capcom as a designer. Has been working on the "Monster Hunter" series as a director since his directorial debut on the very first title. At present, he is directing the new "Monster Hunter 4 Ultimate" title and overseeing the development of the series' unique world.



"Monster Hunter 4G"
Functions like being able to continue almost seamlessly from "Monster Hunter 4" saved data will make users happier.



"Monster Hunter" 10th Year Anniversary Website
Provides a wealth of content for "Monster Hunter" fans, including information on various events and commemorative merchandise and the posting of key development documents.

Breathing New Life into Next-Generation Consoles with “deep down”

The PlayStation 4 (PS4) was released in February 2014. This totally new title for the PS4 is being independently developed using the new “Panta Rhei” game engine. “deep down” is Capcom’s all-new challenge.



Creating a Game and an Organization “deep down”

We decided that, if we were going to make a new title for PlayStation 4 (PS4), it must be an online game. So we developed a title only Capcom can offer that makes the most of the PS4 advanced functionality. This is how the development of all-new title “deep down” got started.

Bringing the world of this new game to life requires a major effort involving the continued online provision of full high definition graphics and game elements. To accomplish this, we overhauled our game engine to ensure developmental quality and efficiency. Despite the difficulties involved, we took on the development of “deep down” at the same time as we developed the “Panta Rhei” game engine customized for next-generation consoles.

We also improved our development structure. For many years, consumer games were developed in Osaka and online games were developed and managed in Tokyo. As

“deep down” was the first online game developed for the PS4, it was necessary to integrate the game development and management functions. The Osaka and Tokyo development staff, along with the engine developers, have forged a stronger bond and united their capabilities to create “deep down”.

A New World to Attract Users

Making full use of all PS4 functions, we are attempting to create a new world drawing on ideas and technology to provide users with a fresh sense of excitement and fun.

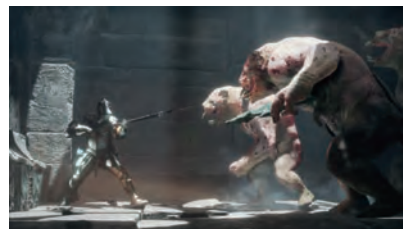
“deep down” is a “reading” RPG where players are ordered to dive into a past world “dungeon” where they use memories to solve riddles. Not only have we created rich story development, we upgraded the online functionality of the content and enhanced the matching function enabling players to explore and have adventures with other players they don’t know. The automatic genesis of the

dungeon and endless variation are just some of the appealing aspects of this game.

We also put a lot of effort into the visuals and production elements. The texture and rust of the player’s armor, the flames shooting out of the dragon’s mouth, even the way light is reflected are all rendered in a strikingly realistic fashion. Using “Panta Rhei” to create this title gives it the highest quality graphics of any PS4 game. We used a variety of production elements to enable players to slip right into the game world. This is a quality release that will make players say “Wow! Capcom pulled out all the stops”!

Strategizing with Users to Cultivate New Titles

Crammed full of new game elements, we want users to enjoy and play “deep down” for a long time, first as a free to play (F2P) game, then as a premium game. To achieve



Automatic generation calculations incorporate of all the dungeons, enemies and game knowledge accumulated up to now to provide a fresh experience every time as no two situations are alike.



Flame and water animation are depicted as calculated particles rather than processed images, resulting in highly detailed beauty reminiscent of a photograph.

this, we must continue to satisfy users. In other words, the challenge really starts after the game is released, so we must be ready with planned surprises and updates.

Fortunately, we received awards in the Future Division at the Japan Game Awards 2013, while Facebook and Twitter have helped us get advance publicity in online news. At present, we are proceeding with development at a fevered pitch ahead of the official launch of services.

F2P "deep down" for PS4 is the litmus test for Capcom's new business model. We are making an effort with respect to "deep down" so that users will want to play this game, and after release, we will continue to make an effort through addition content aimed at keeping users interested in the game, and ultimately, creating a hit title.



Senior Manager of
Consumer Games Development
Division 2 Department 2
Producers Section

Teruki Miyashita

Profile

Worked as business manager, management director and assistant producer of "Monster Hunter Frontier G". After that, launched "deep down" and became a management producer in 2013.



Digital Contents business (Online)

Clearly Identifying Targets to Create Games Meeting User Expectations

The online game market Capcom is attempting to take on is a massive market. Popular titles like "Monster Hunter Frontier G" have captured the hearts of heavy online game users of mainly PC games, but we are presently engaged in acquiring casual users, a new segment that is growing due to the adoption of smartphones. Right now, casual games such as puzzles and quizzes playable in a short period of time are popular, but needs are gradually changing as the popularity of RPG and other games enjoyed by a large number of people are growing.

