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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.



Smartphone Access

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.



The print of this catalog uses environment-friendly vegetable oil ink.



Cover Image

The cover image shows Capcom's development offices in Osaka. The building at lower right is R&D Building #2, boasting one of the newest development facilities in Japan, just completed in 2016. At upper left is the R&D Building, completed in 1996. These two buildings will serve as a base as we move forward with the strengthening of our development structure.

CAPCOM CO., LTD. INTEGRATED REPORT 2016

CAPCOM

Advanced Technology to Lead the Industry

CAPCOM INTEGRATED REPORT

2016

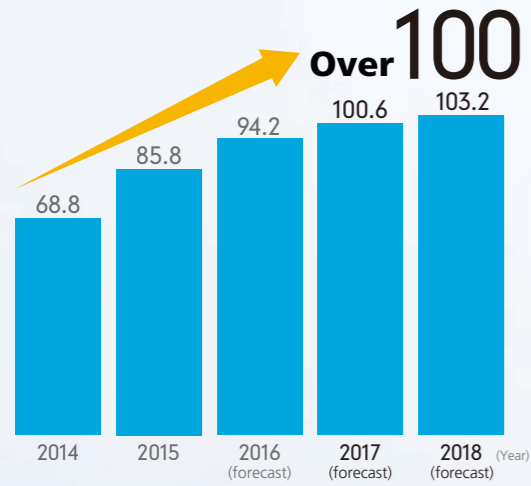
Code Number: 9697

Code Number: 9697

\$100 billion

Global Game Market to Exceed 100 Billion Dollars in 2017

Global Game Market (Billions of dollars)



Source: International Development Group

Game Market Expanding More Rapidly than Anticipated

The global game market continues to grow beyond previous market forecasts and is expected to exceed 100 billion dollars in 2017. The market is becoming increasingly active, as each new generation of major home video game consoles drive unit sales higher amid the launch of virtual reality (VR) games in 2016. Mobile content markets mainly in Asia and developing countries are expanding beyond the scale of the game console market.

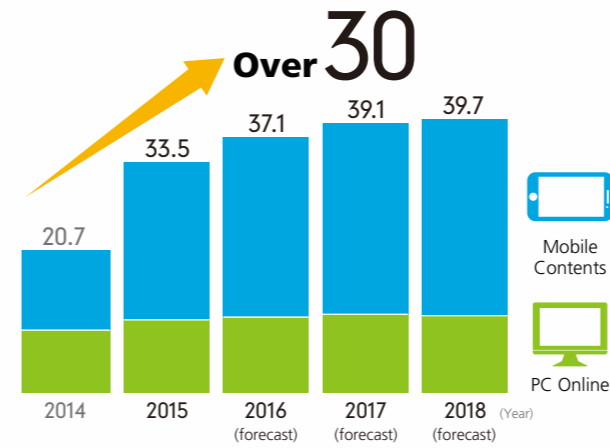
Going forward, the game market is expected to continue growing, expanding to nearly 200 countries worldwide through various devices used for gaming.



\$30 billion

Massive Asian Online Market Exceeds 30 Billion Dollars

Asian Online Market (Billions of dollars)



Source: International Development Group

Massive Online Growth Potential

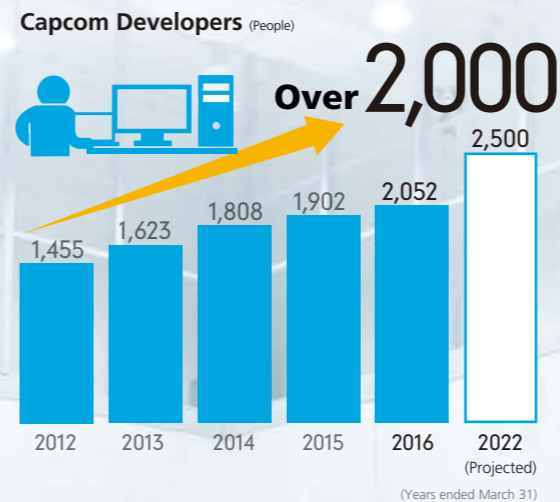
The Asian region is a massive market valued at 30 billion dollars, and boasts a 54% global share of the online game market utilizing smartphones and PCs. In the past, a market could not be established in the Asian region as it was plagued by issues such as pirated games. The ability to authenticate online game purchases and the spread of smartphones coupled with a great number of potential users, including the world's largest population of 1.3 billion people in China, caused the region to grow rapidly into a major market.

Driven by PC online games for core users and mobile games for casual users, this market is forecast to continue growing significantly.



2,000 people

**Capcom Developers Exceed 2,000 in 2016.
On Track to Become One of the Largest Studios in Japan**



Capcom's Global Development Studios



Human Resource Capabilities Creating Content Popular Throughout the World

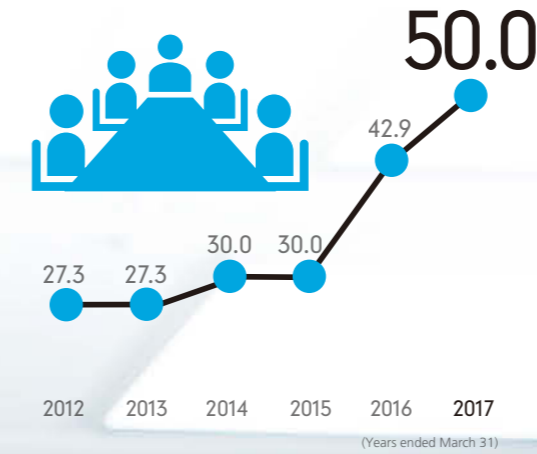
Personnel costs comprise approximately 80% of game software development costs, thus investment in people is indispensable to maintain a competitive edge. To increase quality and accumulate expertise, Capcom is engaged in strengthening internal development and plans to expand its development structure to 2,500 employees, one of the largest in Japan, in fiscal 2021. To this end, Capcom is hiring a wide range of people without regard for nationality or gender to secure human resources necessary for developing content popular throughout the world.

Furthermore, in 2016 Capcom commenced operations at its new R&D facility incorporating world-class development equipment and technologies.

50.0%

No Growth Without Governance Reforms: Half of Board of Directors Are External Directors

External Director Ratio (%)



Four Features of Capcom Corporate Governance

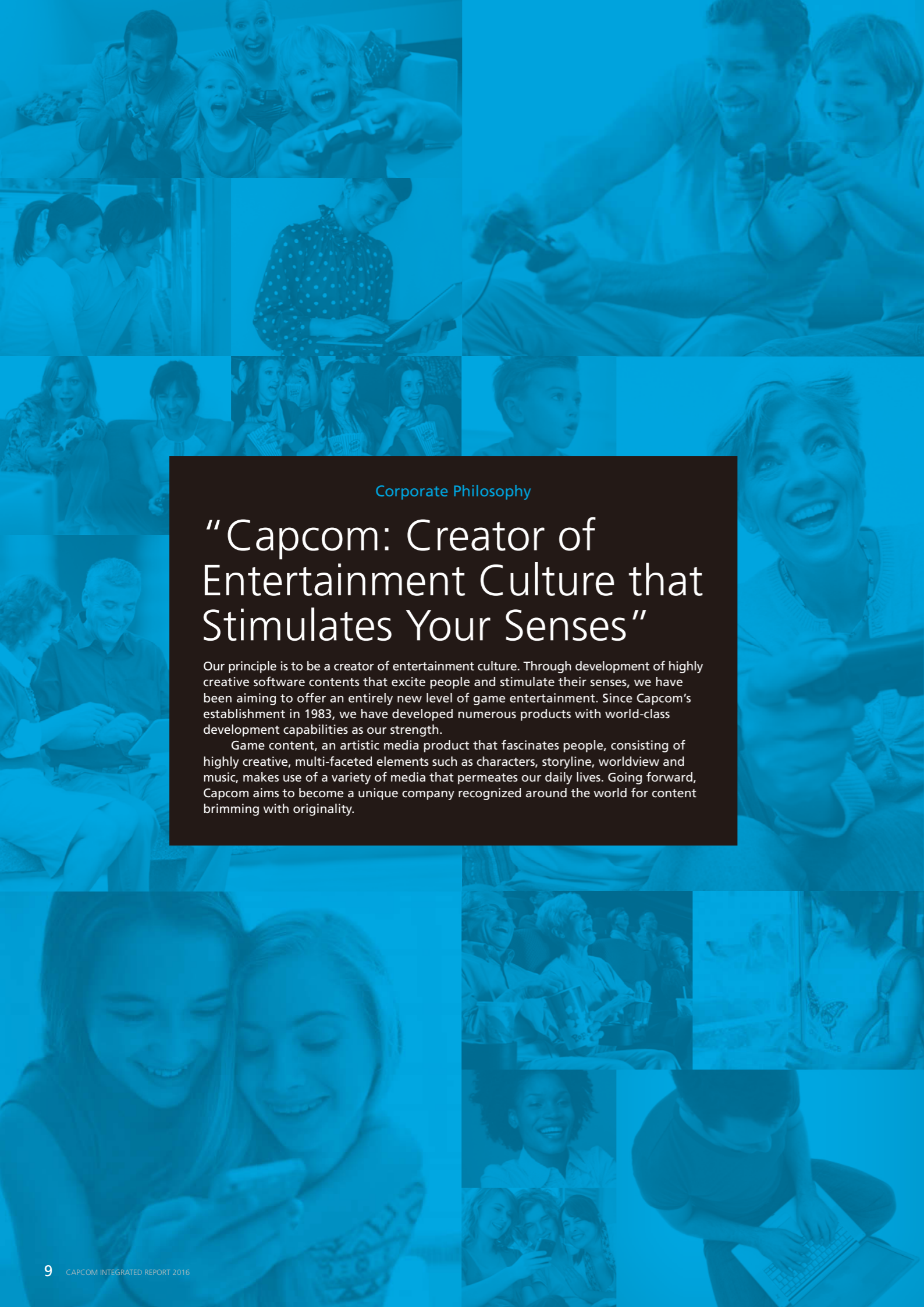
1. Transitioned to a company with an audit and supervisory committee to strengthen governance.
2. Proactive appointment of external directors.
3. Full disclosure of 73 Corporate Governance Code items.
4. Mechanism for reflecting investor and analyst opinions in management.

→ Please refer to "Governance Reforms for Further Growth" on page 67.

Reforms Aimed at Transparent Decision-Making and Heightened Reliability

Capcom believes strong governance is indispensable for enhancing corporate value. Thus, we invite experts with the highest level of acumen in their respective areas of specialization to serve as external directors who provide Capcom with opinions, advice and checks that increase Board of Director transparency and reliability. They also enhance dialogues with analysts and investors in an attempt to strengthen management monitoring functions. Currently, external directors comprise 50% of the Board of Directors.

Also, in June 2016, Capcom made significant changes to its corporate governance organizational design to increase corporate value and control risks in accordance with the promotion of growth strategies, establishing a structure to strengthen a wide range of monitoring functions in overall management.



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.

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Editorial Policy

Capcom's Integrated Report conveys annual performance and initiatives aimed at improving corporate value over the medium- to long-term to shareholders, investors and all other stakeholders. This report is issued with the intent of creating opportunities for further dialogue.

This report was created according to the "International Integrated Reporting Framework" announced by the International Integrated Reporting Council (IIRC).

Furthermore, we aim to express ideas in a simple and easily understood manner and visually represent important items to aid understanding.

In addition to a printed version, this report is also available online.

Period and Scope

This report reviews the fiscal year ended March 31, 2016 (April 1, 2015–March 31, 2016).

When necessary, it also includes references to fiscal periods before and after this timeframe.

Unless otherwise indicated, the scope of data presented in this report is on a consolidated basis.

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World-Class Development Capabilities
Separate volume:
The Latest Development Report 2016

Market Data

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Diagram 11, 12, 21, 23, 25

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Separate Volume **The Latest Development Report 2016**

SECOND TO NONE





辻本憲三
Kenzo Tsujimoto
Chairman and
Chief Executive Officer (CEO)

辻本春弘
Haruhiro Tsujimoto
President and
Chief Operating Officer (COO)

Promoting Growth Strategies and Governance Reforms Aimed at Enhancing Corporate Value

Creating Entertaining Games that Continue to Excite People Around the World ——

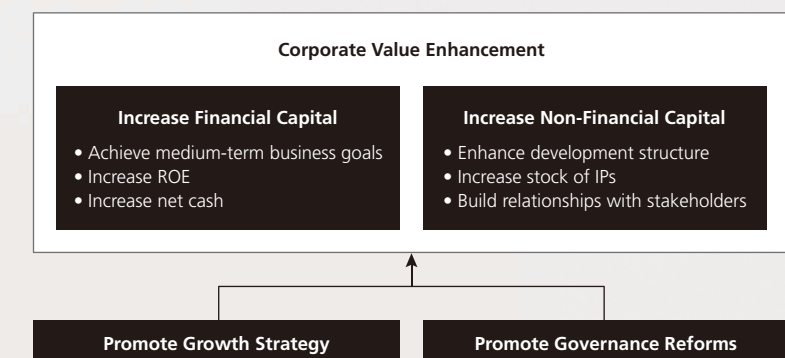
This is the cornerstone of Capcom's business activities and the source of our corporate value. Through our business activities, we bring the Company economic benefits while providing society with new value. We believe the value of a corporation stems from shared value creation.

As the game market expands globally, in addition to pursuing short-term profit, Capcom is promoting growth strategies from a medium- to long-term perspective in order to continue enhancing corporate value into the future.

Going forward, we will transform our fundamental revenue model from a one-time sale "transactional model" to an ongoing "recurring revenue model," while at the same time thoroughly executing our Single Content Multiple Usage strategy and constructing a portfolio to achieve stable earnings. We will also engage in governance reforms to control risks that increase proportionally with the acceleration of our growth strategies, thoroughly implement management visualization and systemization and create a structure enabling rational management decisions based on an institutional design with external directors at its core.

Furthermore, we will make an effort to strengthen non-financial capital not reflected in quantitative data. In addition to enhancing Capcom's highly original content, the source of our competitive edge, and the development structure that creates it, we will build positive relationships with business partners, regional communities, employees and a variety of stakeholders among other important "capital" comprising Capcom corporate value.

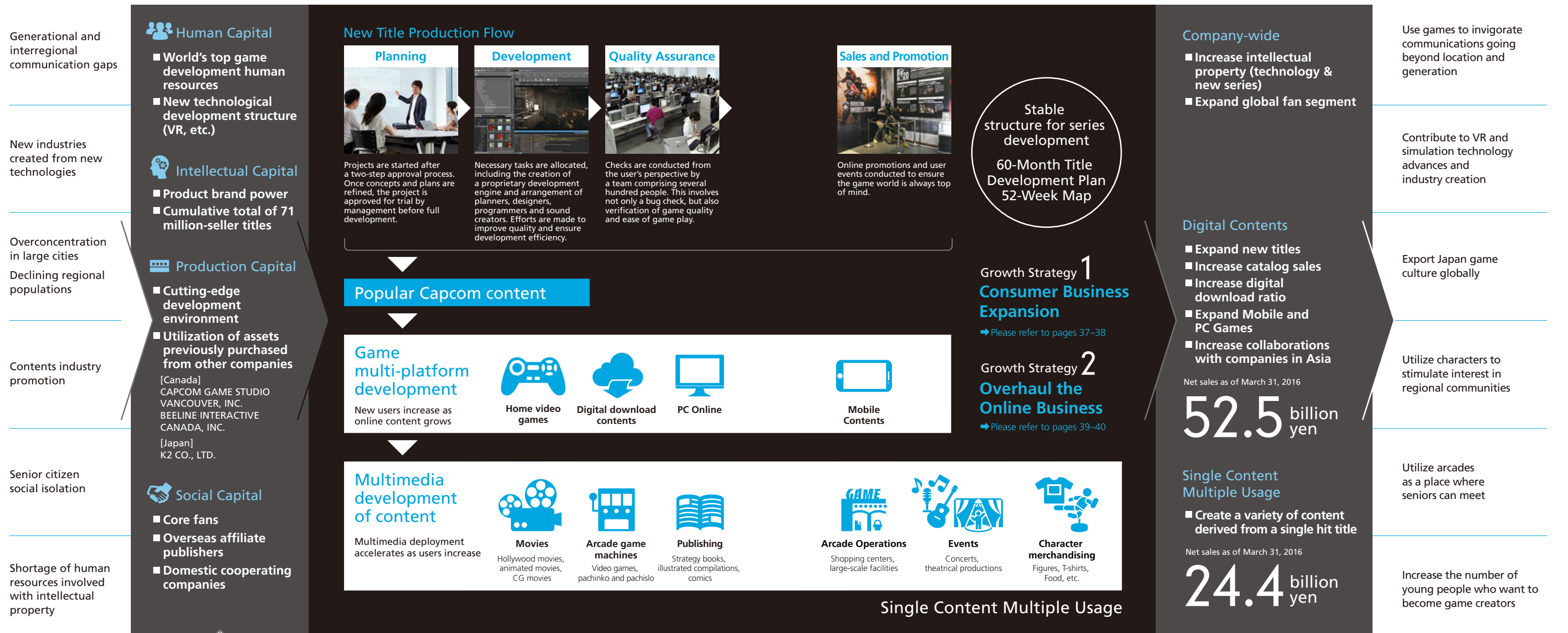
Through these various initiatives, we believe we can contribute to shareholder and investor profits by becoming a company of sustainable growth.



Contributing to the Creation of a Rich Culture and Society through Game Development and Multiple Usage

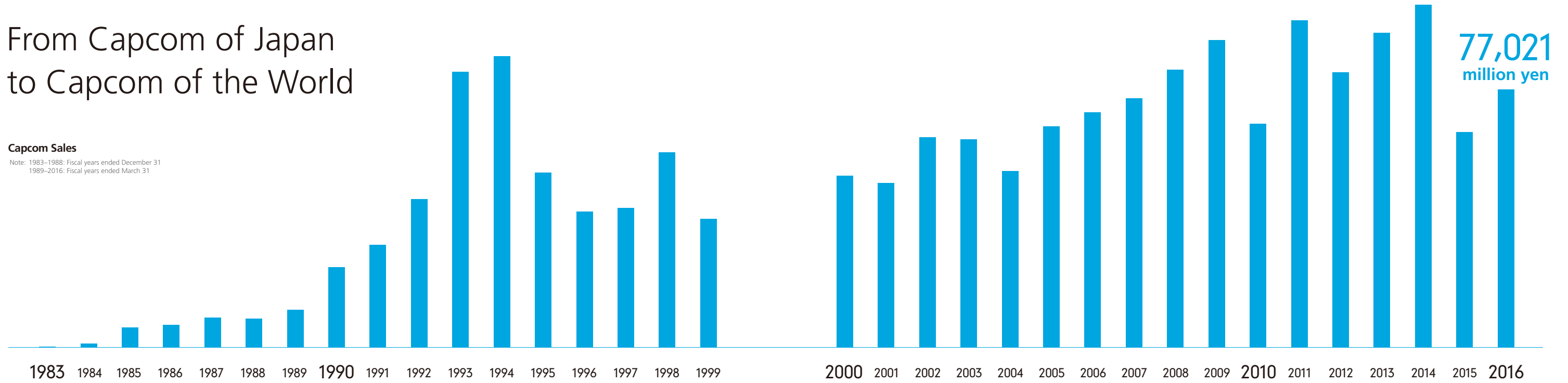
The use of advanced development capabilities to create original contents for branding is the source of Capcom's long-term earnings. Capcom pursues high added value through business activities making use of abundant capital (inputs) within and outside the Company, regularly developing and releasing products (outputs) for multiple game platforms and media. The value (outcome) generated from these activities is provided to society and reinvested for the future. Through these activities, we make an effort to respond to social issues while expanding corporate value.

Social Issues > INPUT > Business Activities > OUTPUT/OUTCOME > Impact on Society



From Capcom of Japan to Capcom of the World

Capcom Sales
 Note: 1983-1988: Fiscal years ended December 31
 1989-2016: Fiscal years ended March 31



Genesis

In 1983, Capcom Co., Ltd., was established in Osaka. The Nintendo Entertainment System (NES) came out that same year, but it was difficult to create high-quality arcade-level content for, so Capcom focused business development on the creation of arcade games using the proprietary high-spec circuit board "CP System."

1983
Released our first originally developed coin-op *Little League*.



1984
Released our first arcade video game *Vulgus*.



1985
Released our first home video game *1942* for Nintendo Entertainment System (NES).



1987
Released *Mega Man* for NES.



Big Hits Drive Business Expansion

In the 1990s, the arrival of Super NES prompted Capcom to formally enter home video game development. Numerous hit titles were created that drew on Capcom's arcade game development expertise. The Single Content Multiple Usage strategy was launched in 1994 with the release of a Hollywood movie and TV animation series based on *Street Fighter*.

1992
Released *Street Fighter II* for Super NES.



1993
Released *Breath of Fire* for Super NES.




1996
Released *Resident Evil* for PlayStation, a long selling title which had record breaking sales, and established the genre of survival horror.



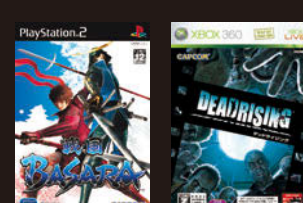
Going Global

In 2000, Capcom listed its shares on the First Section of the Tokyo Stock Exchange. In the 2000s, Capcom created one hit title after another that gained popularity overseas. The Hollywood movie version of *Resident Evil* earned 102 million dollars globally, part of a five title hit series that continues to spread the Capcom brand throughout the world.

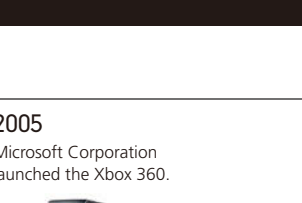
2001
Released *Onimusha* for PlayStation 2. The first game for PlayStation 2 that becomes a million-seller in Japan.
Released *Devil May Cry* for PlayStation 2.



2005
Released *Sengoku BASARA* for PlayStation 2.



2006
Released *Dead Rising* for Xbox 360. Became a million-seller, unprecedented for a new title created for new game console.



Multimedia

With the adoption of smartphones and tablets, the market for game apps not requiring consoles is growing rapidly. Capcom established Beeline, a development company for smartphone game apps, which created hits including *Smurfs' Village*. In recent years, Capcom has focused efforts on PC online games and digital download contents.

2010
Distribution of app *Smurfs' Village* for iOS began. It became the top download in approximately 100 countries around the world.



2013
Released *Monster Hunter 4* for Nintendo 3DS. Return of the "Monster Hunter Craze" selling more than four million units.
Released *Dead Rising 3* the first title in this series for Xbox One. More than one million units sold.



