To Our Shareholders (From CEO & COO)

辻本憲三

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Chairman and
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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.

CEO’s Discussion
of Performance Summary and Progress Towards Medium-Term Business Goals

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

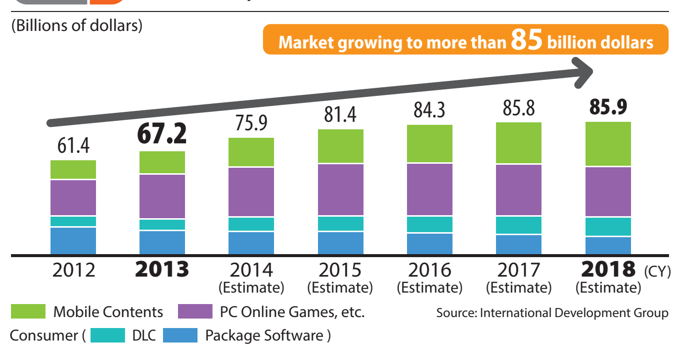
Q1 Please explain the reasons for the downward revision to earnings this fiscal year. Why is Capcom’s growth rate lagging the game market growth rate?

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

Diagram 1 Consumer, PC Online and Mobile Markets



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**

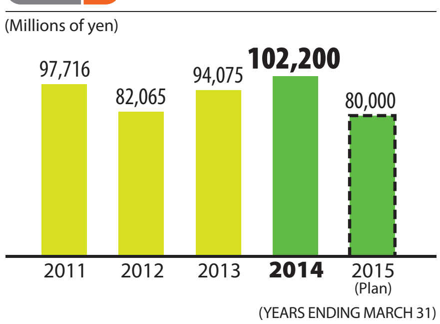


Diagram 3 **Operating Income**

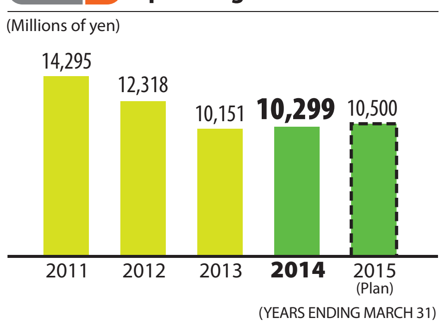
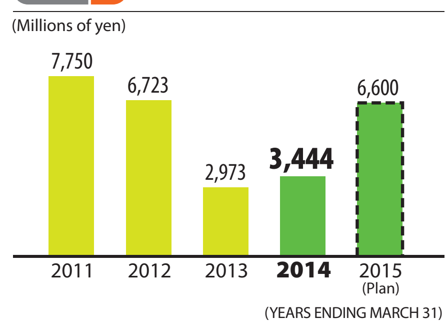


Diagram 4 **Net Income**



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

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).

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)

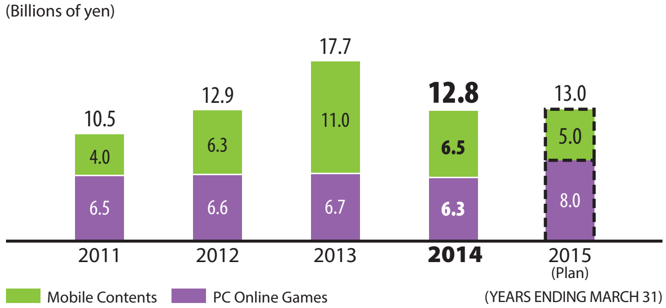
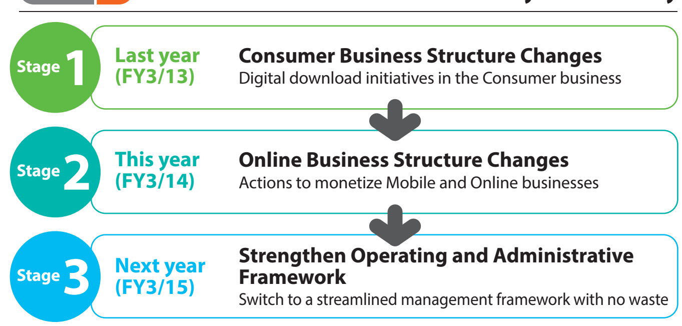


Diagram 6 Last Year-This Year-Next Year: Three- year Summary



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

Issues

- Delayed response to shift to digital download contents in the Consumer business
- Decline in quality of titles outsourced to overseas developers