The critical factor, rather than the current market, is the

ability to create games that anticipate market needs 1-2 years hence. Identify the main target user segment and decide on a development approach that will create a hit title. Capcom is engaged in development that fully integrates senior management and front line staff game development objectives. We are engaged in the creation of popular casual games today as well as games featuring Capcom's unique action and stunning visuals that can be played online to create richer trends in the future.

Optimized for Each Device and Play Environment "Breath of Fire 6"

In the spring of 2015, we plan to release "Breath of Fire 6"

as a strategic title for casual online users. During the planning stage, we decided that the extremely popular "Breath of Fire" series, with its unique worldview and storyline, was the strongest candidate for the development of a mobile RPG. It is being developed for smartphones and tablet devices as well as PCs. While out of the house, users can enjoy the challenge of short quests lasting a few minutes on their smartphones. When they get home, they can enjoy the longer version of the story on their PC. We imagined the types of environment in which users might play and are developing the game offering a variety of ways to enjoy it. In terms of smartphone apps, we plan to release "Monster Hunter Explore", a quick and easy touch screen game offering the high quality graphics and fast processing speeds of home games.

To promote these games, we use "Caplink", an original

Anticipating User Needs to Create New Games

The game market continues to grow. Capcom's approach to this market is to target customers by organizing them into three user segments: Heavy Online, Casual Online and Social Apps.



SNS tool developed in-house for use online. “Caplink” enables game users playing different Capcom games on any one of a variety of consoles to link up and chat. Using this function brings users of Capcom games together.

Emphasizing Content Appeal with Advanced Network Technologies

The “MT Framework” and “Panta Rhei” proprietary game development engines are the technological foundation supporting Capcom game creation, while server technologies support online game operations. Especially critical are advanced server and network technologies able to conduct multiple processes

simultaneously in response to heavy online users. We regularly employ unseen technological capabilities to create an environment providing users with stress-free game enjoyment.

Furthermore, we also perform big data analysis on a massive amount of user game data related to progress and usage, which we then incorporate into our body of knowledge used for operations.

We have created a solid foundation consisting of the content and technological capabilities necessary to succeed in the online games market. We will use these strengths to push forward, making use of operational expertise based on data analysis to create rich mobile games that anticipate future trends.

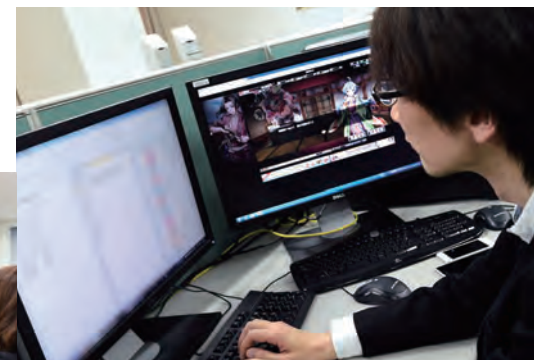
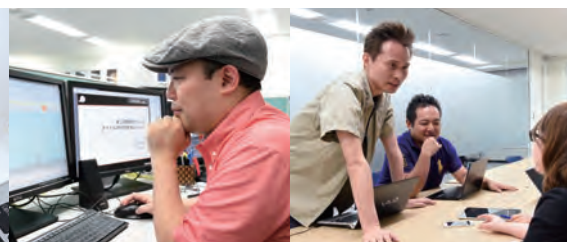


General Manager of
Consumer Games Development
Division 2 Department 2

Kazunori Sugiura

Profile

Oversees all aspects of the Online Game business as General Manager of Department 2. His skills as a producer contributed to “Monster Hunter Frontier G” and “deep down”.



“Breath of Fire 6”
The latest title in the “Breath of Fire” series, launched in 1993. This popular RPG features a story and worldview involving the travails of a main character possessing the power of a dragon.



“Caplink”
Since its launch in October 2013, original SNS tool “Caplink” has been a feature of all Capcom online games.

Taking the Initiative in Base Region Taiwan and Other Asian Markets

The Asian online game market is expanding due to an increasing number of users adopting smartphones and using SNS, including for various business purposes. Capcom is committed to increasing its share in this market.



Expanding to China and Southeast Asia Through Capcom Taiwan

Established in August 2012, Capcom Taiwan developed a Taiwanese version of "Onimusha Soul" localized and customized by Taiwanese staff. This popular game got a solid start by winning a gold medal in the browser game category of the 2013 "Bahamut Game Awards". As a result, Capcom Taiwan was able to turn a profit (on a non-consolidated basis) in its first year.

There is a reason Capcom selected Taiwan as its strategic base for online game development in the Asia region. Not only is the Taiwan market still being established, but it offers significant cultural similarities that facilitate the permeation of Japanese content such as TV dramas, music, comics and

animation. The government also supports the content industry, and there is a wealth of skilled developers in the game segment. With a population of 23 million people, this is not a huge market, but it has significant merits from an economic perspective in terms of development capabilities and cost performance as a base from which we can enter China, Thailand, Singapore and other southeast Asian markets. As we continue to take advantage of the high potential in Taiwan, we will expand our presence in the wider Asian market.