Game Industry History

1983
The Nintendo Entertainment System (NES) was launched to massive success.



1990
Next-generation Super NES was launched.



1994
PlayStation was launched. 3D game popularity skyrockets.



2000
PlayStation 2 was launched.



2005
Microsoft Corporation launched the Xbox 360.



2010
Smartphone adoption increases, game apps not requiring a game console became popular.



2012
Wii U was launched.



2013
PlayStation 4 was launched.

2013
Xbox One was launched.



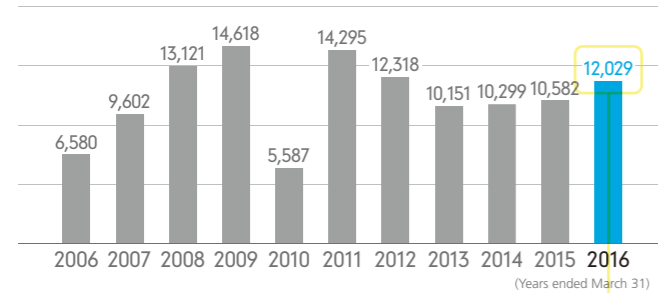
Financial Highlight

→Please refer to "11-Year Summary of Consolidated Financial Indicators" on pages 77-78.

Operating Income/Operating Margins

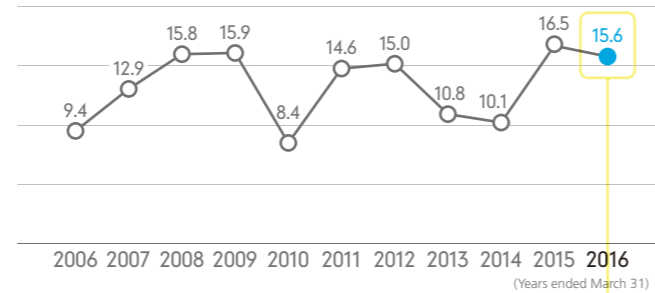
Operating Income (Millions of yen)

12,029 million yen
13.7% UP



Operating Margins (%)

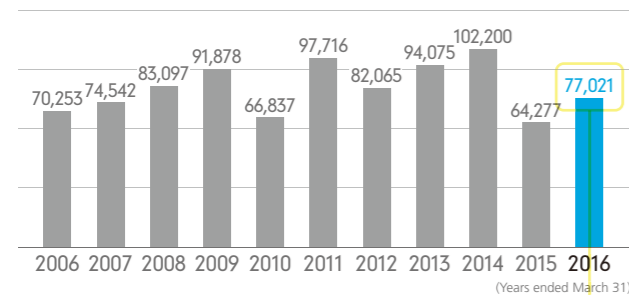
15.6%
0.9point DOWN



In line with structural reforms conducted in the fiscal year ended March 2004, operating income increased steadily until the fiscal year ended March 2009. In the fiscal year ended March 2010, the postponed release of major titles and the failure of some titles to meet sales targets overseas resulted in a temporary decline in income. In the fiscal year ended March 2011, we promoted profit structure reforms aimed at more efficient development investment. We promoted streamlined development by transitioning to in-house production and strengthened our digital download strategy in response to rapid changes in the market beginning in the fiscal year ended March 2013. As a result, operating income and operating margins underperformed until the fiscal year ended March 2014 while these reforms were implemented. However, in the fiscal year ended March 2015, the operating margin improved substantially to 16.5% due to the effect of improvements in the cost of sales ratio resulting from these reforms. In the fiscal year ended March 2016, although the cost to sales ratio temporarily worsened in the Amusement Equipments business, Consumer business growth caused operating income to increase, resulting in operating margins of 15.6%.

Net Sales (Millions of yen)

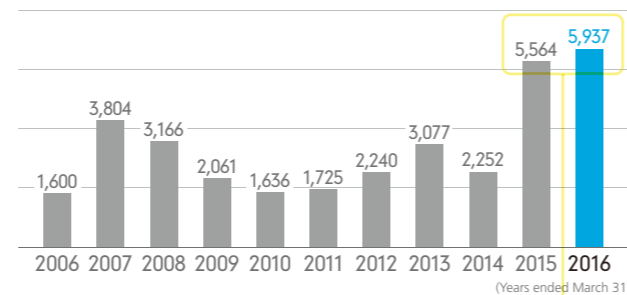
77,021 million yen
19.8% UP



For the four fiscal years beginning in the fiscal year ended March 2005, net sales increased on the stability of popular titles in the Consumer business. In the fiscal years ended March 2010 and March 2012, net sales declined due to the postponed release of titles. However, the promotion of structural reforms in the Consumer business resulted in Capcom achieving net sales of 100 billion yen in the fiscal year ended March 2014 for the first time. Although net sales decreased significantly in the fiscal year ended March 2015 due to a decline in pachislo machine releases, net sales increased in the fiscal year ended March 2016 on the release of major titles in the Consumer business.

Capital Investments Costs (Millions of yen)

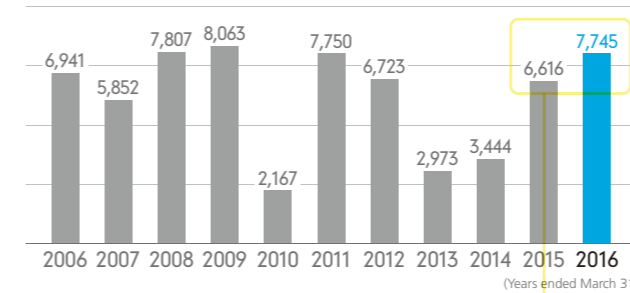
5,937 million yen
6.7% UP



Capcom's capital investment is mainly used to (1) purchase development equipment, (2) expand business offices in Japan and overseas and (3) open new amusement arcades. From the fiscal year ended March 2007 to the fiscal year ended March 2009 and again in the fiscal year ended March 2013, capital investment was high due to development environment improvements in line with the transition to next generation game consoles in the Consumer area. In the fiscal years ended March 2015 and March 2016, capital investments increased substantially in line with an increase in development employees required to expand our title lineup and the construction of two new development buildings.

Net Income Attributable to Owners of the Parent (Millions of yen)

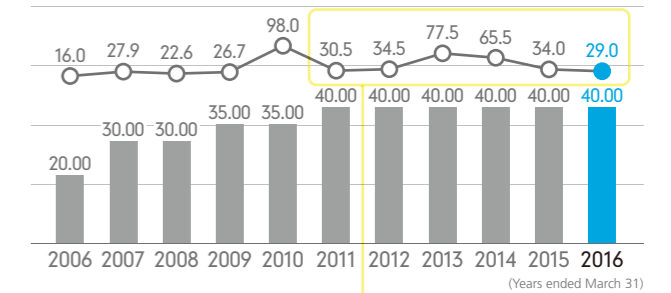
7,745 million yen
17.1% UP



Performance was sluggish in the fiscal years ended in March 2010, 2013 and 2014, as (1) a complete overhaul to the Amusement Equipments' underperforming profit structure, (2) development structure revisions in line with enhanced digital downloads in the Consumer business and (3) strengthened Mobile Contents business management capabilities in line with development organization integration resulted in the recognition of special losses on restructuring and business restructuring expenses. From the fiscal year ended March 2015, income increased two years in a row due to the benefits realized from development organization reforms.

Dividend per Share/Dividend Payout Ratio

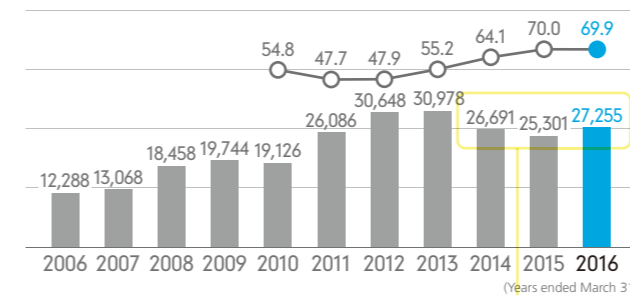
Dividend per Share (Yen) **40.0** yen
Dividend Payout Ratio (%) **29.0%**
±0 5.0point DOWN



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 aiming for a payout ratio of 30%; from the fiscal year ended March 2009, the annual dividend was increased to 35 yen and again up to 40 yen since the fiscal year ended March 2011.

R&D Investment Costs/Internal R&D Ratio

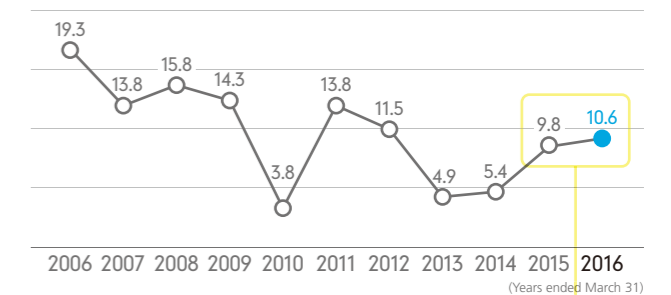
R&D Investment Costs (Millions of yen) **27,255** million yen
Internal R&D Ratio (%) **69.9%**
7.7% UP 0.1point DOWN



At Capcom, we believe the generation of creative and original content is the source of corporate growth, thus 80% or more of our annual development investments are allocated to the Digital Contents business. Recently in the Consumer segment, development costs have been trending higher in line with increasingly high-performance hardware, but we have been able to control these increases by promoting development efficiency through increased employee utilization rates. Although costs have increased significantly since the fiscal year ended March 2008, we expect them to remain around 30 billion yen going forward.

Return on Equity (ROE) (%)

10.6%
0.8point UP



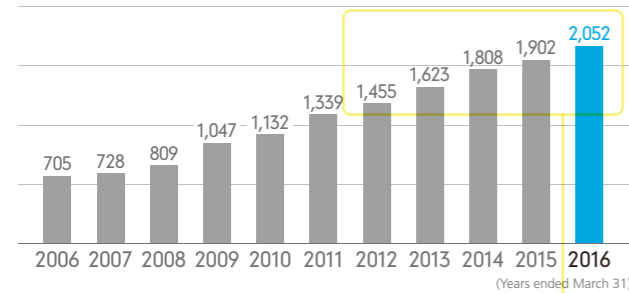
Although net assets increased between the fiscal years ended March 2007 and March 2009, stable net income resulted in ROE of around 14%. In the fiscal years ended in March 2010, 2013 and 2014, this figure declined due to decreases in net income from the recognition of special losses on restructuring and business restructuring expenses. From the fiscal year ended March 2015, ROE once again improved on the elimination of special losses and improved profitability, as we remain on track to meet our March 2017 goal of a three-year average of 8-10%.

Non-Financial Highlights

Human Capital

Content Developers (People)

2,052 people
150 people UP



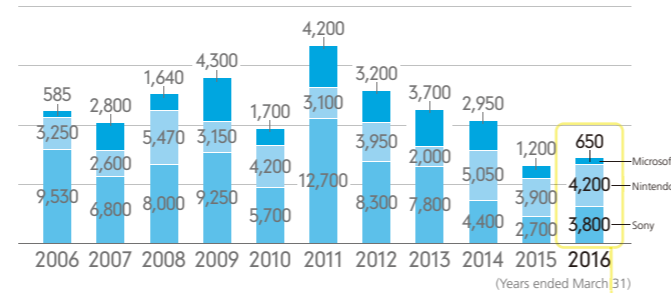
Developers engaged in the creation of content—the source of our competitive advantage—account for 70% of all Capcom employees. To promote our core Single Content Multiple Usage strategy, we strive to retain talented developers through aggressive hiring and training efforts, resulting in a nearly three-fold increase in developers in the past 10 years. Above all, switching to a structure focused on internal production in the fiscal year ended March 2012 to strengthen and streamline development has enabled us to add approximately 100 new developers each year.

Production Capital

Software Shipments by Hardware Manufacturer (Thousands of units)

3.8 million units (Sony)
4.2 million units (Nintendo)
0.65 million units (Microsoft)

1.1 million units UP (Sony)
0.3 million units UP (Nintendo)
0.55 million units DOWN (Microsoft)

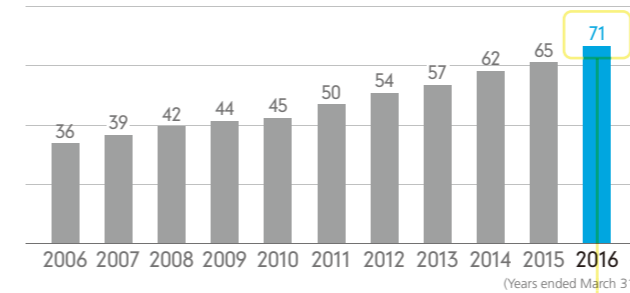


In the Digital Contents business, Capcom has established a basic “multiplatform strategy” aimed at providing content for all game platforms (hardware), ensuring steady sales of software for all types of hardware. Since the fiscal year ended March 2005, hardware has become increasingly diverse amid the accelerating spread of each type of hardware in various regions. By providing titles based on hardware prevalence and attributes, we maximize sales opportunities.

Intellectual Capital

Cumulative Million-Seller Titles (Titles)

71 titles
6 titles UP

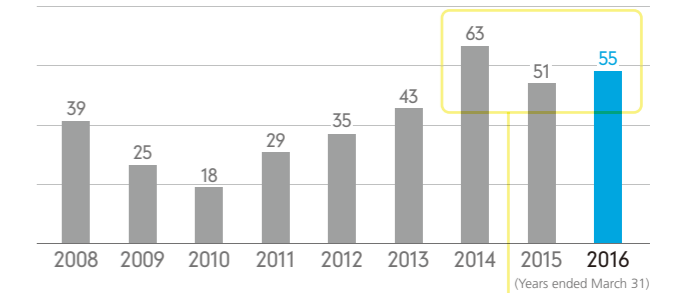


Capcom boasts world-leading development capabilities, as evidenced by our numerous intellectual properties. Our content is popular around the world, and up to now, a total of over 70 titles have sold over one million units. In order to increase our brand value and profitability, we leverage this in-house produced capital across a wide range of media, including PC Online and Mobile, pachislo machines, movies and toys in promoting our Single Content Multiple Usage strategy.

Social Capital

Number of Company Visit Supported and On-Site Classes Conducted (Times)

55 times
4 times UP



Video games are a comparatively new cultural phenomenon about which there is little academic research. Rather than examining educational aspects, there is a strong focus on the detrimental effects of violent content. At the same time, game developer is a popular career choice. Given these conditions, Capcom proactively conducts on-site classes and company visits for elementary and middle school students to teach them about working at a video game company and the healthy relationship with video games. As of the fiscal year ended March 2016, 9,095 children and students have participated in a total of 91 activities.

TOPICS



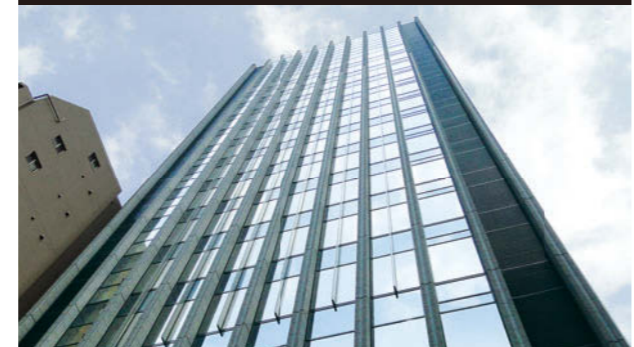
Making the Workplace Comfortable for Women

Capcom is engaged in improving the employment environment for women, promoting projects in which both women and men participate and the proactive hiring of non-Japanese employees. In particular, with respect to improving the employment environment for women, we have introduced systems that promote the utilization of paid leave before and after childbirth, childcare leave and shortened working hours. In fiscal 2016, we promoted the establishment of childcare facilities within the company. Although the Japanese game industry is characterized as a “man’s world,” approximately 20% of our development staff are women, and women account for 10.3% of employees in management positions.

TOPICS

Construction of R&D Building #2 Completed in January 2016

With a simple and functional design, R&D Building #2 contains the latest equipment, including one of the largest motion capture studios in Japan, and incorporates a seismic-absorbing structure designed to guard against earthquakes and other natural disasters. In addition, we continue to hire approximately 100 developers each year to expand our title lineup and promote growth strategies. In conjunction with our existing R&D building, this new building consolidates the development department and heightens development mobility and leadership, promoting enhanced development structure efficiency.



TOPICS



Mega Hit Monster Hunter X (Cross) Sells 3.3 Million Units

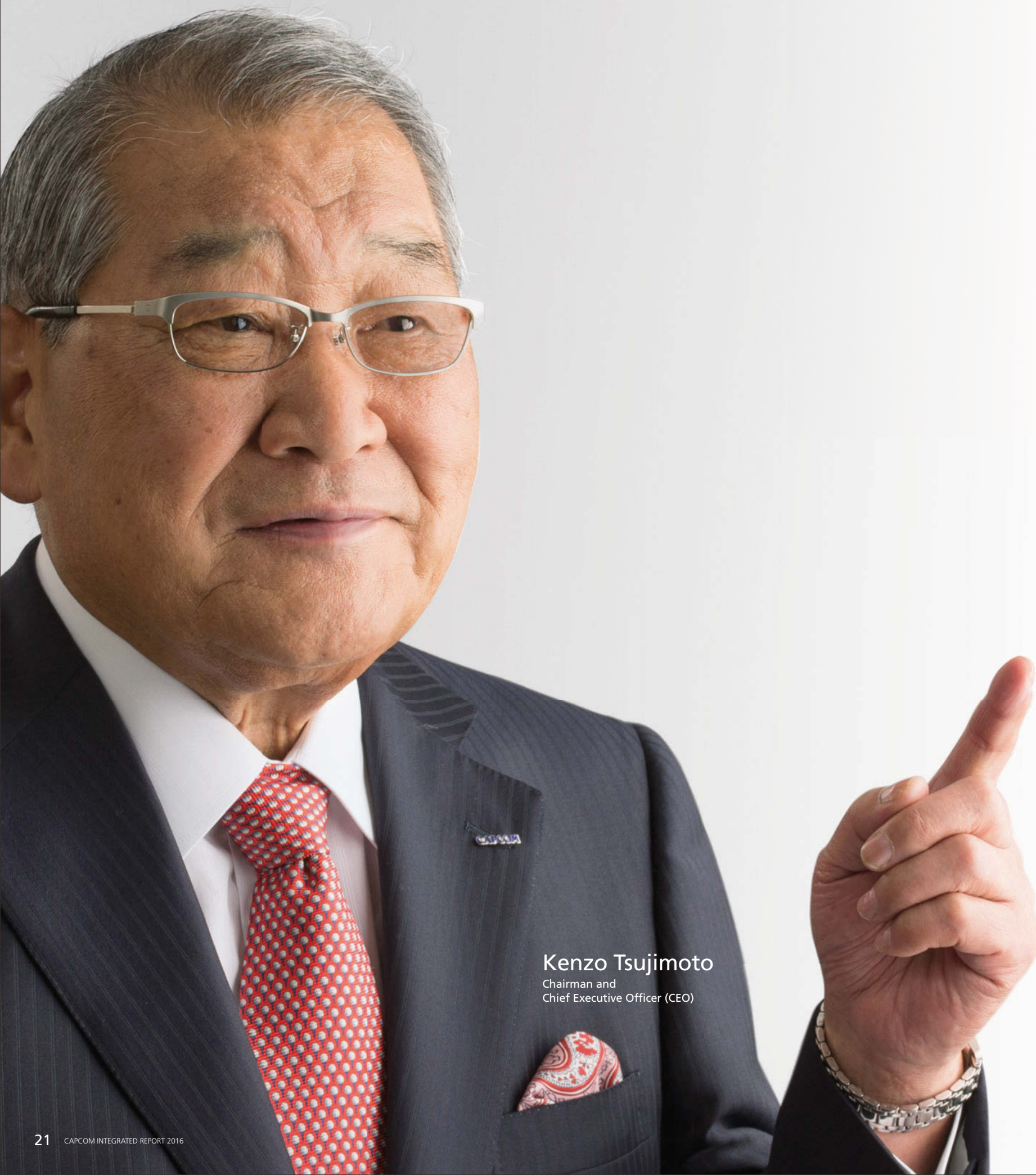
The *Monster Hunter* series features hunting action games in which players face off against giant monsters in magnificent natural settings, and is one of the most popular IPs in Japan. *Monster Hunter X (Cross)*, released in the fiscal year under review, maintained the series’ world and game characteristics while offering a diverse and free playing style that proved popular, resulting in sales of 3.3 million units. Once again, the series ongoing evolution continues to appeal to new users, increasing brand value over the long-term.

TOPICS

Game Industry Group Participation in the Formulation of Voluntary Regulations and Awareness Activities

In line with the recent rapid growth in games for smartphones, there are increasing needs to further strengthen the establishment of the game usage environment. Thus, as a member of the Computer Entertainment Supplier’s Association (CESA), Capcom participated in the formulation of guidelines for the management of methods providing random items in networked games. We proactively participate in promoting the understanding of voluntary regulations and engage in awareness activities to ensure games are played with safety and peace of mind.





Kenzo Tsujimoto
Chairman and
Chief Executive Officer (CEO)

Promoting Management Systems Focused on Growth Strategies and the Future to Enhance Long-Term Corporate Value

Management Position

Pursuing Challenges as a Manager for the 33 Years Since Capcom's Founding

"Adversity makes for a proud life." This is what I wrote in my night high school graduation album. My father died when I was in my second year of middle school. Being forced to start from zero gave me discipline. Having nothing to lose enabled me to view life positively. At that time, I may not have been academically equal to students attending full-time college prep schools, but I wondered: how do I compete with them in the real world? I constantly thought about this. To rise above poverty requires two to three lifetime's worth of effort. I wrote that sentence precisely because it was adversity that gave me the confidence to succeed, and it is without a doubt the source of my management philosophy.

Later, after establishing a gaming machine rental company, I founded Capcom in 1983, where shareholders have entrusted me with management for 33 years.

Before I report the latest earnings to shareholders, I want to talk about how I have met expectations as a manager, particularly during the 26 years Capcom has been a publicly traded company. A manager's track record is seen in the enhancement of corporate value, thus I will explain earnings results, which are a large component of this.

We can divide the past 26 years into three major stages.

During the first stage (Fiscal Years 1989–1997),* despite scoring a major hit with *Street Fighter II*, which introduced Capcom's development capabilities to the world and achieved record profits, the lack of follow-up hit titles, inventory disposal and other issues caused

earnings to fluctuate significantly for these nine years.

*Including the fiscal year before public listing.

During the second stage (Fiscal Years 1998–2006), we addressed the aforementioned issues of "dependence on a specific major hit" and "overseas inventory management." We created series out of multiple hit titles, including *Resident Evil*, *Devil May Cry* and *Monster Hunter*, and established a structure enabling the release of a major title every year. In addition, we carefully studied overseas business customs that differed from Japan, introduced a direct sales system and created a mechanism for maintaining inventory numbers at 10% or less of sales volumes.

As shown in Diagram 1 on the next page, this resulted in revenue item increases as well as operating income relative to standard deviation improvements, enabling the creation of a foundation for stable earnings. At the same time, due to game market globalization, we had reached the limit of title strategies led by the Development department. Thus, we separated the organization and planning functions from the production function and established a two-step approval process for prototypes and main development, implementing structural reforms enabling the transition to management-led development.