Measures

- 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

Summary of 1 ~ 5

1 Assumptions at beginning of year	● "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
2 Results at end of year	● "Resident Evil 6" sales stalled at 5 million units ● Popular series titles created by overseas development companies failed to achieve sales targets
3 Reasons for missed targets	● 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
4 Necessary countermea-sures	● Strengthen full-title and add-on DLC ● Shift production from outsourcers to internal R&D
5 Countermea-sure results	● 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

Issues and Measures

Issues

- Decentralization of resources through the concurrent development of mobile contents in Tokyo and Osaka
- Insufficient operational know-how at the native app development unit (Osaka) due to the following on the home video games development
- Rebuilt Beeline brand
- Delay in implementing brand strategy and fierce competition with titles of other companies in the PC online game market

Measures

- Rigorously evaluate mobile and online games under development as part of business restructuring measures
- Thoroughly reexamine the development flow for online games and create a new development map
- Returned to Beeline's strength
- Capture synergies in the Online Games business by combining the skills of the Tokyo and Osaka workforces

Summary of 1 ~ 5

1 Assumptions at beginning of year	• Establish an earnings foundation with Capcom brand in Mobile Contents business • Get Beeline brand back on track in the Mobile Contents business
2 Results at end of year	• No hits under the Capcom brand, sales declined • No new title hits under the Beeline brand, sales declined • Mobile Contents business went into the red
3 Reasons for missed targets	• Insufficient operational know-how as activities are based on the development of consumer games • Beeline brand target settings
4 Necessary countermeasures	• Unified development in one base (Tokyo) with abundant management business experience • Beeline returned to a focus on its traditional strength in the women's casual segment
5 Countermeasure results	• Strengthened management capabilities, eliminated titles in the red • Achieved operating margins at or above 10%

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

Goal and actions

Goal
Build a streamlined operating and administrative framework with absolutely no waste

Actions
- All business units will concentrate on the 60-month map and 52-week map
- Use of managerial accounting and assessments to clarify responsibility for earnings for development, sales and marketing operations

Summary of 1 ~ 3

1 Assumptions at beginning of year	● Streamline operations, eliminate waste, create administrative framework, improve profitability
2 Necessary measures	● Strict management of medium-term strategic maps in all businesses ● Introduce managerial accounting and assessments to clarify profit and loss responsibility
3 Expected results	● Cost to sales ratio will improve 6.7 percentage points ● Operating margins will increase three percentage points

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.

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,

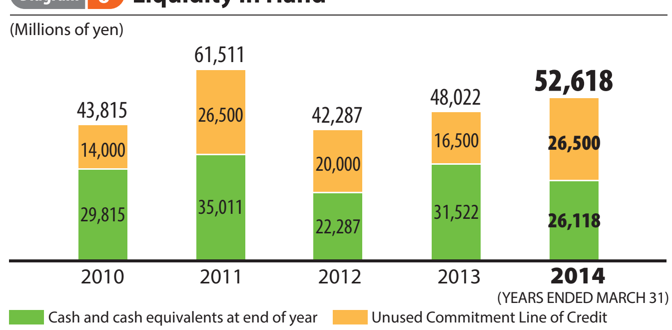
Diagram 7 Medium-Term Business Goals

■ **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%

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.

Diagram 9 Dividend per share

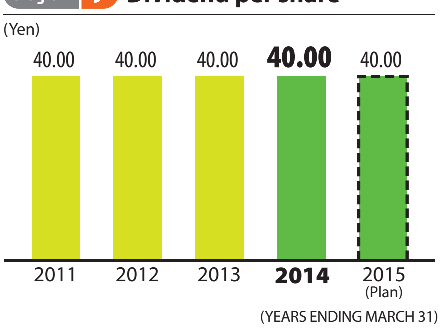


Diagram 10 Dividend Payout Ratio

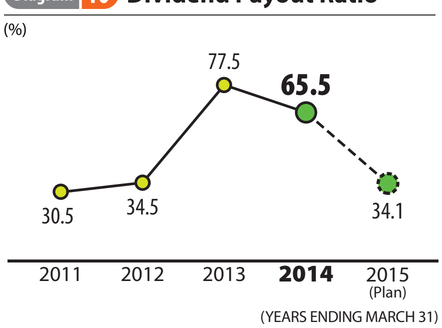


Diagram 11 Total Return Ratio