Note: Popular voting event held by popular Taiwanese game website "Bahamut".

Aiming to Enter the Chinese Market Through Collaboration with Tencent Inc.

Turning our focus to China, the biggest market in Asia,

for the past several years we have been collaborating with Tencent Holdings Limited (Tencent), China's largest Internet service portal on the development of "Monster Hunter Online". Tencent boasts a high level of development technologies, management capabilities and earnings power. Working with such a solid company in China mitigates our country risk while leveraging developmental and operational expertise. Going forward, we are considering developing similar relationships to further generate stable profits.

Tencent conducts the actual development and management, establishing business models and conducting events that are different from what we are doing in Japan. At the same time, Capcom sends development staff to the Shanghai studio to provide direction on game elements with the aim of combining powers to create a hit. At present,



“怪物猎人 Online” currently being developed in collaboration with Tencent Holdings Limited. Although the characters and worldview are “Monster Hunter”, the game is being localized to feel familiar to local users.



With links to development bases in Osaka, Tokyo and South Korea. Taiwan is the base for our expansion into Asia.



we are making adjustments geared toward release by monitoring user trends through a limited participation game test online. We are also moving forward with a China strategy from our Taiwan base. We are currently ramping up mobile and casual games able to be developed in a relatively short timeframe for distribution in China.

Envisioning the Future of the Market to Establish the Capcom Brand in Asia

With online games, you don't sell the completed product; rather, the business model is a service that provides content on an ongoing basis. No matter where the content is distributed, it must meet exactly the interests and preferences of the game users in that area, flipping their “fun switch” in

order to be a hit. In other words, rather than introducing a popular Japanese title as is, it is necessary to provide a service optimized for the region from as close to a local perspective as possible. This is why establishing local subsidiaries and collaborations are an indispensable aspect of our Asia strategy.

Capcom is well-known for arcade games in this region, but that is not the case when it comes to the mobile age. The Capcom brand alone is not an advantage, meaning we need to start from the ground up. In an attempt to establish our brand in the Asian mobile content market, we will develop business with an awareness of scale merits in terms of user numbers and differences between customer unit prices based on economic standards while gathering information on each country. We will establish a unique set of Capcom rules in an attempt to turn a profit in these growth markets over the next 5-10 years.



Corporate Officer
Head of Consumer Games
Development Division 2

Yoshinori Ono

Profile

Producer of a number of popular home video game and online game titles, including “Street Fighter IV” and “Monster Hunter Frontier Online”. Currently heads online title development and management in Consumer Games Development Division 2.



The First Pachislo Machine Made In-House Based on “Monster Hunter” to Sell More than 50,000 Units

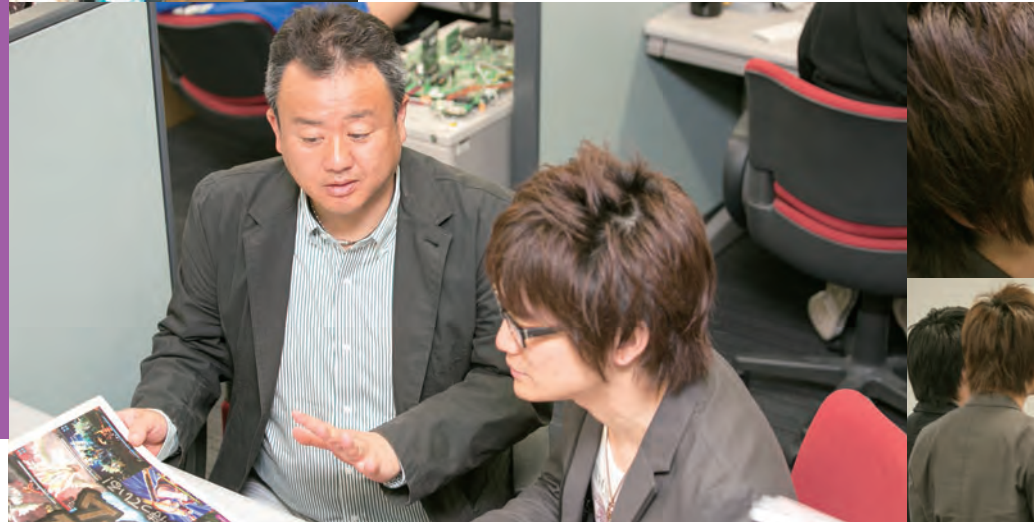
Released in March 2014, “Monster Hunter Gekka Raimei” is the eighth Pachislo machine to be made in-house at Capcom. The synergetic effect of the content’s power and game characteristics made it a huge hit with over 50,000 units sold.