➔ Please refer to "Tangible Results of Ongoing Structural Reforms" on page 12 of the 2007 Annual Report.

During the third stage (Fiscal Years 2007–2015), we engaged in governance reforms to strengthen our management structure and digital strategies. First, we clearly separated business execution functions in line

with strategy as well as management strategy decision-making functions, putting myself as the Chairman and CEO in charge of management strategy and the President as COO in charge of business execution. The business of the president is to engage in both medium- to long-term growth and short-term performance. However, in my experience, when engaged in management, there is a tendency to spend 70% of one's time on performance. Thus, it is not always possible to ensure medium- to long-term growth. I will not always be involved in

management, so promoting management systems to strengthen governance in a variety of ways, including the separation of supervision and execution, is an attempt to ensure the Company functions properly into the future. The COO will discuss our digital strategy.

➔ Please refer to "COO Discussion on Growth Strategy" on page 35.

As a result, with the structural reforms and synergies achieved in the second stage, compared to the previous stage, all revenue items substantially increased. [\[Diagram 1\]](#)

society involved the alleviation of stress and other psychological benefits, but the application and diffusion of these simulation technologies will resolve new social issues, creating a whole new future of enjoyment for

the game industry.

As one of the founding members and promoters of the game industry, I will build the foundation for bringing new gaming possibilities to life.

Market Growth Forecast

The Game Industry has High Growth Potential and Social Value

The game industry's rise began in 1983, driven by the momentum created with the release of the Nintendo Entertainment System (NES) in Japan. Although there is no global data published before the year 2000, my sense is that when viewed from a long-term perspective, the industry has basically been on a growth trajectory for about 30 years. This is perhaps supported by the fact that sales units increase after each home video game console cycle. Furthermore, since 2007, the spread of computers accompanied with smartphone and internet environment improvements have enabled general gaming devices to gain traction in the market, which has been a factor driving rapid market expansion in developed as well as developing countries.

Looking 10–20 years ahead, I expect there will still be strong growth potential in the game market. One reason is because games are not bound to any one device. Dedicated game consoles, game consoles

equipped with DVD and Blu-ray players, mobile phones enabling game play and other past transitions tell the story of the spread of games. Recently, wearables and virtual reality (VR) devices have heightened expectations of new gaming experiences. High affinity with cutting-edge IT technologies such as AI is an extremely strong advantage for games.

The second reason, which I myself can confirm, is that simulation technologies are the essence of games. Utilizing game console performance representing the world's most advanced computers, games are programmed to imagine all potential player movements. Thus, taking the long-term view, game simulation technology created and refined on the most advanced computers can be used for medical, education or training applications and even for economic and financial forecasting.

Until now, the value games have provided to

Management Issues

Our Current Theme: Controlling Risks for Sustainable Growth

The fourth stage (beginning in April 2016) will be the culmination of my experience as a manager. The main theme will be controlling risks to further enhance corporate value as a sound growth strategy. [\[Diagram 2\]](#)

As a manager, I classify corporate risks into two main categories: earnings volatility risks and management decision risks. I will discuss management decision risks in a moment, but first I would like to discuss the control of earnings volatility risks.

To mitigate earnings volatility risks over the medium- to long-term, measures enabling sustainable growth must include (1) transforming the foundation of our Consumer business model from a traditional one-time sale "transactional model" to a continuous "recurring revenue model" and (2) creating a business portfolio with diversified earnings risks based on the thorough development of Capcom's basic strategy, Single Content Multiple Usage.

As mentioned above, earnings in Capcom's core Consumer business fluctuate depending on whether or not we create hit titles. Although we are able to achieve limited results (control earnings volatility) through the distributed release of multiple hit titles, this is not the stable growth to which I refer. Since 2013, game

consoles have been equipped with full-fledged online functionality, enabling the continuous sales of past hit titles and additional content providing earnings stability each year. Currently, the ratio of download sales is 26%, and by improving this to 50% over the medium-term, we can further enhance stability. Until now, Single Content Multiple Usage has not been deployed on a scale that mitigated Consumer volatility. However, at present Mobile and PC Online account for 75% of the market as game consoles, and since both are recurring revenue businesses, we will further improve expense to revenue ratio stability through the thorough multiuse of popular content (IP).

At the core of these two measures lies Capcom's biggest strength: the possession of numerous popular IPs.

In the game industry—what I call the "hit business"—we will build a management foundation enabling sustainable growth and formulate strategies to enhance corporate value.

Diagram 1

Normal Distribution of Operating Income in Each Stage

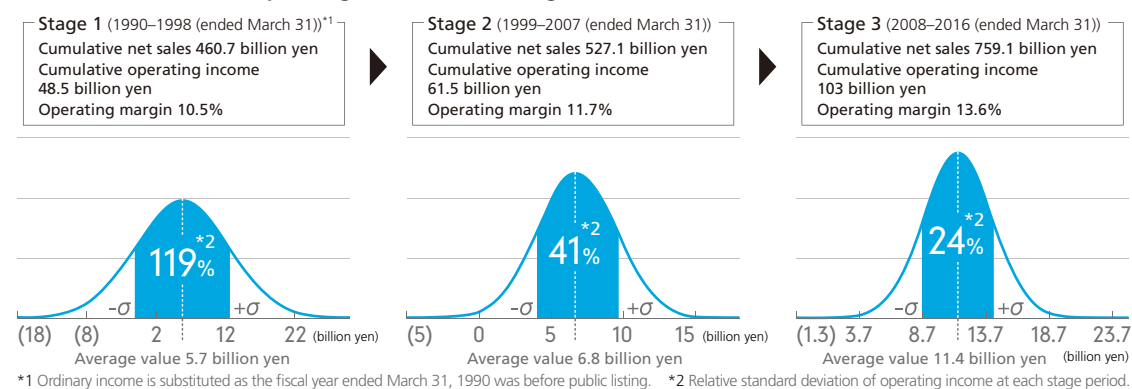


Diagram 2

Past and Future Management Stages

- Past stages**
- Stage 1 (Fiscal Years 1989–1997)**
 - Global hit title creation
 - Manifestation of issues related to expansion
 - Stage 2 (Fiscal Years 1998–2006)**
 - Structure enabling release of major title every year
 - Thorough sales and inventory management
 - Stage 3 (Fiscal Years 2007–2015)**
 - Governance reforms to strengthen management structure
 - Digital strategy promotion

- Future stage**
- Stage 4 (from FY ending March 2017)**
 - Control risk to further enhance corporate value
 - Earnings volatility risks**
 - Measure 1** Transform business model from transactional to recurring
 - Measure 2** Create stable business portfolio
 - Management decision risks** ➔ Please refer to page 28
 - Measure 1** Management visualization centered on numbers
 - Measure 2** Institutional design with external directors at its core

Medium-Term Business Goal Progress Analysis

Medium-Term Business Goals Cumulative targets for the 5 years starting FY ending March 2014

Cumulative operating income (2014-2018 (ending March 31)) **70 billion yen**

Operating margins in FY ending March 2018 **20%**

Medium-Term Business Goal Progress Analysis 1: Cumulative Operating Income

In terms of our cumulative target for operating income, subtracting the four fiscal years up to March 31, 2017, we are aiming for operating income of 23.5 billion yen in the fiscal year ending March 31, 2018. To achieve this ambitious target, we must achieve growth at Capcom and expand the Asian business, including collaborations with Tencent Holdings.

Accordingly, with respect to Capcom titles next fiscal year (ending March 31, 2018), we have plans to release a larger lineup than we did this fiscal year (ending March 31, 2017), while at the same time increasing the download sales ratio to acquire additional profit. Our full-fledged efforts in the Asian business began last fiscal year, with *Monster Hunter Online (MHO)* currently in the market. Monthly sales numbers are on track as we are just seeing the beginning of contributions to Capcom earnings. In addition to ensuring *MHO* is a thorough success, we will also release other titles and develop areas in Asia other than China. [Please refer to "Growth Strategy 2: Overhaul the Online Business" on page 39.](#)

Now, I will provide an explanation of each business segment. As the segment numbers back calculated from the fiscal year ending March 31, 2018 indicate, we are within range of being able to achieve targets in the Digital Contents and Amusement Equipments businesses. On the other hand, Arcade Operations and Other Businesses present more of a challenge. If numbers for the fiscal year ending March 31, 2018, were replaced with numbers from this fiscal year's plans, these two segments would fall short of targets by 6.6 billion yen.

Thus, we will achieve a minimum of 10% growth in Capcom businesses, and the remainder, including the shortfalls, will be supplemented by Asian business growth, which was not included in projections at the beginning of the fiscal year.

Operating Income by Business Segment (Billions of yen)

	3/'14	3/'15	3/'16	3/'17	3/'18	3/'17-3/'18	3/'18
	Actual	Actual	Actual	Plan	Remaining	Difference	Cumulative Target
Digital Contents	4.5	10.2	12.2	14.3	15.8		57.0
Arcade Operations	1.6	0.9	0.7	0.8	4.5	(3.7)	8.5
Amusement Equipments	7.1	2.7	2.8	3.0	4.4		20.0
Other Businesses	1.0	0.7	0.5	0.2	3.1	(2.9)	5.5
Adjustment	(3.9)	(4.0)	(4.2)	(4.7)	(4.2)		(21.0)
Operating Income Totals	10.3	10.6	12.0	13.6	23.5		70.0

Note: Figures for 18/3 are the remainders after actual results from 14/3 through 16/3 and the forecasted results for 17/3 have been deducted from the cumulative targets.

Medium-Term Business Goal Progress Analysis 2: Operating Margins

As indicated in the diagram, operating margins have improved to 16%. As for the other four percentage points, we will achieve steady improvements on a point-by-point basis in Capcom businesses, and along with Asia business results, we are aiming for margins of 20%. Even if, for example, Asian licensing were excluded, I think we can still achieve this in an additional one to two years.

Now, I will cover business segments, which are displayed on the diagram showing a five year period.

First, with respect to Arcade Operations and Other Businesses, we expect it will be difficult to achieve medium-term business goals. In addition to market sluggishness caused by the consumption tax hike and other reasons, we did not factor in the construction of our new development building when the medium-term management plan goals were being formulated. In the Amusement Equipments business, profit margins have been on the decline since rules affecting pachislo model certification methods were changed in September 2014. That being said, next fiscal year thorough cost management should enable us to improve margins.

At the same time, we are generally on track to achieve Digital Contents business targets. This is due to (1) outsourced title profitability improvements, (2) streamlining internal title production and (3) increases in the DLC sales ratio in the Consumer business, which supplements the struggling Mobile and PC Online businesses.

To achieve consolidated operating margins of 20%, we need to make up for businesses falling short of targets. We will cover these with Digital Contents business earnings. Profit margins in the Mobile and PC Online business are currently near zero, but these are businesses with the potential to achieve 30% margins. Furthermore, if we expand the high-margin Asian licensing business, we will be able to achieve Digital Contents business operating margins of 30%.

Operating Margin by Business Segment (%)

	3/'14	3/'15	3/'16	3/'17	3/'18
	Actual	Actual	Actual	Plan	Target
Digital Contents	6.8	22.5	23.1	24.2	22.0
Arcade Operations	15.2	10.2	7.7	8.9	15.0
Amusement Equipments	30.8	36.3	21.1	20.0	27.0
Other Businesses	38.6	30.8	25.0	10.0	45.0
Operating Income Totals	10.1	16.5	15.6	16.0	20.0

Performance

Third Straight Year of Operating Income Gains Mark the Beginning of Sustainable Growth

1. Current Market Trends

Although it is a short-term trend, the game market in 2015 was worth 85.8 billion dollars (up 24.7% from the previous fiscal year). This substantial growth was due to rapid expansion of the mobile market, mainly in developing countries. We expect continued growth in 2016 and forecast 94.2 billion dollars (up 9.8% from the previous fiscal year). As in 2015, the mobile market will continue to expand, driven mainly by casual users. However, although the core user segment comprising the PC online and consumer markets is diverging, we expect it to plateau at 2014 levels.

2. Performance in the Fiscal Year Ended March 31, 2016

Given these conditions, in the year ended March 31, 2016, operating income grew for the third straight year, with net sales of 77.021 billion yen (up 19.8% from the previous fiscal year), operating income of 12.029 billion yen (up 13.7% from the previous fiscal year) and net income attributable to owners of the parent of 7.745 billion yen (up 17.1% from the previous fiscal year). [\[Diagram 3,4,5\]](#)

Reasons for the increases in sales and profit include (1) sales of the extremely popular *Monster Hunter X (Cross)*, the latest title in this series, which surpassed three million units, (2) strong sales of *Resident Evil 0 HD Remaster* and HD versions of other past hits and (3) the growth of catalog sales via download. With regard to the three consecutive years of operating income growth, the decision to implement reforms changing

core Consumer Online business systems over the past three years has significantly improved profitability and is also proving effective in terms of mitigating earnings volatility over the medium-term.

[Please refer to page 21 of the Integrated Report 2015.](#)

Regarding the [four issues raised at the beginning of the fiscal year](#), to begin with, two core titles sold 4.7 million units, exceeding initial projections of 4.5 million units. Compared to initial projections of nine billion yen for digital download sales, results were 10.9 billion yen. Moreover, downloads of *Monster Hunter Explore* exceeded three million. However, some pachislo machines in the Amusement Equipments business struggled, falling short of the three billion yen operating income forecast at 2.8 billion yen.

1	Achieve the combined total sales projection of 4.5 million units for <i>Monster Hunter X (Cross)</i> and <i>Street Fighter V</i>	○
2	Achieve projections for the next fiscal year in digital download sales (sales of 9 billion yen)	○
3	Make <i>Monster Hunter Explore</i> a hit	○
4	Achieve next fiscal year projections (operating income of 3 billion yen) with sales of pachislo machines compliant with revised pachislo model certification methods	×

3. Forecast for the Fiscal Year Ending March 31, 2017

Next fiscal year (ending March 31, 2017), we expect operating income to increase for the fourth year in a row, with net sales of 85 billion (up 10.4% from the previous fiscal year), operating income of 13.6 billion yen (up 13.1% from the previous fiscal year) and net

Diagram 3 Net Sales (Millions of yen)

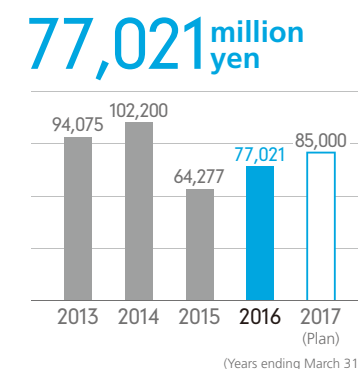


Diagram 4 Operating Income (Millions of yen)

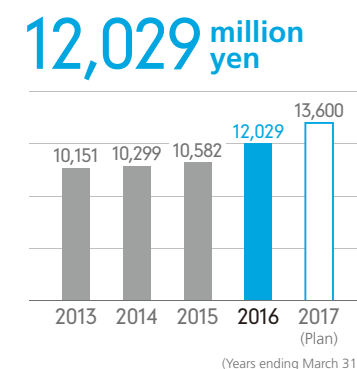
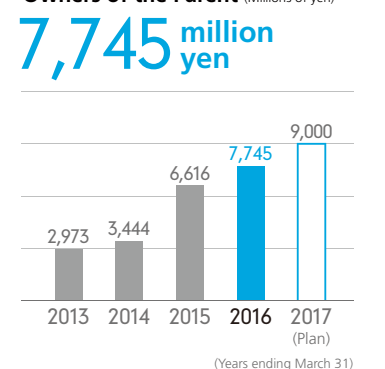


Diagram 5 Net Income Attributable to Owners of the Parent (Millions of yen)



income attributable to owners of the parent of nine billion yen (up 16.2% from the previous fiscal year). There are two main reasons for this forecast. First, in the Digital Contents business, three major titles will be released mainly targeting the Consumer sub-segment. Along with Mobile and PC Online recovery, we are projecting net sales of 59 billion yen (up 12.2% from the previous year) and operating income of 14.3 billion yen (up 17.5% from the previous year). Second, in the

Amusement Equipments business, we will expand our title lineup with the release of four pachislo machines targeted to sell 55,000 units (up 13,000 units from the previous fiscal year). We are projecting net sales of 15 billion yen (up 12.4% from the previous year).

I believe results are the only way to earn the trust of investors and enable Capcom to grow sustainably and enhance corporate value. I will make every effort to achieve fiscal year objectives.

CSR (Corporate Social Responsibility)

Addressing Social Issues as a Game Company Aiming to Create Shared Value

1. Basic Approach to CSR

I believe that, in addition to traditional corporate social responsibility (CSR) that prevents and mitigates the negative impacts of business activities on society, promoting the creation of shared value (CSV) to resolve social issues through business activities will result in enhanced corporate value.

How do games, which are not a daily necessity, provide society with value? The clue to answering this question dates back 50 years. At that time, I was running a candy store. One day, as I was looking at children lined up at the cotton candy machine in front of the store, I realized that what the kids were so fascinated with was not the cotton candy but the playful way it was made. I became convinced that, as the economy grew, stress would accumulate along with material wealth. Adults also need an outlet for play (games).

Later, driven by the popularity of Space Invaders, games would go on to become a nine trillion yen industry. In recent years, games have become eSports, enjoyed just like traditional sports, enabling the creation of social value as one means by which people around the world have come to relieve stress.

2. Commitment to Regional Communities

The promotion of our Single Content Multiple Usage strategy provides society with a wide range of benefits. Specifically, these include the use of popular Capcom IPs as local creation activities to support (1) economic development, (2) cultural development, (3) awareness for improved public safety and (4) awareness of elections. For example, (1) involves working with local municipalities to support the revitalization of towns. Holding events that make use of popular IPs or offering real-life experiences of game worlds appeals to young people and families which has a major economic impact in supporting local tourism. Further, regarding

(2)(3)(4), the common issue is attracting and approaching young people, to which we have proactively made proposals to museums, police departments and election committees and produced quantifiable results. At the same time, these four activities deliver value to Capcom in the form of (1) improved existing user (fan) satisfaction through event participation and (2) enhanced favorable impression of games among middle-aged and seniors. With respect to (2) in particular, this segment cannot be considered current users, thus the contribution of popular Capcom contents to local communities enables the cultivation of new game users through smartphones and other familiar means.

Furthermore, in the realm of educational support activities, Capcom is unique in carrying out career education as well as game literacy education, which raises awareness regarding the proper way to interact with video games. These efforts are aimed at supporting the healthy development of young people and easing the concerns society has about the influence of video games.

3. Commitment to Employees

As can be seen from the fact that labor costs account for approximately 80% of development costs, the game industry is a labor-intensive industry and an extraordinarily intellectually-intensive industry, thus human resources are an especially important management resource.

I am aware that diversity is critical for creating content popular throughout the world. For this reason, Capcom promotes the retention and development of global human resources, including support for employees raising children by offering childcare leave and shortened working hours, as well as the promotion of female employees to management positions.

Furthermore, as the development of human resources is directly linked to strengthening our development capabilities, Capcom implements a

development program that enables employees in all positions to acquire professional skills and augment their practical experience in game production. In addition, we constructed a new R&D building that contains the world's most advanced development equipment and technologies, creating a development environment that maximizes developer motivation. Regarding remuneration, in addition to regular bonuses, Capcom has introduced a system offering incentives and assignment allowances for each title in an attempt to further increase motivation.

In my view, the most critical aspect of human resource development is providing an environment that enables employees to take on new challenges.

Managers typically tell their employees to do this, but I think that if employees are being urged to, they must be provided with a proper safety net. Without a safety net in place, no one will jump onto the flying trapeze, even if they are pushed. The manager's role is to push employees to take on one new challenge after another, identify obstacles and come up with solutions. This enables employees to take on challenges without fear of failure, leading to a virtuous cycle that creates business opportunities. The management visualization initiatives in which I am engaged (see the next section) play a role in providing employees with a space in which they are free to grow and be active.

Corporate Governance

Emphasizing Objectivity to Create Systems Ensuring Capcom's Long-Term Survival

Capcom is promoting growth strategies aimed at continuously improving corporate value, and in particular, economic value.

At the same time, the more we accelerate our execution of growth strategies, the higher the risks become. Governance is useful for avoiding and minimizing these risks.

As risks can be broadly categorized into earnings volatility risks and management decision risks, I will now explain how governance can be used to control management decision risks.

Measure 1: Management Visualization Centered on Numbers

In line with changes in company scale and business characteristics, I think it is important that management also be able to flexibly change its management style.

For example, when a company is small, management is like the pilot of a propeller aircraft engaging in visual flight. They are always present and make decisions based on confirming conditions with their own eyes. On the other hand, when a company is large, management is more like the pilot of a jumbo jet. In this case, it is too risky to make decisions based solely on visual flight. Accordingly, the pilot switches to instrument flight to control the aircraft. Similarly, corporate managers must rely on numbers to make decisions.

For this reason, I require that materials (documents) used for decision-making are, in principle, quantitatively focused. Specifically, these materials compare and contrast net sales, year-on-year performance and earnings forecasts, which make it easier to identify problems by

enabling us to confirm complex combinations of data. Furthermore, these materials are used by external directors for supervisory purposes and provided to investors as part of our IR activities. This is part of the mechanism I call "management visualization." Management decisions based on visualizing operations enable us to evaluate the Company with two sets of eyes using a system attempting to achieve management transparency.

Even when I talk with developers, numbers are the common language. Using only qualitative words and sentences leaves significant room for arbitrariness on the part of the person in charge. In comparison, numbers enable comparisons from a variety of angles, facilitating decisions based on real conditions.

"Business going well should be left alone. The manager's job is to make changes to ensure businesses facing problems are able to move forward according to plans. Top management exists to make decisions, not constantly hang around the workplace." The risk control efforts I am engaged in at present, involve teaching next-generation members to effectively utilize the management experience I have accumulated as founder of the Company. The systemization of management will enable Capcom to continue functioning steadily into the future.

Measure 2: Institutional Design Focused on External Directors

For the past 17 years, Capcom has executed a variety of governance reforms. [Please refer to page 67](#)

Since introducing the external director system in the fiscal year ended March 31, 2002, external directors have increased to account for 50% of the Board of Directors as

of June 2016.^[Diagram 6] The reason for this is based in part on investor concerns that "as a founder-owned Company, Capcom can quickly make management decisions and respond to changes in the business environment, but isn't there a risk of arbitrary decisions and execution?"

External director appointment criteria has not changed since the system was introduced, but in short, we appoint directors who are specialists and command the highest level of 'insight' into their respective areas, and are able to objectively make decisions regarding Capcom's management and business activities.

With the avoidance of business investment risk as a priority issue, Capcom appoints individuals from Japan's leadership class (in terms of business crisis management, law and government) who are able to provide sound opinions without making allowances for industry conditions, who are not intimidated by the company founder and who are able to determine validity from the general public's point of view.