Pachislo Machines Flood the Market with User Support

The Pachinko & Pachislo (P&S) Business is positioned to continue achieving results in the market.

Right after the sales launch of “Monster Hunter Gekka Raimei”, which went to market in March 2014, we received orders for additional units among other indicators of a strong start. As of April 30, 2014, sales had already hit 50,000 units. I think this is the result of being able to provide the market with the products it demands.

The Pachinko and Pachislo market is contracting as a result of scrap and build policies in line with larger arcades and declining user numbers. That being said, this is a 19 trillion yen market. To continually stimulate user interest, we will launch new products nearly every month, while weeding others out. Amid this intensely competitive environment, users liked “Monster Hunter Gekka Raimei” so much that we received orders for additional units. Since Entertise Co., Ltd., was made a subsidiary in 2008 and we formally entered the Pachislo market, we have made steady advances with a flurry of hits including “Resident Evil 5” in 2012 (sold 48,000 units) and “DEVIL MAY CRY 4” in 2013 (sold 25,000 units).



Recreating the “Monster Hunter World” with Exciting Clips and Game Elements

When developing “Monster Hunter Gekka Raimei”, as a development producer, the most critical questions were how do we bring the world of a hugely popular home video game like “Monster Hunter” to a Pachislo machine? How do we express “Monster Hunter” game elements, visuals and other features? During production, we worked closely with video directors and systems directors who are game fans and the home video game development manager who oversees the world of “Monster Hunter”. In line with the design review flow*, we held assessment meetings at each juncture where we exchanged frank opinions, enabling product improvements each time we moved forward.

In the end, we succeeded in bringing that sense of excitement from the home game by skillfully connecting it via clips of monster conquests and bonus settings linked to winning pachinko balls. This is the birth of a Pachislo machine like no other that makes you want to play (hunt) again and again. The synergy effect of popular titles and development capabilities can make 1 + 1 = 3 or even 4.

Heightening Brand Power as a Pachislo Machine Maker, Heading to the Next Stage

Having a highly valued product in the market gives rise to a virtuous cycle leading to expectations for the next machine. As a Pachislo machine maker, we will heighten Capcom’s brand power and ride that wave to develop one new machine in-house each quarter, with the aim of realizing our management objective of stably supplying the market with four machines each year—and we are well on our way towards that goal. Our strength is Capcom’s popular content. Based on the Single Content, Multiple Usage strategy, we will proceed with development through sequels to popular machines and the incorporation of unused proprietary content.

As Capcom’s presence as a Pachislo machine maker began to be felt around 2013, a growing number of people have come forward who want to design Pachislo machines. We have assembled a group of people who want to use popular contents and have a high degree of freedom during development. We will continue to make significant advances with motivated development staff by promoting projects in fiscal 2014 that go beyond “Monster Hunter Gekka Raimei”. The next stage for Capcom as a Pachislo machine maker begins now.

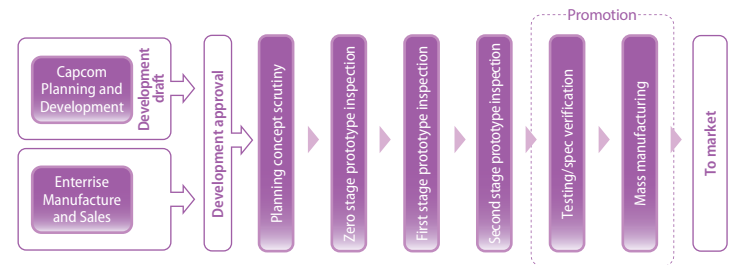


General Manager of P&S Software Development Department, P&S Business Division

Osamu Izumi

Profile

Joined the P&S Business Division in January 2011 after being involved in the development of arcade machines and consumer games. Responsible for devising titles for development, budget planning and management based on the medium-term plan as a both a producer and General Manager of the department.



* Development design review flow

During the development process, the development, production, sales and quality control divisions confirm and verify manufacturing from a variety of angles.

Aiming to Attract New Customer Segments with through the Concept of Safety, Peace of Mind and Health

Since 1991, Capcom has operated Plaza Capcom arcade facilities, which entertain young people and offer fun for the whole family, providing services that change flexibly with the times. They are a stable source of earnings.



A Strategy Focused on New Targets and Attracting Customers

Aiming for the long-term, stable acquisition of customers, Capcom establishes arcades mainly in large commercial complexes such as shopping centers (SC) frequented by target users in the family segment. We make an effort to create and manage arcades where customers can play lightheartedly during a break from shopping, using bright interiors and creating an atmosphere that beckons customers.

However, with the advent of mobile games and SNS, the way people play is diversifying. Add the consumption tax hike into the mix and the environment surrounding arcade facilities becomes increasingly challenging. We must promote the cultivation of new customers, providing services that men and women of all ages can enjoy.

We realized that young children, senior citizens and women don't go to arcades very often. We believe there is an opportunity to expand this business by introducing content and holding events that appeal to these groups.



"Monhan Sweets Airou Crepe Shop"
 These cute Airou and monster-themed original crepes are gaining popularity with families and "Monster Hunter" fans alike.



"Monster Hunter Free Experiential Tour"
 Capcom holds events for families so fans can meet popular characters such as Airou. We also hold free arcade experience tours for senior citizens.

Creating Play Areas for Young Children and Conducting Events for Seniors

To attract children, we must first capture the heart of their mothers. To achieve this, we plan to introduce an "edutainment" area inside arcades where children can learn while playing. In September 2013, we launched "Asobi Oukoku peekaboo", a timed rate structured play area for kids located inside Plaza Capcom Shitoro in Shizuoka Prefecture. This collaboration with Gakken Holdings Co., Ltd., and Dai Nippon Printing Co., Ltd., leverages the achievements of both companies in the education and educational IT areas. The positive response to this new type of play area led to it being rolled out in other locations, one in Hanyu City, Saitama Prefecture and the other in Oita Prefecture. From fiscal 2014, we plan to introduce play areas at three arcade locations per year to coincide with renovations.

In terms of the senior segment, we have conducted free arcade experience tours since 2012 where staff demonstrates how to play claw crane and other coin-operated games. In evidence of this success, seniors who met on these tours have been heard to say "meet you at the Capcom arcade", indicating arcades are becoming a community space for this segment. In addition to talking with customers and maintaining a clean and hygienic atmosphere, we are making an effort to improve hospitality and recommend staff study materials designed for caregivers so that seniors can have fun with peace of mind.

Attracting Customers by Developing Business Using Proprietary Content

To attract women and Capcom game fans, in March 2014, we opened the "Monhan Sweets Airou Crepe Shop" at Capcom Plaza Oita, a "Monster Hunter" themed crepe shop incorporating characters from the game. "Monster Hunter" crepes proved popular with customers visiting the shopping center, with lines forming several days in a row. The synergy effect of holding events for seniors, opening a crepe shop and launching the "Asobi Oukoku peekaboo" children's play area after renovations has significantly increased the number of customers visiting the Oita arcade.

The owners of shopping centers where Capcom operates its arcades also have big expectations concerning the role arcade facilities play in attracting customers. We will continue to promote the creation of arcades only Capcom can offer by making use of the Capcom brand, hospitality and ideas based on the concept of arcades offering safety, peace of mind and health. I hope all customers experience Plaza Capcom as a place of relaxation and enjoy playing games there.



General Manager of
 Arcade Operations Department

Junya Aoki

Profile

Joined the Head Office Arcade Development Team after working in arcades. Engaged in planning and market research related to opening of new arcades. Became Arcade Development Deputy General Manager in 2008, has held current position since November 2009. Involved in arcade operations strategy and business development.



Development Personnel Diversity

Promoting Diversity: Aiming to Become a Truly Global Company

The Intermingling of Various Values Gives Rise to New Creations

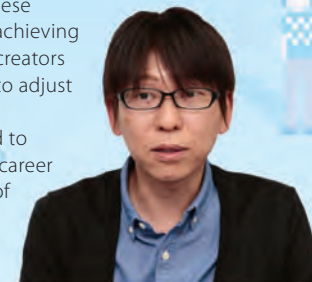
Creating employment opportunities regardless of race, religion, disability, gender or age and offering a variety of working arrangements is indicative of diversity. Above all, in the game industry, where the range of user hobbies and tastes continues to diversify, making use of a variety of different people is important for a company to achieve predominance. Of course, when people with different values get together, some of their opinions may clash. Yet a chemical reaction occurs among people with differing values that promotes mutual understanding and enables the creation of interesting new things that never existed before.

In the Consumer Games R&D Human Resources Division, there are no special boxes for foreigners or women in terms of employment. At present, there are about 900 developers, of which 20% are women and 5% are foreigners. That people were hired based on their capability is evident in the diversity of our workforce. In development, there is a comparatively large percentage of women. The number of "mommy creators", women who continue working after giving birth, is on the rise. This, I think, is the result of having a wealth of support systems in place, such as shortened working hours, childcare leave and pre-/post-natal leave. We are also moving forward with the establishment of on-site daycare centers among other efforts to create an environment where female employees can make the most of their abilities.