Furthermore, in June 2016 Capcom transitioned from a company with a board of corporate auditors to a company with an audit and supervisory committee.^[Diagram 7] To maintain stable corporate management, we must further strengthen our management base and ability to thoroughly manage risks. This transition

strengthens the Board of Directors supervisory function and is intended to enable the flexible diffusion of management and deepen understanding among overseas institutional investors through quick decision-making.

➔ Please refer to "Governance Reforms for Further Growth" on page 67.

The biggest reason for this change to institutional design is "monitoring validity." A conventional company with a board of corporate auditors emphasizes "monitoring legality" to avoid legal risks. However, I have always believed the utilization of governance to increase economic value requires a business execution validity monitoring function. In recognition of the importance of this function, Capcom established the Audit Committee in the fiscal year ended March 31, 2012.

Changing to a company with an audit and supervisory committee enables external directors to confirm the validity of quantitative data in Board of Director meeting materials as well as information gathered from the directly subordinate Internal Auditing Division.

As a result, this facilitates more rational decisions that make growth strategies more robust and contribute to the enhancement of both economic value and corporate value. For additional details, please refer to the Governance section in this report.

The reason I think stable dividends are important is, for example, because a sudden decrease or cessation of dividends can be the difference between life and death for pensioners who depend on dividends to cover part of their lifestyle expenses. Regular and stable revenue enables the reliable establishment of future lifestyle plans. This belief is based on my background, on having lost my father when I was young, and even though I opened a retail business, I struggled and felt gratitude for the stable revenue I earned each day.

Capcom shareholders represent all types of people, and I assume some of them may be facing these kinds of issues, which is why we have never once failed to provide dividends during the 26 years since we went public in 1990.^[Diagram 8]

In terms of our shareholder return policy, (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 (aiming for a payout ratio around 30%) and (3) we will raise earnings per share through share buybacks.

I believe that the manager's corporate social responsibility is to build relationships of co-existence and co-prosperity with stakeholders by offering employment, achieving corporate growth, earning profits, paying taxes and providing dividends. Accordingly, over the past 10 years Capcom dividends have doubled. We place importance on the effective use of shareholders' equity, and have established a target to increase ROE from an average of 6.7% during the past three years to 8-10%. ➔ Please refer to page 32

2. Dividends for This Fiscal Year and the Next
In the fiscal year ended March 31, 2016, major titles and catalog sales in the Consumer business contributed to growth in sales and profit. Accordingly, in line with our basic policy, we maintained the full-year dividend at 40 yen per share, a payout ratio of 29.0%, in the fiscal year ended March 31, 2016.

In the fiscal year ending March 31, 2017, we plan on paying a full-year dividend of 40 yen per share, a payout ratio of 25.0%. As this dividend payout ratio is under 30%, it will be necessary to consider an increase in the dividend in the event next fiscal year's consolidated performance forecasts are achieved.

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.

As a senior manager with 50 years of experience in this industry, my goal is to increase market capitalization and achieve corporate growth exceeding that of the past 33 years to continue meeting the expectations of all Capcom shareholders.

July 2016


Kenzo Tsujimoto
Chairman and Chief Executive Officer (CEO)

Shareholder Return

The Conviction to Maintain Dividends for 26 Years Since Going Public

1. Basic Policy Regarding Dividends

I believe 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.

Diagram 6 Ratio of External Directors (%)

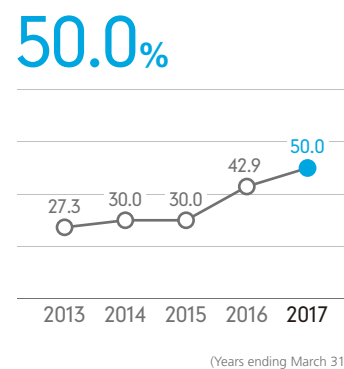


Diagram 7 Transition into a company with an audit and supervisory committee

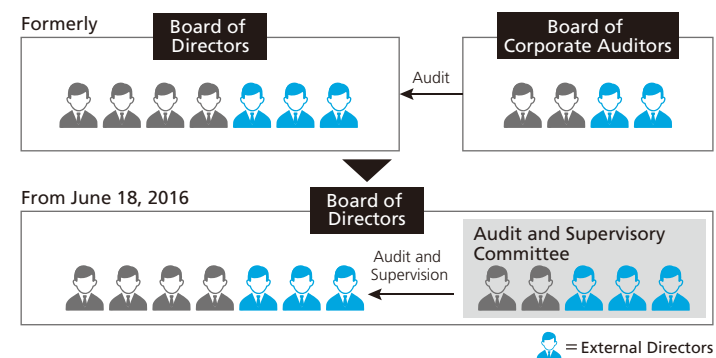
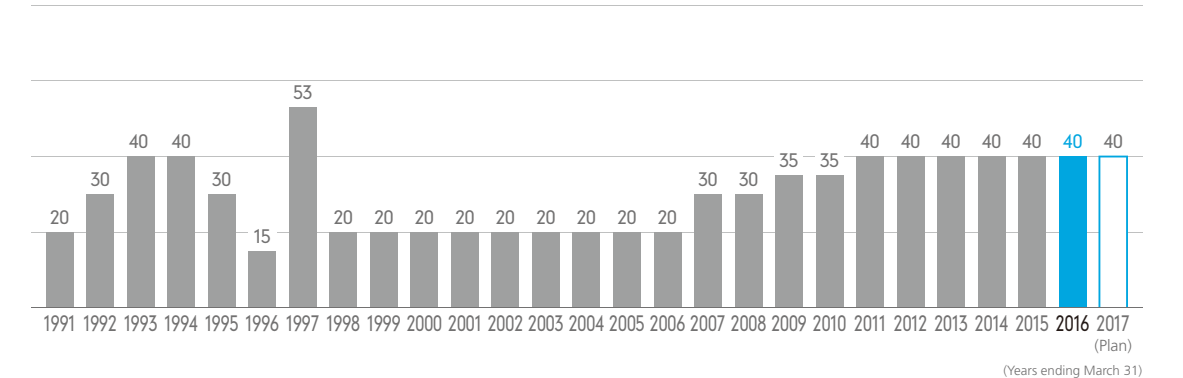


Diagram 8 Dividends Per Share Since Public Listing (yen)





Building a Stable Financial Foundation to Conduct Efficient Development Investments

Newly Appointed CFO

I was appointed Chief Financial Officer (CFO) by consensus at the Board of Directors meeting held in June 2016.

Up to now, I have been engaged in two initiatives: improving net cash and increasing capital efficiency. These initiatives are aimed at creating a lean financial foundation and securing funding to invest in growth. Currently, Capcom is executing growth strategies aimed at increasing corporate value over the medium- to long-term while increasing investment in R&D to enhance the development environment in the core Digital Contents business and promote enhancements to our title lineup. I will more closely scrutinize the selection and concentration of invested capital and thoroughly review cost of sales, selling, general and administrative expenses and other costs to improve our earnings structure and support the achievement of growth strategies from a funding perspective.

Kenkichi Nomura

Director, Executive Corporate Officer and Chief Financial Officer (CFO)

Increasing Capital Efficiency

Capcom established the following ROE targets as an index of capital efficiency.

Moving average for three fiscal years ended March 2015	6.7%
Moving average for three fiscal years ending March 2017	8-10%

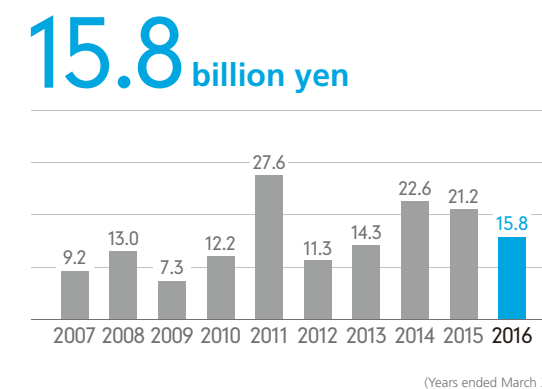
We are on track at present, having averaged 10.2% in the past two fiscal years. To achieve our objectives, we are placing priority on net margin improvement. Based on our growth strategy, we aim to further improve title lineup expansion in each business. Regarding TAT and financial leverage, we are cognizant that these are issues we need to address going forward. To this end, we will raise funds mainly through debt financing within the commitment line.

ROE components	3/'13	3/'14	3/'15	3/'16
Net margin (%)	3.2	3.4	10.3	10.1
TAT (%)	90.1	105.8	63.8	68.1
Financial leverage (times)	1.66	1.51	1.41	1.50

Securing Net Cash and Risk Management

For Capcom to efficiently generate net cash, 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 while ascertaining and analyzing the investment profitability of each project. The second strategy is to maximize working capital efficiency. To this end, we are creating a framework to manage our investment turnover period and turnover ratio in a more visible manner. Moreover, net cash in the fiscal year under review was 15.8 billion yen, which decreased for the second year in a row. This was due

Diagram 9 Net Cash on a Historical Basis (Billions of yen)



to enhancing development investment in line with lineup expansion, thus we expect a recovery from next fiscal year and an increase in net cash. [\[Diagram 9\]](#)

Fund Procurement

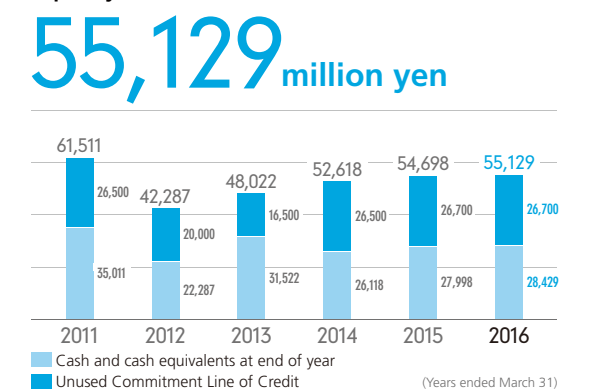
Consumer game software development expenses have been on the rise following the arrival of high performance and multifunctional current game consoles. In addition to requiring a development period of two or more years for a major title and add-on contents, the investment payback period is lengthening. 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.

To address these funding procurement issues, we determine the level of cash and cash equivalents that needs to be maintained in consideration of reserves from the investment plan and risk management. This amount will then be supplemented with cash on hand (28,429 million yen) as well as an unused 26.7 billion yen commitment line of credit (total contract value: 26.7 billion yen) to maintain an appropriate range. [\[Diagram 10\]](#)

Investment Strategy

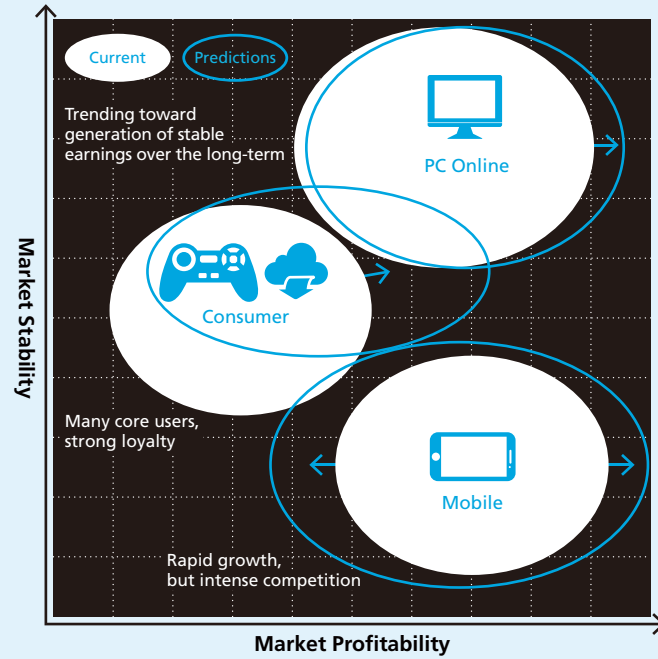
To achieve stable medium- to long-term growth, we recognize that it is critical to secure a sufficient amount of investment for the Digital Contents business, the source for our original IP. Specifically, in addition to an enhanced title lineup and new technologies including VR, we must invest in hiring more developers and preparing our development environment. Accordingly, we will allocate about 80% of management resources (R&D investment and capital expenditure totaling 34.5 billion yen in the fiscal year ending March 31, 2017), amounting to an investment of 27.5 billion yen in the Digital Contents business.

Diagram 10 Liquidity in Hand (Millions of yen)



Game Industry Characteristics

Diagram 11 Characteristics of Each Market



Source: Created by Capcom based on data from the International Development Group

Consumer Market Characteristics (Package + Digital Download Contents)

Package and digital download contents are a 21.7 billion dollar market, forecast to remain nearly flat with growth to 22.1 billion dollars in 2018. The customer segment is composed mainly of core users who are highly loyal to game titles. They have a relatively high willingness to purchase sequels and a low sensitivity to price and economic conditions. This market is the lowest among the three in terms of margin, yet occupies a high position in the Japanese industry overall. Hereafter, we expect the digital sales ratio to increase, shrinking the gap between the other two markets' margins. [Please refer to page 46](#)

Mobile Market Characteristics

This is a 39 billion dollar market, forecast to grow to 53.3 billion dollars in 2018. The customer segment is primarily composed of casual users, many of whom play games just to pass the time, thus they demonstrate the lowest loyalty toward game titles. They have a limited willingness to purchase games and have the highest sensitivity to price and economic conditions. Although this is the most profitable among the three markets, only a limited number of titles are able to generate stable earnings over the long term. Going forward, we expect smartphones will continue to grow rapidly as the most pervasive game device. [Please refer to page 47](#)

PC Online Market Characteristics

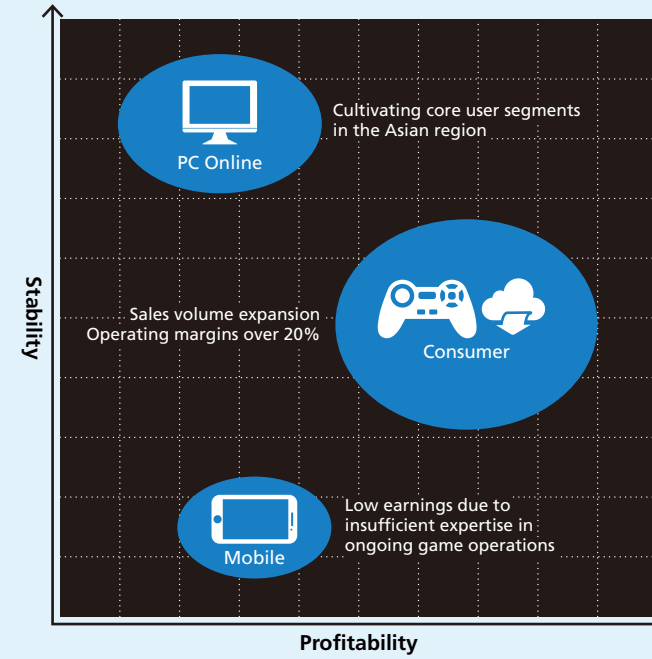
This is a 25.1 billion dollar market, forecast to grow to 27.8 billion dollars in 2018. The customer segment is primarily composed of core users who demonstrate the highest loyalty toward game titles. They have a fairly strong willingness to engage in ongoing purchases, and are unique for having the lowest sensitivity to price and economic conditions. In terms of profitability, PC Online is comparatively high among the three markets, typically generating stable earnings over the long term. Going forward, we do not anticipate any major changes and expect the market to remain stable. [Please refer to page 48](#)

Diagram 12 Five Competitive Factors in Each Business (Five Forces Analysis)

	Consumer (Package + Digital Download Contents)	Mobile Contents	PC Online
Threat of New Entrants	Normal: High capital and differentiated technology requirements	Extremely High: Few capital or differentiated technology requirements	Low: Ongoing capital investment and cutting-edge technologies required
Threat of Substitute Services and Products	Normal: Users somewhat compartmentalized	Low: From standpoint of mobility, low user outflow to other two markets	Normal: Users somewhat compartmentalized
Buyer Power	High: Many transactions with major overseas retailers with strong purchase power	Low: Direct sales to users	Low: Direct sales to users
Supplier Power (Hardware Manufacturers)	Low: Content is flexibly compatible with all platforms	Low: Content is flexibly compatible with all platforms	Low: Content is flexibly compatible with all platforms
Degree of Rivalry	Normal: Appropriate environment at present, expected to soften somewhat in the future	High: Many new entrants, tough environment	Normal: Appropriate environment at present

Capcom Business Characteristics

Diagram 13 Digital Contents Business Portfolio



Note: Calculations based on earnings in the fiscal year ended March 2016

Diagram 14 Net Sales by Business Segments (Millions of yen)

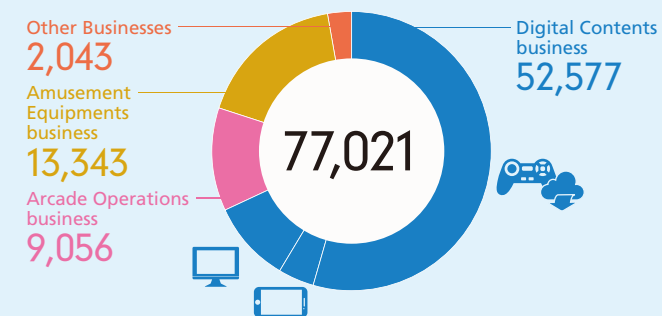
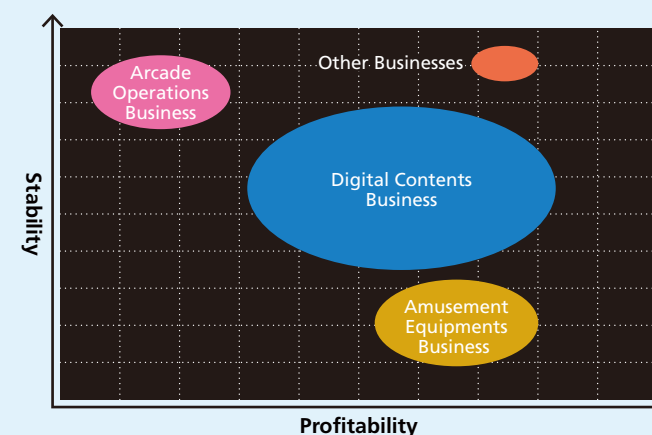


Diagram 15 Total Business Portfolio



Note: Calculations based on earnings in the fiscal year ended March 2016

Digital Contents Business (Proportion of Net Sales: 68%)

Consumer Business (Proportion of Net Sales: 55%) Package + Digital Download Contents

Capcom's core business is to create a multitude of original content for home video game consoles. The regular release of sequels of popular IPs and an increased download sales ratio have, in recent years, led to a greater volume of sales and operating margins over 20%.

Mobile Contents Business (Proportion of Net Sales: 4%)

This business distributes games featuring popular Capcom content on smartphones, cultivating new markets such as the casual user segment to create new earnings opportunities. However, insufficient know-how in ongoing game operations, which differs from Consumer, has resulted in sales underperforming market growth.

PC Online Business (Proportion of Net Sales: 9%)

This business distributes games featuring popular Capcom content to PC online users, cultivating core users in the Asian region to create new earnings opportunities. In particular, there is great business growth potential in entering China, the world's largest market.

[Please refer to page 45](#)

Arcade Operations Business (Proportion of Net Sales: 12%)

By opening facilities in large commercial complexes in Japan, this business has secured a stable stream of customers and maintains operating margins of around 10%. At the same time, sales in this business are low due to our strategy of carefully limiting the number of facilities and the impact of the consumption tax increase. In recent years, we have focused efforts on services for new customers including young children and seniors. [Please refer to page 49](#)

Amusement Equipments Business (Proportion of Net Sales: 17%)

The Pachinko and Pachislo and Arcade Games Sales sub-segments maintain operating margins around 20–30% due to the release of machines featuring popular Capcom content and the culmination of development expertise. However, legal changes and other external factors impacting the gaming machine business may pose a significant risk of postponed sales, so this business experiences substantial earnings volatility. [Please refer to page 51](#)

Other Businesses (Proportion of Net Sales: 3%)

Our character licensing business involves the use of popular Capcom characters for publishing and films in Japan and overseas, providing high profitability and stable margins around 30%. At the same time, licensed products bring in a low return, so the amount of sales in this business is small at this moment. [Please refer to page 53](#)



Haruhiro Tsujimoto
President and Chief Operating Officer (COO)

Aiming for Medium- to Long-Term Growth through Opportunities in the Changing Business Environment

New Sales Strategy Based on Digital Distribution

Games connected to the internet played with multiple people are already commonplace, and in recent years, even more online innovations are taking place in the game industry.

The biggest transformation is the "distribution revolution" spawned by the digital distribution of games. For the past several years, this trend has accelerated substantially, as can clearly be seen in Capcom's operating results. As the ratio of digital download contents sales increases, inventory return ratios improve and operating margins expand. Also, in line with the growth of digital distribution, performance has improved in Asia, where package sales had been virtually impossible until now due to the flood of pirated games.

In terms of game sales strategies going forward, the key to success will be the degree to which we are able to utilize digital distribution. The ability to distribute

games throughout the world without the significant labor and costs involved in overseas sales networks is paving the way for an environment in which we are able to compete with major overseas game companies on an equal footing.

Furthermore, support for multiple languages is another critical point. At present, games can be purchased online almost anywhere. There are many developing markets that can suddenly transform into promising opportunities. In anticipation of such developments, new games released in the fiscal year ended March 31, 2016, were available in 14 different languages.

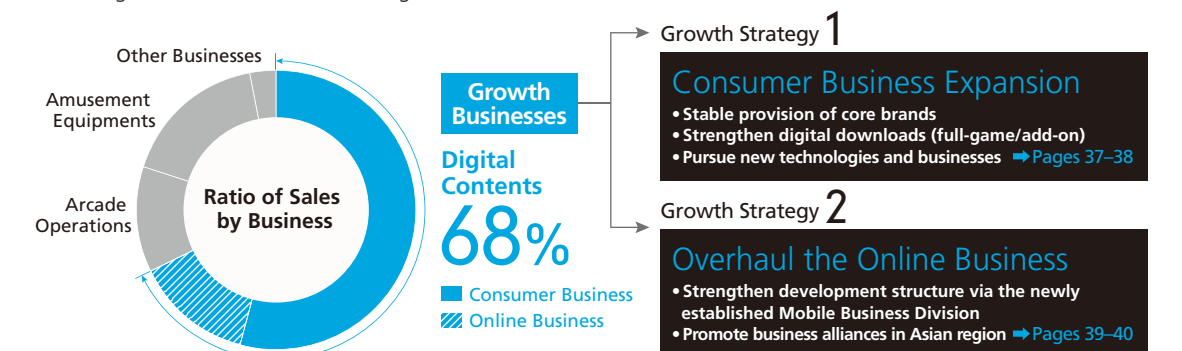
➔ Please refer to page 3 of The Latest Development Report.

In light of these new trends, Capcom will strengthen digital download contents in the Consumer business and implement measures to set the Online business on a growth trajectory.