The Foreign Creator Perspective in Overseas Titles

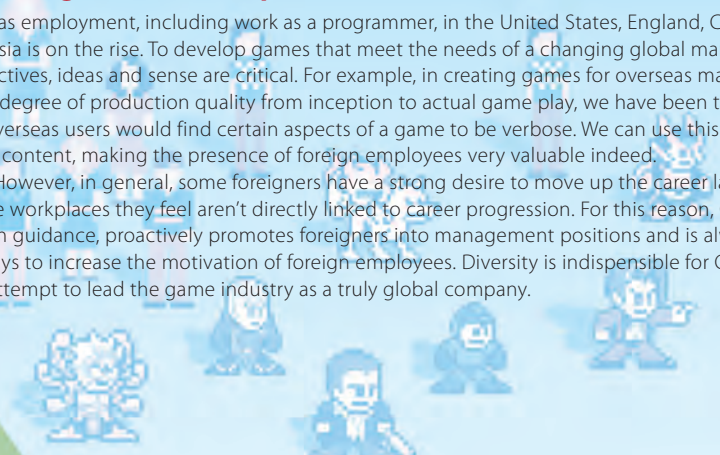
Overseas employment, including work as a programmer, in the United States, England, China, South Korea and Indonesia is on the rise. To develop games that meet the needs of a changing global market, non-Japanese perspectives, ideas and sense are critical. For example, in creating games for overseas markets, despite achieving a high degree of production quality from inception to actual game play, we have been told by foreign creators that overseas users would find certain aspects of a game to be verbose. We can use this cultural input to adjust game content, making the presence of foreign employees very valuable indeed.

However, in general, some foreigners have a strong desire to move up the career ladder, and tend to leave workplaces they feel aren't directly linked to career progression. For this reason, Capcom offers career path guidance, proactively promotes foreigners into management positions and is always thinking of ways to increase the motivation of foreign employees. Diversity is indispensable for Capcom as we attempt to lead the game industry as a truly global company.



Consumer Games R&D
Human Resources Division

Nariyuki Nobuyama



Overcoming Differences in Language and Culture to Promote Capcom Games Worldwide

Creating Games From the Ground Up Customized for Target Regions

I have worked on the localization of numerous titles since joining Capcom, including the "Street Fighter" and "Resident Evil" series. Localization isn't just translation – there are many cultural changes that should be considered in order to give the player a more personalized, stress-free experience. To better accomplish that goal, localization directors join the dev team from the early stages of development. They work closely with the team to ensure that localization in all languages can proceed smoothly, but also help to provide advice and support with various issues that may arise in selling the game worldwide.

Delivering "Made in Japan" to Countries with Different Languages and Cultures

While localization is an important part of overseas game development, we should avoid trying to completely localize a game. Capcom is a Japanese company, and attempting to make a 100% western game will only result in creating an imitation of a western game. It's important to preserve the creator's vision when taking localization into account, as well as emphasizing what makes Capcom games unique. I feel that Capcom games have deep systems that become more interesting the more they are played. A good localization will present the game in terms that the user is familiar with, while retaining the essence and quality of what makes a Capcom game.

Localization Director,
Global R&D Section

Jeff Windham

(joined in 2010)



Animator,
Animation Section

Yoko Kinoshita

(joined in 1997)



Employees with Various Backgrounds Can Maximize Their Abilities on the Front Lines of Capcom Development

Being Different From Other People is the Source of My Creative Abilities

At Capcom, regardless of gender or nationality, the work environment enables a diverse range of people to develop skills in their specialty area. I feel inspired when people from different backgrounds share ideas and I strive to be able to contribute to game development.

During a discussion about how to create monsters that make people feel afraid, I said "Main monsters are always viscerally scary and in your face, but what about creating a monster that invokes a slow-building emotional fear in the user?" A male coworker told me "A man would have never saw it like that". Although I've never placed an emphasis on gender, I did feel that that I was able to provide an opening for new expressions as a female creator.

New Hires and Veterans Contribute Different Strengths

I was motion production leader on the "Monster Hunter" series and have been involved in a number of other core titles including "Resident Evil 6" and "Dragon's Dogma". I guess I am in the "veteran" category. This year marks the 10th anniversary of "Monster Hunter", we hired new employees who chose Capcom because they are "Monster Hunter" fans. New hires study game creation while offering fresh ideas and boundless energy. Veterans pass on their wealth of experiences while making significant contribution to maintaining and improving quality. We make use of the strengths of new hires and veterans, inspiring one another to create as much synergy as possible. This is how it works on the front lines of Capcom development.

Selection for Exceptional Promotion Indicative of Meritocracy Taking on the Creation of a Variety of Games as a Female Planner

An Assessment System Based on Skills and Motivation Not Gender and Age

As a planner, I was involved with "Monster Hunter 3G" and "Monster Hunter 4". At present, I have been assigned as a leader supervising two units totaling about 15 people: the "progress" unit, which writes stories for new projects and lines for the script, and the "facilities" unit, which creates villages and shops. I also manage staff schedules and coordinate with people in other types of jobs.