Investing 80% of Management Resources in the Digital Contents Business

The Digital Contents business is our core business, accounts for 68% of net sales and generates original content, which is the source of our corporate value. We are allocating approximately 80% of management resources in this business, which I believe is the key to achieving our medium-term business goals. For the

Digital Contents business to grow, in addition to further expansion of the Consumer business, we must overhaul the struggling Online business and establish a growth trajectory. On the following pages, I will explain our strategies for achieving these goals.



Growth Strategy 1

Consumer Business Expansion

Establishing a High Earnings Structure and Stable Portfolio

One important strategy for Capcom to achieve ongoing and stable growth in the Consumer business—referred to as the hit business—is transforming the foundation of our Consumer business model from a traditional one-time sale “transactional model” to a continuous “recurring revenue model.” [Diagram 16] Going forward, the consumer market will continue to maintain a scale of 22 billion dollars as the number of game makers’ declines due to high barriers to entry. Companies that possess an abundance of popular IPs and strong technological capabilities will easily win the market and enjoy profits in this environment. For Capcom, the Consumer business is the source of our corporate value. We will implement the following three measures, each positioned as one of the most important strategies for growth over the medium- to long-term.

Measure 1 Stable Provision of Core Brands

Capcom’s biggest strength is the in-house creation of powerful brands and ownership of numerous popular IPs. At the same time, unit sales of major titles has fluctuated depending on the fiscal year, thus high earnings volatility was an issue. For this reason, we shortened the sales cycle for titles in each series from three to four years to two and a half years and increased the number of titles released in a single fiscal year. Employing a medium-term strategic (60-month) map, we are forming a title portfolio enabling sustainable growth and establishing a structure

that appropriately allocates employees to teams when needed from 2,000 developers via a 52-week map. These two maps enable the stable release of multiple major titles each fiscal year and control earnings volatility. [Diagram 17] Furthermore, we think the creation of new brands that will become our future primary sources of earnings is indispensable for medium- to long-term growth. Thus, we are allocating approximately 20% of development investments toward new IP development.

Measure 2 Strengthen Digital Downloads (Full-Game/Add-On)

The merits of digital downloads include (1) avoiding inventory risk and reducing package production costs through full-game downloads, (2) additional earnings opportunities through full-game downloads of catalog titles whose package sales are difficult for retailers and (3) anchor users through ongoing add-on contents and stable acquisition of additional revenue over the long term. These represent one measure to counter concerns over intense sales volatility due to dependence on hit titles in the Consumer business and skyrocketing development costs. In addition to the stable provision of core brands, the accumulation of steady digital download

sales each fiscal year will further the transition to a recurring revenue business model. [Diagram 18] At present, we are focused on points (1) and (2), but going forward, we will strengthen point (3) to increase the digital download ratio, which is currently 26%, to 50% over the medium-term. This will bolster additional recurring revenue by anchoring users for more than one year after launch, and as these games will have a large number of active users, it will also lead to the acquisition of new users, effectively controlling sales volatility each fiscal year.

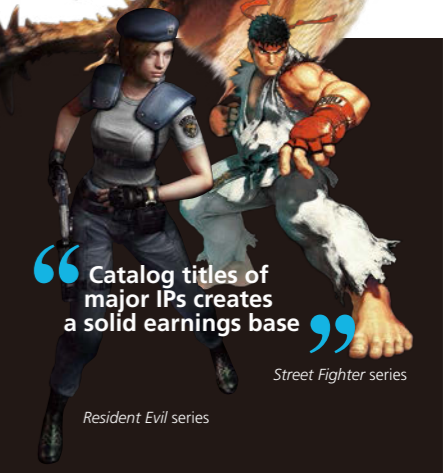
Measure 3 Pursue New Technologies and Businesses

In the game industry, once neglected, it is difficult to pursue research on cutting-edge technologies. Constant technological research in new areas and continued exploration of gaming possibilities are the stepping stones for establishing a groundbreaking position in the next-generation. In 2016, new devices including PlayStation VR and Oculus Rift appeared on the market and brought with them huge expectations in what has been called “VR year one.” Capcom’s specialty in the action and horror genres is extremely compatible with VR and by offering

new experiences with VR, our games will be even more appealing. This fiscal year, we are proactively approaching this development with *RESIDENT EVIL 7 biohazard*, which offers full Playstation VR support. We are also focusing efforts on eSports as a new genre. With the *Street Fighter* series in particular, we had held events mainly in North America, which were well attended. However, going forward we plan to develop activities in other regions. With these new business challenges, we will attempt to maximize earnings through the active use of content and enhanced brand value.



Monster Hunter series



“Catalog titles of major IPs creates a solid earnings base”

Street Fighter series

Resident Evil series

The penetration of digital download sales is driving the sales ratio of our recurring revenue model higher each year and generating continuous profits, unlike the transactional model.

Diagram 16

Catalog Sales Volume and Ratio Increases

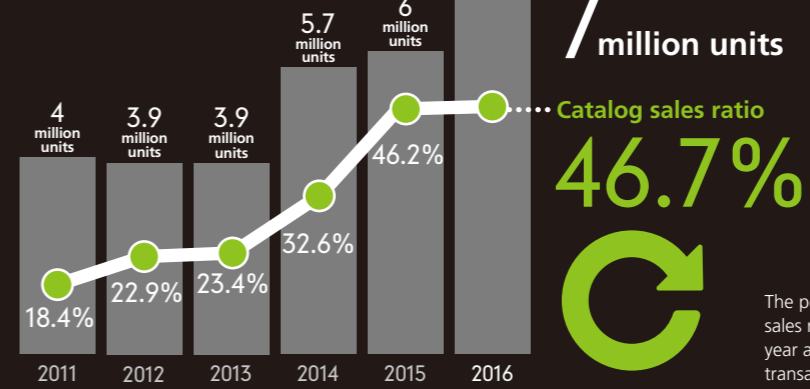


Diagram 17

60-Month Sales Plan and 52-Week Human Resources Plan

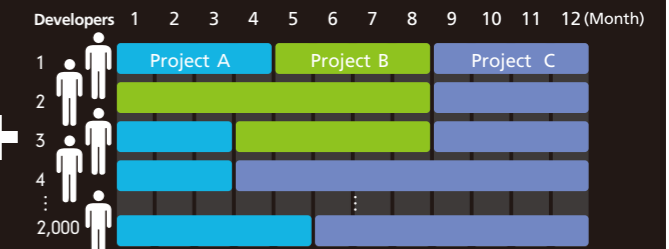
60-month map

“Objective Stabilize annual earnings”



52-week map

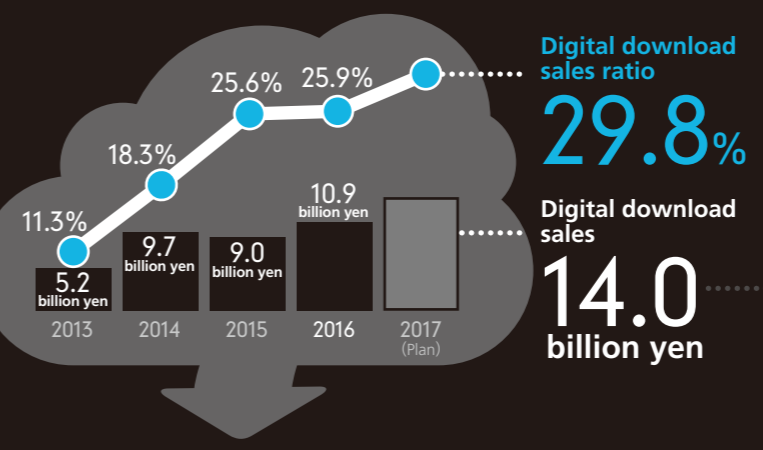
“Objective Effective utilization of R&D resources”



To achieve stable earnings growth, it is important to steadily provide numerous popular titles and shorten development periods.

Diagram 18

Digital Download Sales Volume and Ratio Increases



Digital download sales of mainly full games (new and past titles) are growing on track and expected to comprise approximately 30% of the digital download sales ratio in the fiscal year ending March 2017. Going forward, we will strengthen additional digital download content and raise the digital download ratio to 50% overall.

- NEW Full game digital downloads**
Download new full games
- Catalog digital download titles**
Download catalog title full games
- Additional digital downloads**
Download additional stories, stages, items, etc.

Growth Strategy 2

Overhaul the Online Business

Supporting Capcom's Sustainable Growth Differently than the Consumer Business

Capcom has yet to make full use of its competitive advantage in the rapidly expanding online market (PC Online and Mobile Contents), namely, its rich library of popular IPs. In particular, the Mobile Contents business struggled in the fiscal year ended March 31, 2016 with net sales of only 3.3 billion yen. However, as success in the high-growth potential Online business is indispensable for corporate growth over the medium- to long-term, we are focused on this area as one of the most important issues for Capcom. Online games are a management business, providing a stable source of profit supporting Capcom's sustainable growth in a way different from that of the Consumer business. Furthermore, these businesses enable the creation of synergies with content (IP) created in the Consumer business, playing a significant part in enhancing brand value. To alleviate investor concerns, we will implement the following two measures.

Measure 1 Strengthen Development Structure via the Newly Established Mobile Business Division

The conditions necessary for success in the Mobile business include (1) ownership of popular content that can be differentiated amidst numerous competing titles and (2) management expertise in analyzing user trends and the incorporation of those trends into development.

Until now, we developed the Capcom brand, which utilized popular Capcom content in Japan, and the Beeline brand, which licensed content from other companies for global use in games targeting women and families. Under the Capcom brand, although we unified our domestic development structure and achieved a hit with *Monster Hunter Explore*, other existing titles struggled, adversely affecting sales for the past few years. Under the Beeline brand, we have been unable to generate ongoing hit titles since 2010 and sales have continued to decline. In April 2016, both structures were

integrated to establish the Mobile Business Division in order to focus on global development of Capcom IP. Next fiscal year, we will combine our library of popular content with our management expertise to release new titles in the *Sengoku BASARA*, *Mega Man* and *Monster Hunter* series and promote a structure for the ongoing release of titles. In addition, we will attempt to expand profits in Asia via licensing hit titles from Japan and overseas in the Asian region, while at the same time moving forward with M&A, targeting development companies as part of management line integration.^[Diagram 19]

Through these measures, we first aim to acquire a 5% share in the domestic market over the medium term, then will attempt to maximize profit opportunities overseas by leveraging market analysis capabilities and management expertise cultivated in foreign markets under the Beeline brand.

Measure 2 Promote Business Alliances in the Asian Region

We believe the licensing of existing Online content in Asia has the potential to significantly accelerate Capcom growth.^[Diagram 20] There are two ways to proceed in Asia: (1) engage in Capcom development and management through subsidiaries in the Asian region and (2) engage in development and management through business alliances with major Asian management companies. At present, we are focusing efforts on the latter.

In terms of an example of full-fledged development in Asia, we can point to *Monster Hunter Online (MHO)*, launched in collaboration with Tencent Holdings in China in December 2015. The game was well-received by users after distribution, giving us a solid footing in terms of content development in China.

The reason we are promoting business alliances in addition to internal development is to avoid country risk in Asia and gain management expertise. Thus, we have determined that at this time, alliances with leading companies in countries other than Taiwan are an effective means of maximizing earnings. Developing hit content from the Consumer business under our Single Content Multiple Usage strategy, making use of this content in the domestic PC Online business and licensing the content in Asia is a business model enabling Capcom to earn double or triple profits from the same content. In addition, we can also apply Online business management expertise to the Consumer business; thus promoting these strategies will enhance synergies with the Digital Contents business.

Diagram 19
New Mobile Game Strategy

Before Development Resources Split

Capcom Brand	Beeline Brand
Develop apps using proprietary IP	Develop apps using IP from other companies
Mainly in Japan	Global
Capcom fans	Casual female users

After Development Resources Concentrated

Capcom Brand

Develop apps using **proprietary IP**

Global expansion focused in Asia

Broad segment including all genders or ages

By integrating the Capcom and Beeline Brand organizations, which until now had promoted independent strategies, development and management expertise has been concentrated in the Mobile Business Division. Quick decision-making enables global expansion of titles utilizing proprietary content.

“ Strengthen the licensing business in the Asian region with planned distribution of four titles using popular brands including *Monster Hunter*, *Sengoku BASARA* and *Mega Man* ”

Diagram 20
Alliances and Titles in the Asian Region

Title	Region	Alliances
<i>Monster Hunter Hunting Quest</i> (Simplified Chinese version)	China	Qihoo 360 Technology Co., Ltd.
<i>Street Fighter Battle Combination</i>	China, South Korea, Taiwan, Hong Kong	Teeplay Interactive Ltd.
<i>Street Fighter IV Arena</i>	South Korea	Nexon Korea Corporation
<i>Monster Hunter Online</i>	China	Tencent Holdings Ltd.
<i>Onimusha Soul</i> (Simplified Chinese version)	China	Cayenne Entertainment Technology Co., Ltd. (Taiwan), BLUE PANDA Network Technology Co., Ltd. (China)
<i>Monster Hunter Mezeoporuta Kaitakuki</i> (Simplified Chinese version)	China	Tencent Holdings Ltd.

“ Reinforce business alliances with powerful local companies ”

In the PC Online business, we are engaged in negotiations in China, the world's largest online game market, as well as in South Korea and Thailand. Similarly, in terms of Mobile Content, we are enhancing development making use of leading titles in the Asian market where the adoption of smartphones continues at a brisk pace.

Conversation

Focusing on Growth: Adapting to the Operational Model and Maximizing Utilization of Proprietary Content

Haruhiro Tsujimoto

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

Jay Defibaugh

Senior Analyst, Research Division
CLSA Securities Japan Co., Ltd.

Analyst Jay Defibaugh and President and COO Haruhiro Tsujimoto discuss how Capcom will promote its growth strategy amid a major revolution in the Consumer game market driven by the expansion of digital distribution.

Jay: The digital distribution of games has solved a number of distribution issues overall, and Capcom has been able to steadily grow its sales in the US, Europe and Asia as well. However, as some of your overseas competitors have already grown their ratio of digital distribution to nearly 40%, I feel that Capcom's ratio is still quite low. How do you plan on improving this going forward?

Tsujimoto: At present, the merits of digital distribution translate only to sales; however, if we utilize the always-online connectivity of consoles, we can offer new and improved ways to enjoy games as a service managed over the long-term, which will stimulate new needs. To this end, we plan to coordinate with first party developers, who maintain the user data.

Jay: In terms of improved profitability from digital sales, you are able to create sales opportunities in Southeast Asia and other regions where until now package sales had been impossible. At the same time, post-sales

management and marketing capabilities will become more critical. Does Capcom possess this operational expertise?

Tsujimoto: Although there is still room for improvement in this area, we will utilize our experience in the Online and Mobile businesses to create a new internal structure geared toward service-oriented management. We will pursue a policy whereby we gradually increase the digital download ratio while researching competitor products and user behaviors.

Jay: Investors consider Capcom to be a "company able to create powerful content," but my sense is that you haven't put out much successful new content recently despite the ongoing release of new high-performance game consoles. Going forward, will you be able to continuously release quality IP? Also, some overseas competitors have shortened the time required to develop sequels using a two-team system. What kinds of initiatives is Capcom engaged in?

Tsujimoto: The creation of new IP is the cornerstone of our business, so we must perpetually engage in it. If we are unable to continue generating content qualitatively equal to global AAA titles, Capcom has no future as a company specializing in games. In terms of shortening the time required for development, we are engaged in streamlining from a technical standpoint, including the development of our RE ENGINE and innovations in 3D scanning systems, which will enable us to develop major IP on a two and a half year cycle.

Jay: A lot of Capcom IP is lying dormant, and although

Profile: Jay Defibaugh

Graduated from Penn State University in 1989; began covering the game industry as an analyst in 1999. Joined CLSA Securities in 2013.

“Move toward maximizing usage of IP”

you are skilled at creating IP, I get the impression you are not as skilled in terms of marketing aimed at leveraging IP. The ideal scenario is one in which you make the most of your IP to maximize profits. What are your thoughts?

Tsujimoto: Despite our basic strategy of Single Content Multiple Usage, it's true at present there are some IPs we certainly have not made the most of. Titles that had large fanbases in the past are powerful assets, thus we are beginning to move toward maximizing usage through region-based testing of individual IP and the release of promising IP remakes and reimagined titles.

Jay: The subject of IP usage also applies to Mobile games. Capcom has yet to realize major success in this ever-expanding market.

Tsujimoto: Mobile platform strategy is one of the issues we must address in the Mobile business. Considering future smartphone performance enhancements, I think there is a significant opportunity for us to leverage our strengths. Recently, we switched over to a development structure mainly focused on Capcom IP and integrated our Mobile structure in order to create hit titles.

Jay: Alternatively, wouldn't focusing on the Consumer business, with its strengths in in-house resources, while

collaborating with other companies on licensing for Mobile achieve higher management efficiency?

Tsujimoto: Going forward, regardless of the platform, there is the potential to transition any category of game into the long-term operational model. Thus, the accumulation of data analysis, marketing and other Mobile management expertise will be effective not only in the Mobile business, but also in the Consumer business. If we license out titles, it will be difficult to accumulate in-house expertise. This is why we must continue to invest in comprehensive internal strengths—even in the Mobile business—to achieve success.

After the Conversation

I sensed the COO's confidence in terms of Capcom IPs. I have no doubt about his basic strategy of creating excellent content and maximizing the usage of these assets. Compared to competitors, Capcom has allocated a modest amount of resources to the Mobile business. Given their business structure this is understandable, but the fact is, when looking at the game industry overall, the mobile market is expanding rapidly. In certain situations, being flexible with regard to development and borrowing some of the strengths of other companies would be entirely acceptable from the investors' point of view. I feel this would present Capcom with significant opportunities. (Jay)

Business Activity Achievements

Business Overview

Operating Results for This Fiscal Year

Main Products for This Fiscal Year (Output)



Digital Contents

This business develops and sells package games and digital download content for the Consumer sub-segment. It also develops and manages Mobile Contents and PC Online Games. Consumer games produce creative original content with a focus on action and adventure. Many of these million-seller titles are used for smartphone, tablet device and PC online games distributed worldwide in an attempt to maximize earnings.

Consumer (Package + Digital Download Contents)

- *Monster Hunter X (Cross)* surpassed initial projections to sell 3.3 million units
- *Resident Evil Revelations 2* was released last year and maintained brisk sales at 850,000 units
- *Street Fighter V* sold 1.4 million units mainly overseas, falling short of sales projections

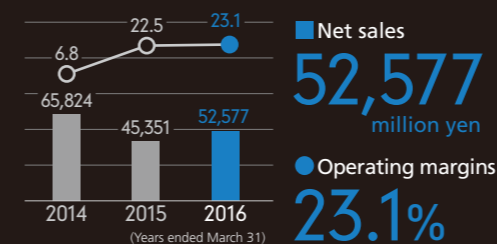
Mobile Contents

- New app *Monster Hunter Explore* achieved more than 3 million downloads
- Existing titles under the Capcom and Beeline brands continued to struggle amid a fiercely competitive environment

PC Online

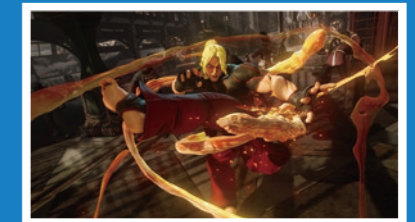
- Online game *Monster Hunter Frontier G* contributed to stability
- Sales of the new online game *Dragon's Dogma Online* were firm
- In China, *Monster Hunter Online* services were official launched

Net sales/Operating margins



Monster Hunter X (Cross)

The addition of new hunting techniques, hunting styles and other elements to the world and gameplay of the original series have proven popular, causing this spinoff title to surpass initial sales projections of 2.5 million units to sell 3.3 million units.



Street Fighter V

The first title in this series to introduce cross-platform gameplay enabling players on PlayStation 4 and PCs to battle one another. Capcom plans to continuously update game content from the next fiscal year forward.

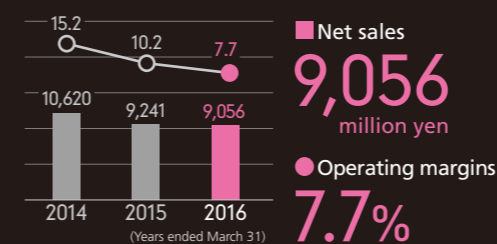


Arcade Operations

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

- We focused efforts on cultivating new customer segments, including free game experience tours for middle-aged and elderly persons, and the establishment of a timed rate structured play area for kids
- Four arcades were opened, three unprofitable arcades were closed
- Sales at existing arcades slumped at 96% of those in the previous year

Net sales/Operating margins



Capcom Café

In November 2015, we opened a themed restaurant enabling patrons to vicariously experience the world of Capcom games inside Aeon LakeTown kaze (Koshigaya, Saitama Prefecture). The restaurant offers food and beverages based on Capcom intellectual properties such as *Monster Hunter* and *Resident Evil* as well as the sale of limited-edition merchandise.

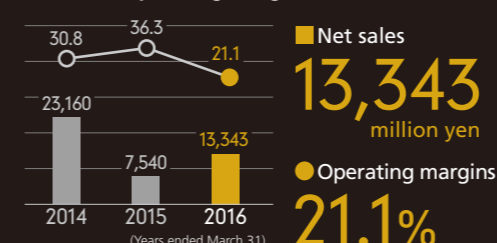


Amusement Equipments

Here, we are engaged in two businesses based on the contents used for our home video games. The Pachinko & Pachislo (PS) 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 sells arcade games for amusement facilities, creating synergy between businesses.

- The pachislo machine *Resident Evil 6* sold 37,000 units
- In the Arcade Games Sales sub-segment, new arcade game machine *Luigi Mansion Arcade* and new music game *crossbeats REV* struggled

Net sales/Operating margins



Pachislo Machine Resident Evil 6

This new pachislo machine is part of the *Resident Evil* series, extremely popular in the home video game and pachislo machine markets. It incorporates *Movision*, a movable liquid crystal screen made popular by the *Resident Evil 5* machine, while faithfully recreating the world of *Resident Evil 6*, both of which garnered fan support and led to sales of 37,000 units, surpassing projections.

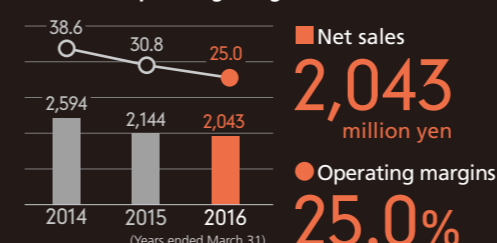


Other Businesses

Based on our Single Content Multiple Usage strategy of developing game content for various media, we 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.

- Maximized earnings and strengthened brand power of proprietary content through execution of lateral development of integrated sales of games based on the Single Content Multiple Usage strategy
- Held events contributing to maximizing sales of major titles *Monster Hunter X (Cross)* and *Resident Evil*-related titles

Net sales/Operating margins



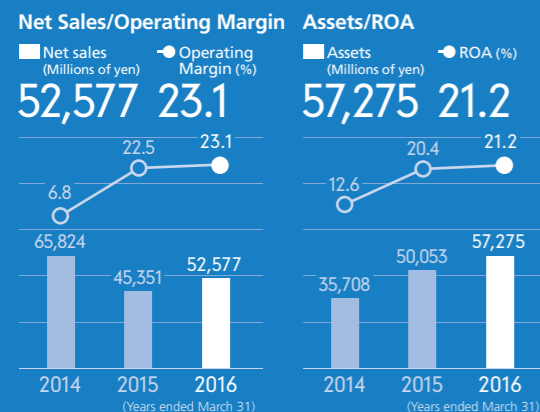
Monster Hunter Festa '16

In conjunction with the sales launch of core title *Monster Hunter X (Cross)*, *Monster Hunter Festa '16* was held in five locations across Japan in January 2016. 50,000 people came out for this event, which included the "Karioh Ketteisen" to determine Japan's top hunters and stage events featuring game developers.



Digital Contents

This business develops and sells package games and digital download contents for the Consumer sub-segment. It also develops and manages Mobile Contents and PC Online Games. Consumer games involve creative original content focused on action and adventure. Many of these million-seller titles are used for smartphone, tablet device and PC online games distributed worldwide in an attempt to maximize earnings.

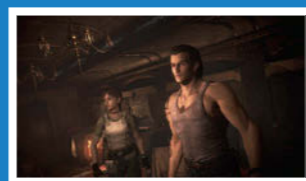


SWOT Analysis

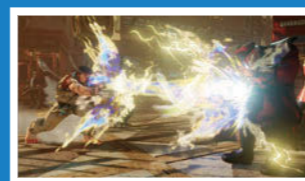
- S: Strengths W: Weaknesses O: Opportunities T: Threats
- World-class development and technological capabilities
 - Own many original popular titles (intellectual capital)
 - PC online game management expertise
 - Dependence on specific genres
 - Shortage of development staff
 - Insufficient smartphone app game hit titles and management expertise
 - Decreased competition in Consumer business and DLC market growth
 - Expansion of peripheral businesses in Consumer sub-segment (VR and eSports, etc.)
 - Mobile contents market expansion
 - Consumer game presence diminished by diversity of entertainment
 - Falling average sales price of Consumer games
 - Low barriers for entry into mobile contents, large number of competitor firms



Monster Hunter X (Cross)



Resident Evil 0 HD Remaster



Street Fighter V

Consumer (Package + Digital Download Contents) Business

Market Trends and Operating Results for This Fiscal Year

First Market Expansion in Four Years, Higher Sales of Flagship Titles and Digital Downloads Drive 19.6% Net Sales Growth

In 2015, the consumer (package + digital download contents) market was worth 21.7 billion dollars (up 0.5% from the previous year), halting three straight years of negative growth. This was due to (1) continued steady switchover to current game consoles, (2) the progressive supply of major titles for current game consoles and (3) growth in the digital download sales market. The consumer market is primarily comprised of North America, Europe and Japan. The U.S. and European markets, which account for approximately 85% of this market, were particularly robust. In terms of overall trends, while package sales contracted slightly, the highly profitable digital download market grew steadily to account for 43% of the consumer market. [Diagram21]

800,000 units and catalog title *Resident Evil Revelations 2* sold 850,000 units, pushing earnings higher. At the same time, although *Street Fighter V*, which enjoys solid popularity mainly overseas, performed well, unit sales fell short of projections. In digital downloads, sales of catalog titles with wide profit margins accelerated in the U.S. and Europe, resulting in solid sales growth to 6.1 million units amounting to 10.9 billion yen, an increase of 21.1% compared to digital download sales in the previous year.

As a result, package and full-game download sales totaled 15 million units (up 15.4% from the previous year). Package sales were 31.2 billion yen (up 19.1% from the previous year), and digital download sales were 10.9 billion yen (up 21.1% from the previous year). Together, they resulted in Consumer sales of 42.1 billion yen (up 19.6% from the previous year), with operating margins improving to the upper 20% range. [Diagram22]

Outlook for the Next Fiscal Year

Projecting a 11.6% Increase in Net Sales from the Successive Global Launch of Core Titles

The consumer market is forecast to grow globally to 22 billion dollars (up 1.4% from the previous year) due to an expanded title lineup for the PlayStation 4 and Xbox One and further growth in digital downloads. Furthermore, the market is thought to be entering a harvest period due to anticipation of new trends including the launch of Nintendo's new console in March 2017, as well as PlayStation VR, Oculus Rift and other VR gear. [Diagram21]

For Capcom, one of the major keys to achieving medium-term business goals and Consumer business growth are initiatives to (1) strengthen digital download content and (2) enhance title lineups through the full-scale execution of 60-month title

development plan and 52-week map.

➔ Please refer to "Growth Strategy 1: Consumer Business Expansion" on page 37.

Efforts within (1) include expanding unit sales by strategically releasing full-game and add-on contents. Also, we will utilize one of our existing intellectual properties to proactively release HD remastered versions of previous titles for download sales in an attempt to create sales opportunities and increase the digital download sales ratio. In terms of (2), we will promote compatibility with multiple platforms and release a new title within an existing popular series every 2.5 years based on our 60-month map title portfolio.

Next fiscal year, in addition to new

Diagram 21 Consumer (Package and Digital Download Contents) Market (Billions of dollars)

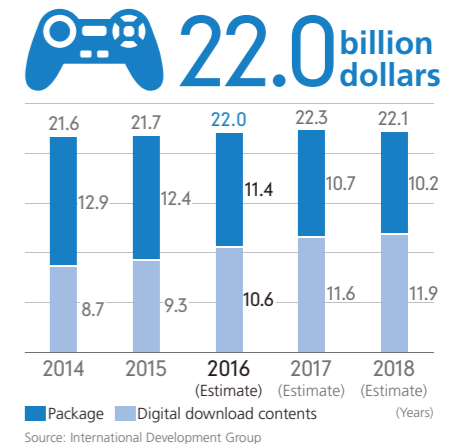
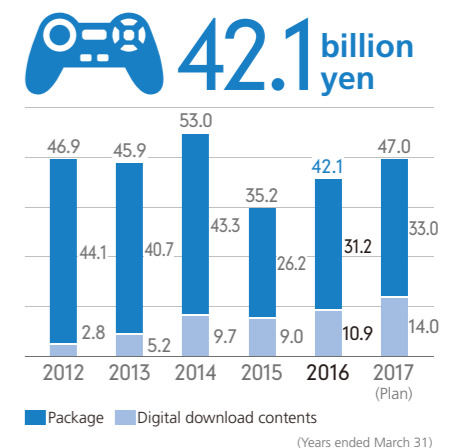
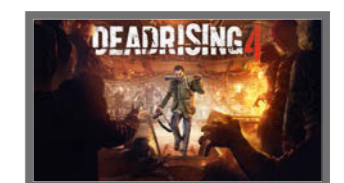


Diagram 22 Capcom Consumer (Package and Digital Download Contents) Sales (Billions of yen)



RESIDENT EVIL 7 biohazard



Dead Rising 4

titles in global core series such as *RESIDENT EVIL 7 biohazard* and *Dead Rising 4*, we will attempt to increase sales by aggressively launching major titles including a *Monster Hunter*-related title. We will also strengthen digital download sales to increase unit sales

10.0% compared to the previous year to 16.5 million units, forecasting net sales of 47 billion yen (up 11.6% from the previous year) and a high level of operating income about the same as the fiscal year under review.

Mobile Contents Business

Market Trends and Operating Results for This Fiscal Year

Despite 73% Growth and Continued Market Expansion, Sales and Profit Declined Due to Challenges Surrounding the Creation of a Hit Title

In 2015, the mobile contents market was worth 39 billion dollars (up 73.3% from the previous year), expanding in scale to surpass the consumer market. The main reasons for this were (1) the ongoing adoption of smartphones throughout the world and (2) the increase of popular native app games particularly in Japan and Asia that continue to attract game users. By region, the Asian market including Japan was worth 22.9 billion dollars (up 97.4% from the previous year), while developing country, Eastern European and other regional markets grew rapidly to 4.8 billion dollars (up 152.6% 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 function) to offer the appropriate services and premium games.

Outlook for the Next Fiscal Year

Projecting 21.2% Increase in Net Sales through Efforts Focused on Creating Hit Titles in Japan and Overseas Under a New Organization

In 2016, the annual shipment of smartphones is expected to maintain a single-digit growth rate at approximately 1.48 billion units (up 3.1% from the previous year) compared to approximately 1.43 billion units (up 10.1% from the previous year) in 2015. However, the

For game companies with many popular software titles and mobile development companies with operational expertise, the opportunity to improve earnings is growing. In Japan in particular, numerous distributions of a wide range of games that offer a style of play matching the national identity, such as those that take advantage of idle moments and games that use popular content, are driving rapid market expansion. [Diagram23]

In September 2015, Capcom launched *Monster Hunter Explorer*, which has exceeded 3 million downloads and is generally selling as projected. However, regarding other existing titles, both Capcom and Beeline brand performance has been lackluster and continue to struggle amid an intensely competitive environment.

As a result, net sales declined to 3.3 billion yen (down 19.5% from the previous year). In terms of profit, although contributions from new titles secured earnings, profitability was declined compared to the previous year. [Diagram24]

demand for smartphones as game devices is expected to further increase in Japan and Asia amid ongoing expanded adoption in India, the Middle East and Africa, which we think will lead to the expansion of global game contents. As a result, we expect the 2016 mobile market

Diagram 23 Mobile Contents Market (Billions of dollars)

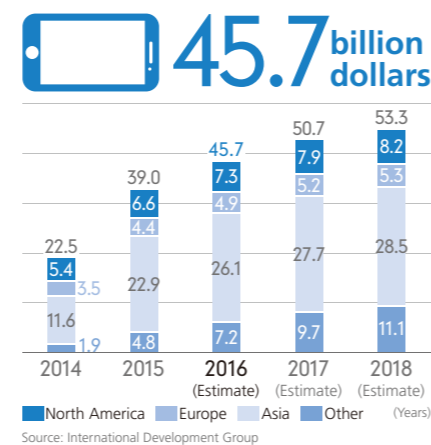
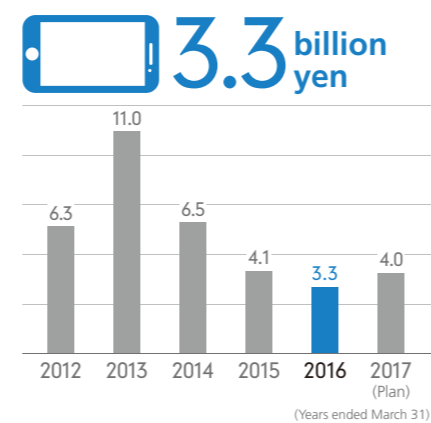


Diagram 24 Capcom Mobile Contents Sales (Billions of yen)



Monster Hunter Explorer

to increase to 45.7 billion dollars (up 17.2% from the previous year) and grow to 53.3 billion dollars (up 36.7% from 2015) in 2018. [Diagram23]

In 2016, Capcom unified its Group-wide mobile development structure and established the new Mobile Business Division. We combined the organizations of the Capcom and Beeline brands, which up to now had promoted independent strategies and concentrated development

PC Online Business

Market Trends and Operating Results for This Fiscal Year

Although the Market Was Flat, the Launch of New Titles in Japan and Overseas Resulted in an 18.3% Increase in Net Sales

Despite sluggish sales of package games for PC in the U.S. and Europe and games played through SNS, the Chinese and Asian markets, which account for nearly half the overall market, continued to grow to 25.1 billion dollars (up 1.6% from the previous year), about the same scale as the market in the previous year. [Diagram25]

For Capcom, in addition to stable earnings contributions from firm favorite *Monster Hunter Frontier G* (MHFG), sales

and management know-how. We will expand titles in Japan and overseas utilizing proprietary content based on quick decision-making facilitated by organizational unification.

Next fiscal year, this new organization will distribute titles using popular brands including *Monster Hunter*, *Sengoku BASARA* and *Mega Man*, thus we expect net sales of 4 billion yen (up 21.2% from the previous year).

Outlook for the Next Fiscal Year

Projecting a 12.7% Increase in Net Sales Due to the Promotion of Licensing Businesses in the Growing Asia Market

In 2016, we expect the market to continue growing to 26.5 billion dollars (up 5.6% from the previous year). While the U.S. and Europe are expected to remain stable, the Asian market, focused on China is expected to continue growing driven by core MMO online games. We expect this market to continue expanding, from 10.6 billion dollars in 2015, to 11.2 billion dollars (up 5.7% from 2015) in 2018. [Diagram25]

In addition to ongoing major updates to MHFG, Capcom will grow *Dragon's Dogma Online* into a new flagship title in an attempt to establish dual pillars for

expanded earnings in Japan. Furthermore, we intend to improve our position in the Chinese market through an ongoing proactive cooperative relationship with China's Tencent Holdings on *Monster Hunter Online*. At the same time, with respect to other titles, we will proceed with negotiations with local companies to develop similar licensing businesses in the Asian region.

As a result of these measures, we expect net sales of 8 billion yen (up 12.7% from the previous year) as well as an increase in operating income.

Diagram 25 PC Online Market (Billions of dollars)

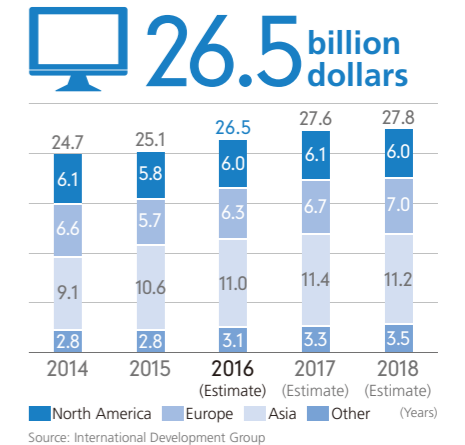
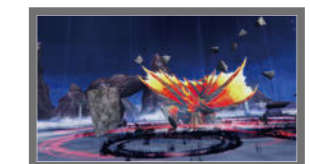
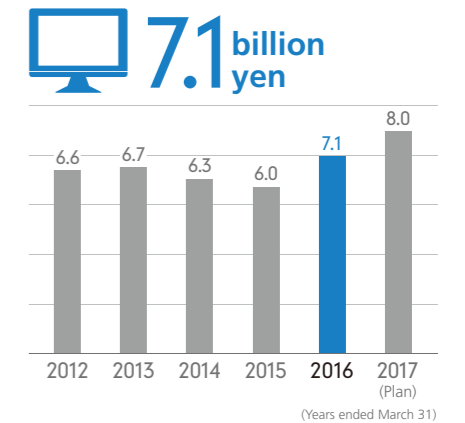
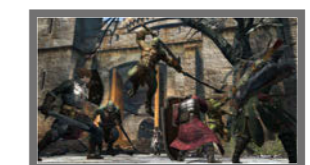


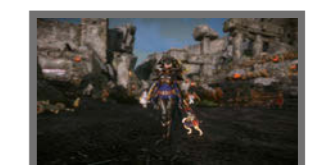
Diagram 26 Capcom PC Online Sales (Billions of yen)



Monster Hunter Frontier G



Dragon's Dogma Online



Monster Hunter Online

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Market Trends and Operating Results for This Fiscal Year

Sales and Profit Declined Due to 7.5% Drop in Market Coupled with Downward Trend at Existing Stores

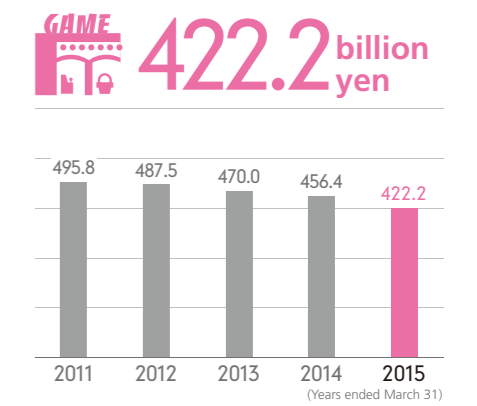
During the previous fiscal year (ended March 31, 2015), the size of the domestic arcade facilities market shrank to 422.2 billion yen (down 7.5% from the previous year). [Diagram27] This was due to the decline in personal consumption following the consumption tax increase implemented in April 2014, the spread of smartphones and the impact of scrambling to win shares of consumer free time amid a variety of leisure activities. Companies across the board closed unprofitable arcades and attempted to streamline management, resulting in the total number of arcades decreasing to 15,612 (down 2.8% from the previous year), [Diagram28] and annual sales per facility declined to 27.04 million yen (down 4.8% from the previous year), reducing the overall scale of this market. This fiscal year (ended March 31, 2016), market contraction slowed due to the resurgence of prizes and recovery from the impact of the consumption tax hike.

by means of community-based store strategies. For example, for the middle-aged and seniors capcom conducted service days and free game experience tours ; for woman and families capcom set up additional Asobi Oukoku peekaboo sites and kids' Corners that targeted children. Nonetheless, segment results were soft, partly because of the lack of a high-performance product as well as sluggish demand due to the dispersion of entertainment toward smartphone games. During the period under review, Capcom developed arcade operations through its scrap and build strategy, and opened four arcades including the "Amuse Factory Tokoname" (Aichi Prefecture) and the innovative "Capcom Café" (Saitama Prefecture), while closing three arcades, bringing the total number of arcades to 34.

As a result, net sales were 9.056 billion yen (down 2.0% from the previous fiscal year), and operating income was 699 million yen (down 25.6% from the previous fiscal year), with both sales and profit declining year on year. [Diagram29]

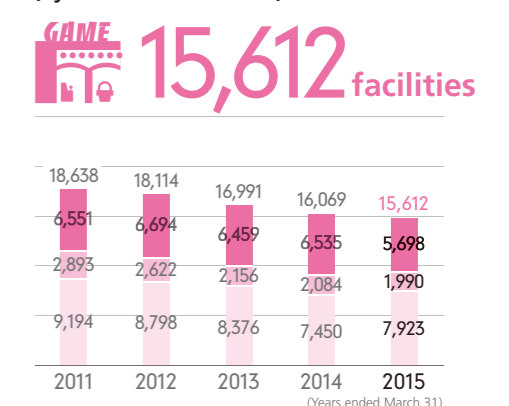
With the slow pace of market recovery, Capcom strived to expand its customer base

Diagram 27 Arcade Operations Market (Billions of yen)



Source: JAMMA "Survey on the Amusement Industry"

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



Source: JAMMA "Survey on the Amusement Industry"

Outlook for the Next Fiscal Year

Amid Signs of Recovery in the Market Environment, Capcom Expects Operating Income to Increase 14.4% through the Creation of New Earnings Opportunities

In terms of market outlook, we expect conditions to remain the same as in the previous year. In addition to the ongoing resurgence in prize games, we expect the introduction of popular arcade cabinets to increase customer traffic. Furthermore, revisions to the Entertainment and Amusement Trades Act (Entertainment and Amusement Trades Rationalizing Act) in June 2016 relaxed restrictions on the amount of time young people can spend in arcades when accompanied by a guardian, which is expected to give the market a boost.

customers, Capcom characters will be used to create themed "Capcom Café" restaurants and "Chara Cap" stores specializing in character merchandise will be opened among other efforts focused on expanding customers and creating new earnings opportunities. In terms of the opening and closing of facilities, in an attempt to further strengthen efficient arcade management operations, we will open new facilities in locations with high concentrations of customers to secure new revenue streams. Next fiscal year, we plan to open three facilities with no closures, resulting in a total of 37 facilities.

Next fiscal year (ending March 31, 2017), Capcom will promote streamlining of arcade management through its ongoing scrap and build policy to ensure earnings at the same level as the previous fiscal year through the creation of new earnings opportunities. Ongoing senior events will be held with the aim of attracting middle-aged and senior

As a result of these measures, expecting year on year sales of existing stores to be 100%, we forecast net sales of 9 billion yen (down 0.6% from the previous year) and operating income of 800 million yen (up 14.4% from the previous year).

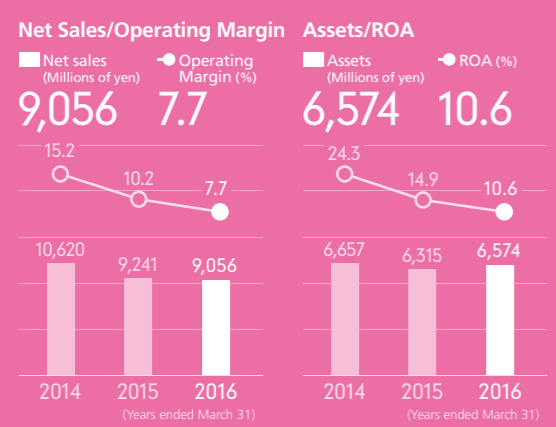
Diagram 29 Comparison of Arcade Operations Performance (Year ended March 31, 2016)

Company	Net sales (Billions of yen)	Operating income (Billions of yen)	Operating margin (%)
Capcom	9.0	0.7	7.7
Adores	12.8	0.6	5.1
Aeon Fantasy	58.8	2.7	4.7
Sega Sammy	38.0	1.8	4.7
Bandai Namco	58.6	Undisclosed	-

Source: Financial reports and earnings materials of each company (Aeon Fantasy fiscal year ended February 2016)
Note: Segments include businesses other than arcade facilities operations and exclude corporate.

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 and female customers. We have diligently followed a scrap-and-build policy to maximize our efficiency in arcade operations.



SWOT Analysis S: Strengths W: Weaknesses O: Opportunities T: Threats

- Specialize in opening arcades in large shopping centers to secure a stable customer base
- Sales floor planning and management capabilities supporting customers
- Thorough scrap-and-build strategy focused on investment efficiency to ensure sustainable earnings
- Expand ability to draw customers by introducing popular machines
- Increase customers with appeals targeting seniors and children
- Multifaceted roll-out of merchandise sales, restaurants and other businesses using Capcom contents
- Low sales growth rate due to small number of carefully selected facilities
- Little synergy with proprietary contents
- Potential customer segment shrinking due to falling birth rate
- Increased consumption tax
- Entertainment diversification due to rapid growth of games for smartphones



Plaza Capcom Kyoto Asobi Oukoku Peekaboo



Amuse Factory Tokoname



Capcom Café

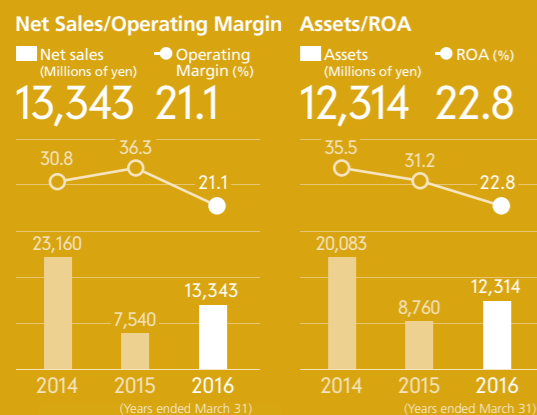


KyaraCap Okazaki



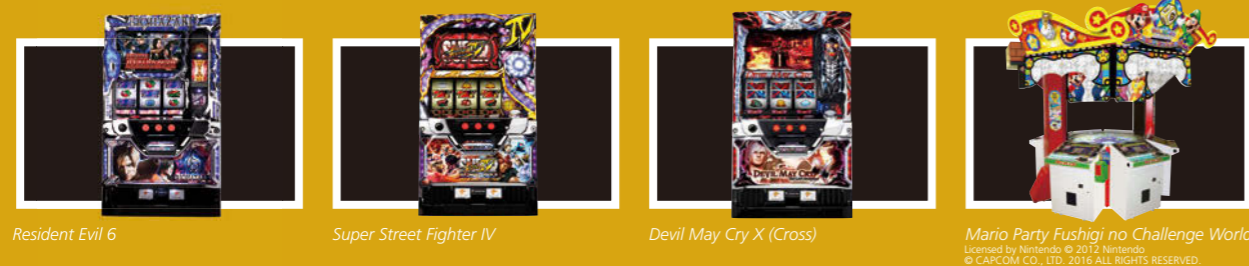
Amusement Equipments

We are engaged in two businesses that utilize the contents used for our home video games. The Pachinko & Pachislo (PS) 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 sells arcade games for amusement facilities, creating synergy between businesses.