I decided to work at Capcom because of the people. The staff I met during my interviews were all unique, making me feel comfortable to speak my mind. To make fun games, work with fun people. Even now, in my fourth year of employment, I am still able to speak my mind and offer my perspective on what elements will appeal to women, like using a pop-inspired text design with rounded font.

Blazing a Trail for Future Female Planners Raising Children While Working

Up to now, I followed the advice of those with more experience at Capcom. However, possibly because many female employees began working at Capcom after me, it is now my turn to look back and help newer employees with concerns they find difficult bringing to male employees. Although I have limited experience, I aim to become a self-reliant unit leader able to pull everyone through.

At Capcom, we can select our own working conditions, such as shortened working hours or childcare leave, that best suit our lifestyle requirements. We don't yet have any female developers who are raising children while they work. Blazing a trail for future female planners who are satisfied both raising children and working, I want to create games in a variety of genres women and children will enjoy.



Planner,
Game Design Section
Sachio Kuno
(joined in 2011)



Composer,
Audio Design and
Production Section
Miwako Chinone
(joined in 2010)

Making Use of Each Person's Strengths to Create Unique Game Music

Receiving Opportunities to Compose As a New Hire, Developing into a Main Composer

I joined Capcom after graduating from music college. Despite being new, I was immediately put in charge of composing a song for use in a game the development team called "Planet Work" was putting together. I also participated in the production of various titles after that, and was responsible for the short theme song heard when the cute character Airou appears in "Monster Hunter 4". As this game is also popular with women, the song was composed with the intention of creating a melody with a soft tonal quality that resonates with women, a melody one might hum to themselves absent-mindedly. Currently, I am working as main composer on "Monster Hunter 4G". I have been given big chances from the very beginning here at Capcom, and feel I have truly grown through the success of my efforts.

Various People Cooperating to Create Unique Music

Music in games is the result of cooperation between many creators. The way people evoke feelings and write music differs, but by combining the various strengths and specialties of each, we can create unique and fantastic songs. This is the best part of creating songs with a team.

Capcom proactively adopts advanced technologies and is always taking on the insatiable challenge of newness. I am taking on challenges in areas besides games, including supervising album arrangements and providing a theme song for the "Monster Hunter" event at Universal Studios Japan. I get inspiration from areas other than games, then reflect that sensibility and knowledge in the creation of game music. I will continue to take on new challenges and create songs that touch the hearts of our fans.

The Challenge of New Value Creation from a Female Creator's Perspective

If Only With Skills and Motivation You Can Make Dreams Come True

The RPG "deep down" for PlayStation 4 has been created using "Panta Rhei", the new development engine for next-generation consoles and the heart of Capcom game development. I am responsible for the graphics function, specifically game screen "post-effects" such as lens flare, final tone corrections and chromatic aberrations.

I have had an interest in the game industry since I was an elementary school student, when I was first impressed by the gorgeous graphics of video games. I chose Capcom because I felt attracted to their unique development engine. In other words, being responsible for development engine graphics is my dream job. At Capcom, gender makes no difference; anyone can get the job they want as long as they possess skill and motivation. I am living proof.

Aiming for Game Creation Incorporating a Female Perspective

Every day, new technologies from Game Developer Conferences and other sources are being adopted, enhancing developer skills. In a workplace dominated by men, the topic of conversation often turns to action games, robots and "mecha" characters, which I wouldn't normally know about, making it a considerably stimulating place to work.

At the same time, I feel there is still plenty of room to make more use of female sensibilities. Now, stern-faced male characters and grotesque creatures are commonplace.

However, technology enabling hair to be depicted as more silky-looking, for example, is one point male creators don't really focus their attention on. I hope to create new value in the graphics industry by making use of the female perspective and mastering new technologies related to game depiction.



Programmer,
Technology Section
Haruna Akuzawa
(joined in 2012)



Production Manager,
Global R&D Section
Mikhail Ignatov
(joined in 2012)

Moving Toward a Common Goal: Mutual Understanding Creates Fantastic Games

Working to Connect Creative People

As a production manager, I work closely with Capcom's development teams and our outsource partners overseas. My colleagues and I are involved in finding and selecting our vendors, negotiating contracts, and facilitating accurate and efficient communication with them throughout the life of the project. The key to achieving the above is building relationships based on trust, understanding, and a spirit of collaboration. Creating such a relationship is particularly important when dealing with people from all over the world, as the risk of miscommunication increases due to differences in culture, language, and business practices. This requires us to be adaptable and comfortable navigating disparate cultural and linguistic spaces.

Born in Russia and raised in America, I experienced multiculturalism from an early age, which stoked my interest in other cultures. Not surprisingly, I majored in Art and Japanese Literature at university, and moved to Japan upon graduation to work as a Coordinator for International Relations (CIR) in Mie Prefecture. I was responsible for promoting international exchange with the local community and providing support to foreign residents then, and now I am fortunate enough to draw on these experiences in my current position, linking creators from around the world.