SWOT Analysis

- S: Strengths W: Weaknesses O: Opportunities T: Threats
- High quality development capabilities cultivated through home video games
 - Multiple usage of rich in-house contents
 - Ability to observe real-time market trends through company-owned arcades
 - Small title lineup
 - Shortage development staff
 - Declining operator and hall investment appetite
 - Long-term market stagnation
 - Market fluctuations resulting from changes to The Entertainment Establishments Control Law and certification rules



Resident Evil 6 Super Street Fighter IV Devil May Cry X (Cross) Mario Party Fushigi no Challenge World

Market Trends and Operating Results for This Fiscal Year

Amid Continued Severe Market Conditions, Net Sales Increased 77.0% on Launch of Popular Pachislo Machines

In the previous fiscal year (ended March 31, 2015), the gaming machine market shrank to 1,069.3 billion yen (down 5% from the previous year). This was due to a temporary decline in the number of new machines launched resulting from changes to rules concerning pachislo machine model certification*1 by the Security Electronics and Communications Technology Association that went into effect in September 2014 in the pachislo market, as well as the fifth straight year of declines in the Pachinko market. [Diagram30] In the arcade game market, although sales of claw crane and prize games were firm, arcade game and coin-operated game sales declined significantly, resulting in the third consecutive year of negative growth at 151.1 billion yen (down 7.5% from the previous year). [Diagram31] This year (ended March 31, 2016), the gaming machine market remained weak on the

impact of pachinko machine gambling restrictions and pachislo machine third stage rule changes.*2 In the arcade game machine market, despite continued sluggishness in coin-operated games, popular music games and kids' card games helped maintain the same level as in the previous year.

This fiscal year (ended March 31, 2016), in the Pachinko and Pachislo sub-segment, the popularity of the Resident Evil 6 brand resulted in sales of 37,000 units, driving sales beyond initial projections to support earnings. In the Arcade Games Sales sub-segment, sales of Luigi Mansion Arcade were weak reflecting the sluggish market, while crossbeats REV. for arcades also struggled.

As a result, net sales were 13.343 billion yen (up 77.0% from the previous year) and operating income was 2.812 billion yen (up 2.8% from the previous year).

Diagram 30 Gaming Machines Market (Billions of yen)

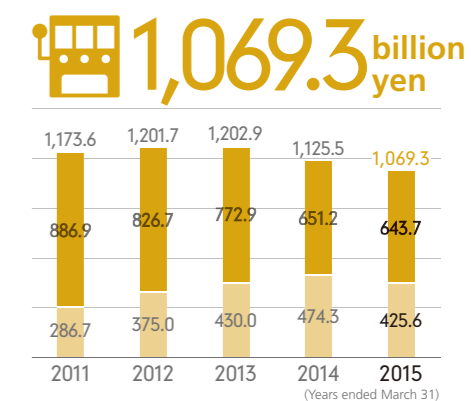
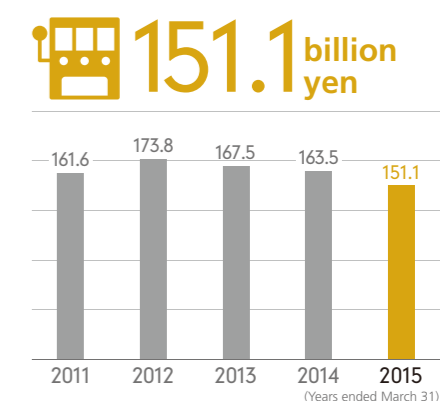


Diagram 31 Arcade Game Market (Billions of yen)



Outlook for the Next Fiscal Year

Projecting Increases in Net Sales of 12.4% and Operating Income of 6.7% on Provision of New Machines Making Use of Popular Brands

In terms of the market outlook, despite the passage of rule changes affecting pachislo machines, top-selling product sales lots are on the decline, thus we anticipate demand will weaken. With respect to Pachinko machines, cabinet profitability will decline in line with gambling restrictions, thus investment in hall gaming machines will be increasingly selective. Accordingly, companies will steer towards cabinet development focused on efficiency and control development costs.

In the PS sub-segment, Capcom aims to increase unit sales by (1) stably providing proprietary cabinets, (2) securing a strong sales network and improving development quality through an alliance with major sales company Fields Corp., and (3) releasing proprietary pachislo machines not dependent on gambling with a variety of

clever video elements and playing styles making use of popular consumer content. Next fiscal year, we are projecting sales of 55,000 units comprising four machines including Super Street Fighter IV and Devil May Cry X (Cross). In the Arcade Games Sales sub-segment, we expect performance to remain at the same level as in the previous year based on the resurgence of prizes and sales of popular arcade games. Accordingly, we plan to release new machines making use of popular content belonging to other companies, including Mario Party Fushigi no Challenge World.

As a result of these measures, we expect sales and profits to rise in the next fiscal year. We forecast sales of 15 billion yen (up 12.4% from the previous year) and operating income of 3 billion yen (up 6.7% from the previous year).

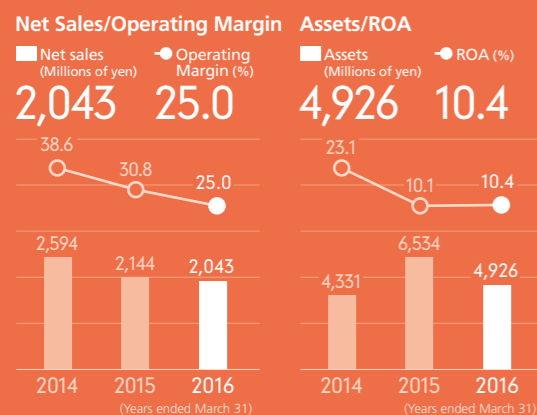
*1 Model certification: A public test to verify whether or not gaming machines are in accordance with regulations conducted by the Security Communications Association on behalf of public safety commissions in each of Japan's administrative divisions.

*2 Changes to certification methods: Three self-imposed restraints implemented in stages. Up to November 2014 (1) guarantee a minimum (55%) ball dispensing ratio, (2) implement limits on penalty functions, and from December 2015 (3) implement functional limitations in sub-substrates.



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.



SWOT Analysis S: Strengths W: Weaknesses O: Opportunities T: Threats

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



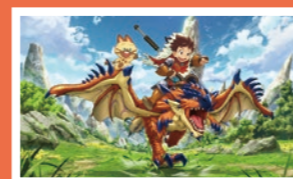
Resident Evil: The Escape 2



Monster Hunter: The Real 2



Gyakuten Saiban: Sono "Shinjitsu", Igiari!
© CAPCOM/Yomiuri TV, A-1 Pictures



Monster Hunter Stories RIDE ON
© CAPCOM/MHST Committee

Operating Results for This Fiscal Year

Net Sales Declined 4.7% Remaining the Same as the Previous Fiscal Year, While Operating Income Decreased 22.7%

Capcom's strength is its ability to utilize its rich library of content across multiple mediums, reaping the benefits of the highly synergetic effects of consumer and online games. 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 and the long-term maintenance of content value, completing a virtuous sales cycle. These projects were implemented across all business segments, with each division involved in the launch of arcade games, mobile contents, walkthrough and strategy guides and character merchandise, as well as movies, TV animation, theatrical productions and other events in a variety of areas in connection with the release of our game software. [Diagram32,33]

➔ Please refer to "Capcom's Business Model" on pages 13-14.

This fiscal year, in conjunction with the release of *Monster Hunter X (Cross)*, we held "Monster Hunter Festa '16" in January 2016 in five cities across Japan. We also made efforts to appeal to existing users and acquire new fans through experience-based events including "Resident Evil: The Escape 2" and "Monster Hunter: The Real 2" conducted in collaboration with Universal Studios Japan at "Universal Cool Japan 2016" held in February 2016. We also continue appealing to non-game users through the *Sengoku BASARA* series TV animation and theatrical productions.

As a result, net sales were 2.043 billion yen (down 4.7% from the previous year) and operating income was 511 million yen (down 22.7%), reflecting the recognition of amortization expenses in line with our new R&D facility, which was responsible for declines in sales and profit.

Outlook for the Next Fiscal Year

Further Enhancement of Single Content Multiple Usage Developments


Until now, Capcom has aggressively promoted the horizontal deployment of intellectual properties (contents) based on the Single Content Multiple Usage strategy. In Japan, TV animation "Gyakuten Saiban: Sono "Shinjitsu", Igiari!" will be broadcast in conjunction with the release of *Ace Attorney 6*. In line with the October 2016 release of Consumer game *Monster Hunter Stories*, the first *Monster Hunter* TV animation will be broadcast. In conjunction with the overseas release of *RESIDENT EVIL 7 biohazard*, the Hollywood movie "Resident Evil: The Final Chapter" will be released

in Japan in December 2016, then globally in January 2017. We will endeavor to expand licensing earnings and improve brand value through movies and other media for a variety of other series.

As a result of these measures, the next fiscal year earnings forecast calls for net sales of 2 billion yen (down 2.1% from the previous year) and operating income of 200 million yen (down 60.9% from the previous year). The reason for the decline in profitability is the recognition of amortization expenses in line with our new R&D building.

Diagram 32

Revenue Ranking of Japanese Game Contents that Have Been Adapted into Hollywood Movies




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

As of June 30, 2016 (Capcom figures)

Diagram 33

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



Movie		
Street Fighter II	Aug. 1994	Animated movie
Street Fighter	Dec. 1994	Hollywood movie
Resident Evil	Mar. 2002	Hollywood movie
Resident Evil: Apocalypse	Sep. 2004	Hollywood movie
Resident Evil: Extinction	Nov. 2007	Hollywood movie
Resident Evil: Degeneration	Oct. 2008	CG movie
Resident Evil: Afterlife 3D	Sep. 2010	Hollywood movie
Sengoku BASARA -The Last Party-	Jun. 2011	Animated movie
Ace Attorney	Feb. 2012	Movie
Resident Evil: Retribution	Sep. 2012	Hollywood movie
Resident Evil: The Final Chapter	Dec. 2016	Hollywood movie
TV animation		
Street Fighter II V	Apr. 1995	TV animation
Mega Man Battle Network	Mar. 2002	TV animation
Sengoku BASARA	Apr. 2009	TV animation
Gyakuten Saiban: Sono "Shinjitsu", Igiari!	Apr. 2016	TV animation
Monster Hunter Stories RIDE ON	Oct. 2016	TV animation
Theatrical production		
Phoenix Wright: Ace Attorney -The Truth Comes Back to Life	Feb. 2009	Takarazuka Revue Company
Sengoku BASARA	Jul. 2009	Theatrical production
Phoenix Wright: Ace Attorney 2	Aug. 2009	Takarazuka Revue Company
Prosecutor Miles Edgeworth: Ace Attorney 3	Jan. 2013	Takarazuka Revue Company
Sengoku BASARA	Jun. 2013	Takarazuka Revue Company
Sengoku BASARA vs Devil May Cry	Aug. 2015	Theatrical production
BIOHAZARD THE STAGE	Oct. 2015	Theatrical production
TV drama		
Sengoku BASARA -MOONLIGHT PARTY-	Jul. 2012	TV drama



Environmental Social Governance

ESG

Information

	Key Internal Regulations	Achievements	Future challenges
Environmental → Please refer to page 55	<ul style="list-style-type: none"> Follow relevant laws and ordinances concerning the environment when engaging in all corporate activities, including the development, manufacturing, sale, distribution, and disposal of products and services. 	<ul style="list-style-type: none"> The construction of new environmentally-friendly buildings The reduction of resources used and exhaust gas via distribution network sharing with other companies in the industry The reduction of paper resources used through the digitization of instruction manuals 	<ul style="list-style-type: none"> Increasing energy conservation at existing buildings through renovation Increasing energy conservation of operations as amusement facilities
Social → Please refer to pages 56-60	<ul style="list-style-type: none"> Respect the human rights of each and every employee and do not engage in discrimination or any behavior linked to discrimination. Value the individuality of each person from the standpoint of respect for people and aim for the creation of a company which is fair, cheerful, and easy to work in. Understand and comply with the content and goals of labor laws and other relevant laws and ordinances together with striving to maintain a safe and hygienic work environment. In accordance with relevant laws and ordinances, disclose accurately and in a timely manner management and corporate information such as the state of Capcom's financial affairs and business activities to shareholders and investors. Always strive to improve customer satisfaction, observe laws and ordinances concerning safety, and give sufficient consideration to the safety and quality of the products Capcom provides. As a good corporate citizen of the regional community, proactively conduct social contribution activities, cultural support activities, and activities which support sports and health. 	<ul style="list-style-type: none"> The active employment of non-Japanese citizens Increased number of women in management positions The implementation of staff training Education for employees concerning compliance The holding of Health and Safety Committee meetings Increased dialogue with shareholders Compliance with the CERO ratings system The endorsement of the "Administrative Guidelines for Random Item Provision Systems in Smartphone Games" Regional revitalization activities making use of Capcom content Support for senior citizen community formation such as video game arcade tours 	<ul style="list-style-type: none"> Increasing the percentage of women in management positions Creating an even easier environment to work in such as with the establishment of daycare centers The operation of amusement facilities aimed at all ages Increasing the number of opportunities for persons in charge of development to converse with the market
Governance → Please refer to pages 61-76	<ul style="list-style-type: none"> Always pay attention to information such as the establishment and revision of laws and ordinances, consider the content of the same and their influence on corporate conduct, and take measures to ensure rapid and accurate response, including with regards to changes to internal regulations. 	<ul style="list-style-type: none"> Transitioning towards a company with an audit and supervisory committee Raising the ratio of external directors The establishment of a nominating committee (voluntary) 	<ul style="list-style-type: none"> The effective operation of the audit and supervisory committee company system Analysis and evaluation of the overall effectiveness of the board of directors meetings The establishment of a meeting for the purpose of information exchange between independent external directors The setting of director remuneration with regards to medium- to long-term growth. The formulation of corporate governance guidelines

Environmental

New Building Innovations

10% Reduction in CO₂ Emissions Throughout Our New Buildings

The new R&D Building #2 and Capcom Technical Center utilize the energy-conserving equipment indicated below. As a result, we expect to reduce CO₂ emissions by approximately 10%*overall.

Energy-Conserving Effects of R&D Building #2 and Technical Center Equipment*

1. Exterior thermal insulation	5% reduction
2. LED lighting	40% reduction
3. Motion/daylight sensors (Only motion sensors installed in R&D Building #2)	20% reduction
4. Air conditioning/heating monitors	30% reduction
5. Displacement air conditioning system (Motion capture studio)	40% reduction

* Assumes energy consumption of 100% without introduction of this equipment.

Innovations in Product Distribution

Sharing Distribution Networks with Other Companies in the Industry

Sharing distribution networks with other companies in the same industry when shipping products enables the efficient supply of products. As a result, we are able to realize reductions in packing materials, fuel and emissions.

Paperless Instruction Manuals

Older game consoles included a printed instruction manual inside the package, but with current game consoles, manuals are now included as data within the software as a way to save paper. This enables us to eliminate approximately 15 million game units' worth of paper manuals shipped annually.

Social

Responsibilities to Customers

For the Healthy Development of Young People

Compliance with the CERO Rating System and Endorsement of Guidelines

The NPO Computer Entertainment Rating Organization (CERO) was created to provide age-appropriate ratings for video games. Capcom complies with the CERO rating system and rules.

The video game industry voluntarily restricts game content and sales methods to limit access to sexual and violent content for the healthy development of young people. Age ratings on game packaging provides purchasers with information pertaining to the age appropriateness of game content, classified into one of five categories in Japan: All ages (category A), 12 years or older (category B), 15 years or older (category C), 17 years or older (category D) and restricted to 18 years or older (category Z). CERO members voluntarily prohibit sales of category Z games to users under 18 years old, with 99.6% of retailers separating game displays by ratings category and checking purchaser identification to confirm age.*

In addition, the latest home video game consoles include a

parental control function that enables parents to limit the online purchase and use of certain games according to their ratings.

Further, in regards to problems concerning paying for items in social games, an issue which has gained attention in recent years, Capcom endorsed the "Administrative Guidelines for Random Item Provision Systems in Smartphone Games" released by the Computer Entertainment Suppliers' Association (CESA) in 2016. As such, in regards to paid random item provision systems (paid gacha) widely used in the field of games provided over the internet via smartphone, Capcom has made the decision to provide environments which can be easily understood by users, such as generally displaying all items which can be acquired and their rates of appearance.

* From the results of "The 4th CERO Age-Based Ratings System Field Survey."



Capcom Group Code of Conduct Handbook

Responsibilities to Business Partners

Basic Policies Regarding Business Transactions

Promotion of Fair Business Transactions Based on Each Regulation

Capcom has established its own "Regulations Concerning the Management of Purchasing Transactions" and "Regulations Concerning the Management of Outsourced Transactions" in order to carry out free competition and fair business transactions. In line with this, Capcom fairly evaluates conditions such as capability and cost to select suppliers and development outsourcers. In addition, as regards business transactions with specified involved parties such as subsidiaries, Capcom compares such business transactions with standard conditions and does not engage in transactions which would be disadvantageous to Capcom or which would unfairly profit the specified involved party.

Responsibilities to Employees

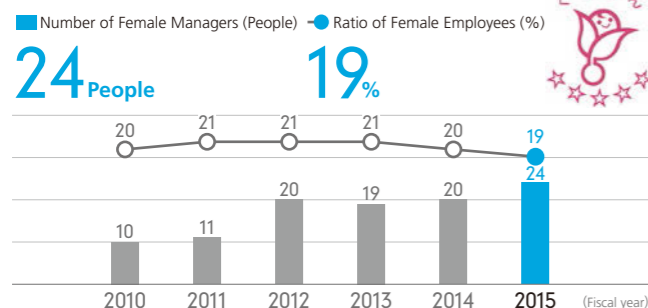
Promotion of Diversity

Initiatives Aimed at Improving the Work Environment for Women, Promoting Gender Equality and Proactively Hiring Foreigners

Capcom is currently engaged in initiatives aimed at improving the work environment for women, promoting gender equality and proactively hiring foreigners.

In terms of improving the work environment for women, we introduced systems enabling women to take a leave of absence before and after giving birth, childcare leave and shortened working hours, and promote their use throughout the company. In fiscal 2015, 24 employees utilized the childcare leave system. The utilization rate among women was 100% (in fiscal 2014, 21 employees utilized this system, of which five were men and the utilization rate among women was 100%). The return rate after childcare leave was also high. In fiscal 2015, 17 employees returned

Ratio of Female Employees and Number of Female Managers



to the workplace. Excluding those still on leave, 94.4% returned (in fiscal 2014, 17 employees returned, a return rate of 94.4%). As a result, in the Japanese game industry, known for being a male-dominated industry, nearly 16% of Capcom's developers are women, and we have 24 female managers (representing 10.3% of managers overall). Further, Capcom has drawn up a "General Employer Action Plan" based on the "Act for the Promotion of Women's Success" which aims for 1) women comprising no less than 20% of regular employees and 2) women in no less than 15% of management positions within a five year period by the end of fiscal 2021. To further increase the proactive involvement of women, we are hastening the establishment of a daycare facility in fiscal 2016. In recognition of Capcom's efforts toward improving the workplace environment for women, since 2012 we have earned the "Kurumin" mark, the symbol of a "company supporting childcare," from the Ministry of Health, Labor and Welfare.

In terms of the proactive employment of non-Japanese citizens, Capcom is making efforts to strengthen overseas expansion capabilities including creating an English hiring website. We currently employ 91 foreigners (representing 4.0% of our employees). Going forward, we will create a system for improving motivation in an attempt to increase the ratio of foreign employees, including the support for career advancement and the promotion of non-Japanese citizens to management positions.

Providing Career Paths for Employees and Improving the Work Environment

Company-wide Training and Level-based Training

To provide career paths and improve the work environment, Capcom provides the following training.

Major Training Programs

Level-based training	Early Career	<ul style="list-style-type: none"> ● Training for new hires ● Mentor training ● Follow-up training
	Mid-level	<ul style="list-style-type: none"> ● Training for management candidates
Management-level	<ul style="list-style-type: none"> ● Management by Objectives (MBO) 	
Company-wide training	Compulsory	<ul style="list-style-type: none"> ● Mental healthcare ● Compliance training ● Personal information training
	Optional	<ul style="list-style-type: none"> ● English instruction

Corporate Governance and CSR

Action Criteria and Compliance-related Employee Education

The Capcom Code of Conduct calls for "free competition and fair trade," "respect for human rights and individuality and the prohibition of discrimination" and "environmental conservation and protection." To ensure a concrete understanding of these concepts, we created the Capcom Group Code of Conduct Handbook, which is distributed to all employees and contains illustrated case studies presented in an easily understandable Q&A format.

We also make use of the company intranet to provide e-learning sessions on legal compliance and disseminate personal information protection rules to all employees.



(Left) Kofu BASARA Shingen-kun (Right) Commercials for Kochi prefectural governor's election



An on-site class

Action criteria and compliance are the lynchpin of corporate governance and the foundation upon which we fulfill CSR. Capcom will continue to instill this understanding in all its officers and employees.

Occupational Health and Safety

Monthly Health and Safety Committee Meetings in Order to a Comfortable Work Environment

Monthly Health and Safety Committee meetings include the attendance of an employee representative, an observer and a company representative.

At these meetings, the results of hours worked are analyzed in terms of overtime and workload appropriateness, causal factors and improvement policies are discussed and occupational injuries and workplace environment conditions are reported to the committee to promote the creation of a comfortable working environment. Attention is also focused on prevalent illnesses and ailments common among game creators, with public health and industrial doctors regularly invited to perform physical exams and reexaminations to ascertain employee health conditions.

These activities have resulted in a steady increase in the number of employees submitting medical certificates for physical examinations and reexaminations each year.