Fulfillment through Collaboration

For me, understanding the contexts and realities of development is crucial to maintaining a high level of accuracy in our communication with vendors. As such, we must be involved from the earliest stages of production, especially on titles that target the global audience and projects that involve overseas outsourcers.

Although the job can be stressful at times, it is personally fulfilling because it allows me to interact with highly creative people from different backgrounds and to utilize all of my knowledge and experience. Whenever our efforts reward us with hearing our vendors say how enjoyable it was to work with Capcom, it makes it all worth it. Moving forward, I want to continue working with our partners to make fantastic Capcom games.

Corporate Profile (As of March 31, 2014)

Name of Company	CAPCOM CO., LTD.
Date of Establishment	May 30, 1979
Date of Initiation	June 11, 1983
Business Segments	Planning, development, manufacture and sale of home video games, online games, mobile games and arcade games as well as management of amusement arcades.
Paid-in Capital	¥ 33,239 million
End of Term	March 31
Number of Employees	2,601 (Including consolidated subsidiaries) 1,951 (Capcom CO., LTD.)
Head Office	3-1-3 Uchihirano-machi, Chuo-ku, Osaka, 540-0037, Japan PHONE: 81-6-6920-3600 FAX: 81-6-6920-5100
R&D Building	3-2-8 Uchihirano-machi, Chuo-ku, Osaka, 540-0037, Japan PHONE: 81-6-6920-7600 FAX: 81-6-6920-7698
Tokyo Branch	Shinjuku Mitsui Building 2-1-1 Nishi Shinjuku, Shinjuku-ku, Tokyo, 163-0425, Japan PHONE: 81-3-3340-0710 FAX: 81-3-3340-0711
Ueno Facility	3902 Hatta, Iga, Mie, 518-1155, Japan PHONE: 81-595-20-2030 FAX: 81-595-20-2044



Please see the Annual Report 2014.

History

- Mar. 1991** Released the arcade video game "Street Fighter II" and it triggered the "Street Fighter II" boom.
- Jun. 1992** Released "Street Fighter II" for Super NES, and it was a mega-hit.
- Jul. 1993** Opened "CapcoCircus Nigata East", the largest arcade in Nigata.
- Dec. 1994** Premiere of the Hollywood movie "Street Fighter".
- Mar. 1996** Released "Resident Evil" for PlayStation, a long selling title which had record breaking sales, and established the genre of survival horror.
- Aug. 2001** Released "Devil May Cry" for PlayStation 2, and it was a mega-hit.
- Oct.** Released "Phoenix Wright: Ace Attorney" for Game Boy Advance, and it drew public attention as a courtroom battle title.
- Mar. 2002** Premiere of the Hollywood movie "Resident Evil" which recorded sales of 102 million dollars worldwide.
- Sep. 2004** Premiere of the Hollywood movie "Resident Evil: Apocalypse" and it grossed 100 million dollars worldwide.
- Jul. 2005** Released "Sengoku BASARA" for PlayStation 2, which enjoyed popularity especially among young gamers for its innovative worldview.
- Aug. 2006** Released "Dead Rising" for Xbox 360. More than 1 million units were sold, an extraordinary feat for a new title for a new game console.
- Dec.** Released software "Lost Planet" for Xbox 360. Over 1 million units were sold following the trails of "Dead Rising", another exceptional accomplishment for a new title.
- Mar. 2007** "Monster Hunter Freedom 2" becomes the first Japanese PSP software to exceed 1 million units shipped.
- Nov.** The Hollywood movie "Resident Evil: Extinction" was released. Its box-office revenue exceeded 147 million dollars.
- Feb. 2009** Takarazuka Revue Company launches theatrical performance of "Phoenix Wright: Ace Attorney - The Truth Comes Back to Life".
- Apr.** Began broadcasting the TV animation program "Sengoku BASARA".
- Jul.** Initial shipments of "Monster Hunter Tri", a third-party title for the Wii, surpass one million units.
- Oct.** "Sengoku BASARA" character Date Masamune used for PR activities in support of the Miyagi Prefecture gubernatorial elections.
- Nov. 2010** Distribution of social game "Smurfs' Village" for iPhone began. It became the top download in 80 countries around the world.
- Sep. 2013** Released "Monster Hunter 4" for Nintendo 3DS. The "Monster Hunter Craze" sparked again with the sales over 4 million units sales.
- Nov.** Released "Dead Rising 3" for Xbox One. Capcom's first title for this new game console, marked over 1 million units sales.
- Feb. 2014** "Sengoku BASARA" was used by police departments in three Kinki region prefectures as part of a campaign to prevent auto break-in.

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