Responsibilities to the General Public

Contributions to Regional Revitalization

Support Activities Using Popular Games to Attract Customers and Raise Awareness

Utilizing the power of our content to capture the attention of people, Capcom is engaged in the following four regional revitalization activities: 1) Economic promotion which supports the promotion of tourism industries; 2) cultural promotion which supports education concerning local history and culture; 3) the improvement of public order through coordination with the police; and 4) raising awareness about voting in elections in coordination with the Committee for Election Administration.

In 2015, Capcom supported historical and cultural education. Capcom concluded the Comprehensive Agreement to Promote Vitalization of Local Economy with the city of Kofu in Yamanashi Prefecture and implemented a variety of plans whose goal is to support the promotion of industry in the city as part of regional revitalization efforts until 2019, including providing the city with characters for premium gift certificates and the design for a character called "Kofu BASARA Shingen-kun" who will be the honorary head of a group for promoting Kofu tourism PR. (For details concerning the Comprehensive Agreement to Promote Vitalization of Local Economy, please see the separate booklet, *The Latest Development Report*.) Capcom also jointly sponsored a

special exhibition of arms and armor connected to famous military commanders appearing in Sengoku BASARA at the Saitama Prefectural Museum of History and Folklore. In addition, Capcom collaborated in activities to spread awareness of the Kochi prefectural governor's election announced in November by offering Chosokabe Motochika, who appears in Sengoku BASARA, as a character for education on the election.

Educational Assistance as a Game Company

Company Visits for Children and On-site Classes at Schools

Video games are a comparatively new cultural phenomenon about which there is little academic research. Rather than examining the educational aspects, discussions tend to focus on the detrimental effects of violent content. For example, some local municipalities have designated certain games to be harmful to the healthy development of young people. At the same time, the idea of a future career as a video game creator is very popular among children, and some schools have even begun to incorporate handheld video game consoles into the classroom in recent years.

As part of its social responsibility (CSR) efforts as a video game software producer and based around a desire to promote understanding in society of video games, Capcom accepts student visits to its offices, with a focus on elementary and junior high school students, and also actively conducts on-site classes at schools. At these events, Capcom conducts a program with two sessions: one is a career education support session which introduces the work done in a game software company and the difficulty and rewards of that work, and the other is a game literacy education support session which helps students use their own judgement to establish a healthy relationship with games. These programs have in turn been well-received in educational environments. Capcom has also incorporated opinions from educators to improve its educational efforts. In fiscal 2011, Capcom launched its second educational program, focused on the educational theme of career education support. In fiscal 2013, Capcom started a new class program on work and mathematics targeted towards elementary and junior high school students to help prevent children from losing interest in math, a challenge in recent years.

Capcom School Visit Feedback

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

- "I realized that I was playing games too much. In the future, I want to decide how long I will play." (Elementary school student)
- "Hearing my studies now will help me in the future makes me want to keep trying hard." (Junior high school student)
- "Some parts were hard for a fourth grader, but everyone seemed really interested, such as students talking about it between each other after." (Elementary school teacher)
- "As there are limited ways to get information on the game industry, from the perspective of career education I felt it was useful even for high school students." (Junior high school teacher at an integrated junior and senior high school)

As a result of these efforts, Capcom has welcomed 2,437 children as part of 313 different field trips into its offices (as of the end of March 2016). Capcom has also held 91 on-site classes for some 9,095 students at schools such as Nara Prefectural Seisho Junior High School (as of the end of March 2016).

Community Building Support for Senior Citizens

Regular Video Game Arcade Tours

Today, amusement facilities, otherwise known as video game arcades, are becoming increasingly popular among retired senior citizens as spaces for communication with other people. Since 2012, Capcom has held video game arcade tours on long public holidays and Respect-for-the-Aged Day for senior citizens where they can try out coin-operated games and crane games so that more people can make use of such facilities.

In addition, as part of efforts to create arcades where senior citizens can comfortably enjoy themselves, since 2012 Capcom has encouraged arcade staff to get the Service Assistant certification. Currently, 27 staff have received this certification.

Responsibilities to Shareholders and Investors

Initiatives for the General Shareholders' Meeting

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

To ensure our General Shareholders' 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, Capcom is promoting highly transparent management via the implementation of a basic policy for IR activities which 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.

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 Act 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 and other regulations, 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 shareholder letters.

3. Quiet Period

To prevent the unauthorized disclosure of quarterly earnings information prior to official announcements, Capcom has established a quiet period starting approximately 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 and other regulations.

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. In addition to receiving the Special Prize at the Nikkei Annual Report Awards 2015 in the fiscal year ended March 2016, our IR website was selected by Daiwa Investor Relations for the Internet IR Grand Prize and we ranked second overall in the Fiscal 2015 Listed Company Website Quality Ranking.

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

Fiscal 2015 Third Party Evaluations

Integrated Reports	18th Nikkei Annual Report Awards Special Prize
	League of American Communications Professionals (LACP) 2014 Vision Awards Annual Report Competition, Bronze Award, Technology/Software category
IR Website	Daiwa Investor Relations Co., Ltd. 2015 Internet IR Grand Prize
	Morningstar Inc./Gómez Consulting Ranked 4th overall in Gomez IR Website Ranking 2015
	Nikko Investor Relations Co., Ltd. Ranked 2nd overall in the Fiscal 2015 Listed Company Website Quality Ranking

Making Use of Shareholder and Investor Opinions

Reflecting Results of Dialogues with Investors and Analysts in Management

Through meetings with investors and analysts, Capcom's IR Department attempts to promote an understanding of



A discussion with shareholders



Our earnings presentation

management policies, strategies and future outlook with them. Furthermore, their opinions are gathered and provided to management, and are utilized for corporate management going forward. As a company based in Osaka, proactive IR meetings with these parties enables us to minimize asymmetric information as we strive to achieve appropriate corporate value. This fiscal year, meetings with investors in Japan and overseas and conference calls amounted to 370 points of contact with investors.

In addition, we conducted various initiatives in accordance with our adoption of our Corporate Governance Code. Specifically, our General Affairs Section collaborated with the Investor Relations Section on takeover defense measures, engaged in numerous discussions with shareholders in Japan and overseas concerning the validity of their content, and made changes where necessary while promoting understanding of the necessity of these measures. Furthermore, we set up small meetings between external directors and investors to facilitate frank discussions pertaining to governance. We also arranged opportunities for senior management to exchange opinions directly with investors, who were provided with a chance to experience the latest virtual reality (VR) technologies. At our earnings presentation, we showed videos of developer interviews related to titles of interest to investors, as well as a variety of other new initiatives aimed at reflecting stock market opinions and demands.

In addition, Capcom 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 Presentation of

Fiscal 2015 IR Measures

By category	Frequency
Visited by requests	186
Visited domestic investors	99
Visited overseas investors	85
Total	370

IR Events

Event	Details
CEO small meeting	Speaker: Kenzo Tsujimoto, Chairman and CEO
COO small meeting	Speaker: Haruhiro Tsujimoto, President and COO
External director small meetings	Speaker: Takayuki Morinaga, External Director
Supplementary explanatory earnings administrative officer conference call	Conference call before/after earnings announcement to explain the results
Latest technology experience-based event	Conducted experience-based demonstration of latest VR technologies, promoted understanding of Capcom development technologies
Showed developer interviews during earnings presentation	Used developer videos to explain development status of latest titles of high interest to the market
Conducted perception gap study	Conducted assessment survey targeting investors and analysts in Japan and overseas regarding Capcom's management targets, strategies and IR activities, provided feedback to management

Financial Results and individual investor briefing sessions, allowing us to make proactive use of market opinions as one criterion in management decisions. Specific examples of how this information is used include (1) medium-term business goal revisions, (2) enhanced business strategies, (3) information disclosure content and timing reviews and (4) group meetings with management.

Perception Gap Study Investor Feedback (Excerpts)

- Even though you had popular IPs, no results were seen in mobile. I have the impression that not many measures are being taken towards further reinforcement, including outsourcing.
- In terms of shortening the development period for popular series titles, other than *Monster Hunter* the lineup was not mentioned, so I am uneasy about its progress.
- Leaving treasury stock on the balance sheet long term is a problem. I understand keeping it for M&As, etc., but in principle, it should be retired.
- I would like to know the state of the development system, so I would like a meeting to be held with developers.
- How about releasing catalog sales ratios as material for evaluating strategies for anchoring long-term users.

IR Activities on Our Website

Utilizing a Website That Anyone Can Access

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 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 about 200 countries worldwide. Capcom's corporate website is also positioned as our most cost-effective tool.

IR Team

Full-Time Staff Engaged in a Wide Variety of Activities

Capcom IR activities are conducted by five 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 use the contact information below.



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)



Masao Sato

Takayuki
Morinaga

Hiroshi Yasuda

Makoto Matsuo

Yoshihiko Iwasaki

Toru Muranaka

Tamio Oda

Yoichi Egawa

Kenzo Tsujimoto

Haruhiro Tsujimoto

Kenkichi Nomura

Kazushi Hirao

Directors

(As of July 1, 2016)

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)
Feb. 2015 Representative Director, in charge of Consumer Games Business of the Company
Jul. 2016 Representative Director, in charge of Global Marketing 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
Apr. 2015 Director, in charge of Amusement Equipments Business and Arcade Operation Business of the Company
Jul. 2016 Director, in charge of Amusement Equipments Business, Arcade Operations Business and Consumer Games Development (to present)

Kenkichi Nomura

Director and Executive Corporate Officer,
Chief Financial Officer (CFO)

Apr. 1979 Entered into Fuji Bank Ltd. (Currently Mizuho Bank Ltd.)
Apr. 2007 Corporate Officer and Division Manager of Finance and Foreign Exchange Administration Service Division of Mizuho Bank Ltd.
Apr. 2009 Corporate Officer in charge of Internal Control of the Company
Jul. 2010 Managing Corporate Officer in charge of Financial and Accounting Division of the Company
Jun. 2015 Managing Corporate Officer in charge of Financial and Accounting Division and Secretarial Affairs, PR and IR Division of the Company
Apr. 2016 Executive Corporate Officer and Head of Finance, Accounting and Public Relations Division (to present)
Jun. 2016 Chief Financial Officer (CFO) and in charge of Corporate Management of the Company (to present)

Hiroshi Yasuda

Director External Independent 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 of the 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 Advisor of Capital Market Promotion Public Interest Incorporated Foundation (to present)

Masao Sato

Director External Independent Director

Apr. 1975 Entered into the National Police Agency
Nov. 1995 Chief of Ehime Prefectural Police Headquarters
Jan. 2001 Chief of Miyagi Prefectural Police Headquarters
Aug. 2005 Chief of Chiba Prefectural Police Headquarters
Jan. 2007 Director General of Kanto Regional Police Bureau
Mar. 2008 Resigned from the National Police Agency
Jun. 2008 External Corporate Auditor of the Chugoku Electric Power Co., Inc.
Jun. 2016 External Director of the Company (to present)

Toru Muranaka

Director External Independent Director

Apr. 1995 Registered Lawyer (Osaka Bar Association)
Entered into Daiichi Law Office (Currently Daiichi Law Office, P.C.)
Dec. 2007 Partner of Daiichi Law Office, P.C. (to present)
May 2014 Outside Audit & Supervisory Board Member of Furuno Electric Co., Ltd. (to present)
Jun. 2015 Outside Audit & Supervisory Board Member of Suzuken Co., Ltd. (to present)
Jun. 2016 External Director of the Company (to present)

Kazushi Hirao

Director
<Full-time member of the Audit and Supervisory Committee>

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)
Jun. 2016 Director (Full-time member of the Audit and Supervisory Committee) of the Company (to present)

Yoshihiko Iwasaki

Director External Independent Director
<Full-time member of the Audit and Supervisory Committee>

Apr. 1979 Entered into National Tax Agency
Jul. 1986 District Director of Ijui Tax Office
Jul. 1997 Deputy Commissioner (Revenue Management and Collection) of Hiroshima Regional Taxation Bureau
Jul. 1999 Deputy 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)
Jun. 2016 Director (Full-time member of the Audit and Supervisory Committee) of the Company (to present)

Tamio Oda

Director
<A member of the Audit and Supervisory Committee>

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
Jul. 2010 Director, Chief Financial Officer (CFO) of the Company
Apr. 2011 Director, Executive Vice President of the Company
Jun. 2016 Director (Audit and Supervisory Committee) of the Company (to present)

Makoto Matsuo

Director External Independent Director
<A member of the Audit and Supervisory Committee>

Apr. 1975 Admitted to Japanese Bar (The Dai-ichi Tokyo Bar Association) Ozaki & Momo-o
Jul. 1986 District Director of Ijui Tax Office
Jul. 1997 Deputy Commissioner (Revenue Management and Collection) of Hiroshima Regional Taxation Bureau
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
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
Oct. 2008 External Director of JVC KENWOOD Holdings, Inc.
Jun. 2009 External Corporate Auditor of Toray Industries, Inc.
Mar. 2015 External Director of TonerGeneral Sekiyu K.K. (to present)
Jun. 2016 External Director (Audit and Supervisory Committee) of the Company (to present)

Takayuki Morinaga

Director External Independent Director
<A member of the Audit and Supervisory Committee>

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
Jun. 2016 External Director (Audit and Supervisory Committee) of the Company (to present)

Principal Discussions at Board of Directors Meetings Held in Fiscal 2015



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. (As of March 31, 2016) In addition, they focus on promoting growth strategies utilizing corporate governance, vigorously discuss the ideal state of the Company's organizational design related to corporate governance and their accountability to shareholders and investors. The heated discussion with external directors produced numerous suggestions, two of which are presented in this section.

Note: Light blue highlights indicate external director comments. Mr. Iechika was appointed to the board as an external director for five years beginning in 2002. Legally, he was not an external corporate auditor, but in practice, he conducted audits in the same capacity as an external corporate auditor.



Item 1

Discussion on Corporate Governance Codes (Hereinafter, "Codes")

Oda The Code, which went into effect as of June 2015 in Japan, consists of 73 principles. To ensure continuity within the organization and its mechanisms and promote growth strategies, in addition to providing more substantial content for the 26 items that we must focus more of our efforts on, which include expanded business execution functions and the establishment of a nominating committee, Capcom plans to disclose in total all 73 items.

Matsuo Allow me to ask: what is the reason for publishing all items?

Oda For example, even if we were to only disclose the compulsory 11 items, the Code does not define each of the terms but rather the Company interprets them; thus, in the case that we comply (and thus are not required to explain ourselves), there is the possibility of a difference in interpretations arising. For this reason, we will record items that clearly require an explanation (due to non-compliance) under "explain," while at the same time disclosing Capcom's view on all 73 items.

Matsuo Going forward, each company must disclose their response to the Code. I think some companies will disclose only the bare minimum, while others will take the opportunity to carefully disclose their point of view. Considering the risk of mistakenly assuming a company is in compliance, from the perspective accountability, Capcom believes it appropriate to disclose descriptions of all items.

Iechika I don't object to Capcom adopting this stance, but it appears there are several incomplete descriptions. For example, in supplementary principle 4.11.3 "Analysis and Evaluation of Board of Director Effectiveness," there is a description of internal control systems, but there is no description regarding Board of Director deliberations, thus from a self-evaluation perspective this response is insufficient. I would like to see disclosure pertaining to analysis and evaluation packed with concrete details, including preparations for Board of Director meetings, the provision of materials, explanation of items for deliberation as well as agenda selection policies and board discussions aimed at improving efficacy. Furthermore, operations after the Code is submitted are critical, thus I would like Capcom to continue making improvements in areas where there are deficiencies going forward.

Oda As you point out, self-evaluation of these principles is important. To execute growth strategies, we need to compare the current and ideal states of the Board and of course make improvements in areas where there are differences. Moreover, in item (4) of the explanation of this supplementary principle, details regarding Board of Director meeting discussions and small meetings with external director Morinaga among other initiatives are disclosed in the integrated report. Our adoption of proxy advisor opinions has been well received outside the Company.

Matsuo This particular code is for institutional investors in the U.S. and Europe, so we can consider externally entrusting supplementary principle 4.11.3. I personally think of takeover defense measures up to now and the introduction of this code as opportunities, and that the Company, which has utilized the transition to a company with audit and supervisory committee as a contributor to its growth strategies, is more keenly aware of governance compared to other companies.

Iechika Rather than an end in itself, governance is a means to an end. To achieve results, we need to use the code appropriately



rather than wave it around.

Kenzo Tsujimoto Management entails taking on risk. Use of the code is the means by which to control risk. We must constantly review our governance structure and control risks to develop a future vision and move forward.

Item 2

Discussion on the Transition to a Company with Audit and Supervisory Committee

Morinaga (In response to an explanation) If organizational design is for promoting growth strategy, I think the company with a board of corporate auditors we have operated under up to now functions sufficiently. At the present time, is there something we are lacking?

Oda The global video game software market is undergoing significant changes and growth, so we must promote an aggressive growth strategy to enhance Capcom's corporate value. To promote these growth strategies, speedy and accurate decision-making are a necessity. Under certain conditions, in a company with audit and supervisory committee, some of the important business execution can be delegated to the president and other executive directors. Comprehensive audit and supervisory functions are necessary for ensuring appropriate delegation. As the monitoring of legality in a company with audit and supervisory committee is conducted as a matter of course, the monitoring is also verified. For this reason, auditing and supervisory committee members have Board of Director voting rights as corporate directors. For Capcom to grow, I think this transition is a good idea.

Matsuo In addition to auditing focused on legality up to now and internal auditing of execution, there is merit in this transition as it will strengthen the monitoring function by enabling validity monitoring. As a result, as we execute growth strategies, we will be able to ensure a system for monitoring deviations in budgetary and financial management.

Iechika Governance configuration is a means not an end. For example, when considering and executing policies aimed at enhancing corporate value, the degree to which we are able to make effective judgements is an issue of governance. Furthermore, the audit and supervisory committee is hybrid governance, so we must sufficiently consider the relationship between execution and supervision. By absorbing auditors into the Board of Directors, auditor and supervisory committee member independence will be

lost, resulting in the issue of how to distribute authority. Finally, with respect to agenda criteria at Board of Director meetings, after considering Capcom's present situation, I'd like you to consider what agenda items would be narrowed down and delegated to the president, etc., to enable the Board of Directors to make the most of its traditional function.

Kenzo Tsujimoto There are many agenda items brought up as resolutions with content sufficient for reporting items, such as management system and partial personnel reshuffling. In terms of forward-looking policies, audit and supervisory committee members make decisions from a stance different from business execution, and we will create an organizational structure able to narrow down important issues for discussion at Board of Director meetings.

Matsuo A company with audit and supervisory committee is a good institutional design in terms of governance strength from the perspective of overseas institutional investors. In addition, we can expect effective governance due to director, audit and supervisory committee member terms of office. Furthermore, governance is not over once mechanisms are created, because the way in which operations are conducted is also important. Transitioning from a company with a board of corporate auditors with a complete auditing function to a company with audit and supervisory committee with a new auditing function requires a considerable amount of investigative work, including external directors, thus I would like you to respond after careful consideration.

Iwasaki As a mechanism of internal control and internal audit, until now it was under the Board of Directors, which itself had been audited by the Board of Corporate Auditors. Transitioning to an audit and supervisory committee, audit and supervisory committee members will be part of the Board of Directors, with internal controls and internal auditing directly under the audit and supervisory committee, enabling the efficient execution of business. However, as the audit function in each department up to now will be dissolved, you need to consider how you are going to respond.

Oda Understood.



Dialogue Between an External Director and Institutional Investors



Small Meeting

Held July 2016: Theme

The Role Demanded of External Directors Under the New Governance Structure

Takayuki Morinaga, External Director and Chairman of the Audit and Supervisory Committee

At the Shareholders' meeting in June 2016, the transition to a company with an audit and supervisory committee was approved and adopted. With consideration also for the evaluation of foreign shareholders, the transition was decided to function as a mechanism for supporting growth strategies going forward. In addition, by directly linking the Internal Audit Division to the Audit and Supervisory Committee, we will further strengthen audit and supervisory functions. This is an attempt to improve management's



Takayuki Morinaga
Capcom Co., Ltd. External Director,
Chairman of the Audit and Supervisory Committee

risk management function by making directors of auditors who traditionally had no voting power. As the Chairman of the Audit and Supervisory Committee, I feel it is important to have skills enabling me to accurately judge the appropriateness of strategies in response to a given situation.

Q&A Summary

Q In terms of game company growth strategies, how well the development structure and environment is established is an extremely important point, so what do you think your role should be as an external director?

A R&D department is Capcom's lifeline, which I am fully aware is an important asset. Thus, skill enhancement and other human resources development training is essential for improving our developers' capabilities. At the same time, we cannot ignore the efficacy of alliances and collaborations with other companies. I think it is desirable for management to skillfully utilize external resources in areas outside the Company's core competence or when it would take too much time for one company to achieve an objective alone. These are the kinds of proposals I want to make.

Q In terms of your supervisory function as an external director, what do you attach the most importance to?

A The most important evaluation criterion is whether an action leads to shareholder profits. For example, evaluations (risk

control) concerning the legality and validity of executive division strategies, and decisions related to the pros and cons of executing takeover defense measures.

Q In your role as external director, in addition to that kind of risk management, aren't you also asked to correct the Company's trajectory to avoid missed opportunities? Looking at the profiles of all the current external directors, I get the impression that there is a lack of people able to provide advice on the direction of growth strategy. For example, other companies in this industry are raking in huge profits in the mobile games area. Has Capcom failed to achieve success in this area because there are few external directors with ample management experience?

A Beyond aiming to enhance corporate value, I am cognizant that course adjustments are also one of our critical roles. Risks pertaining to growth strategies involve investment risks as well as risks in not investing. The decision not to invest has the potential for a missed opportunity. In order for Capcom to break the 100 billion yen net sales barrier, there are three issues I think need to be addressed: the aforementioned improvements to the development structure, aggressive and bold challenges in new areas such as mobile games and expanding into new, high-potential overseas markets, such as Asian. To achieve sustainable growth, we must not only manage risks, but also flexibly execute course adjustments. I will leverage my management experience up to now to fulfil this major role.

Q At an owner-run company like Capcom, to what degree are Audit and Supervisory Committee member opinions reflected in Board of Director resolutions? At various companies around the world, family feuds are becoming a problem. This isn't an issue at Capcom?

A Chairman Tsujimoto possesses a unique and excellent management intuition, a skill most ordinary managers are unable to replicate. Thus, I want to respect the distinctiveness that is the positive aspect of an owner-run company. Even in the event

rash actions are taken, there are at present six external directors comprising a governance structure able to provide sufficient protection. It's not at all the case that just because this is an owner-run company no one can say anything. We routinely say whatever is on our mind and fully express our opinions. Also, debates during Board of Director meetings frequently become heated, but this is not a problem. If anything, without constructive and passionate discussions, we would probably be unable to generate truly effective measures and policies.

Q How have you responded to recent requests for Board of Director evaluations?

A In light of our transition to a new governance structure, our policy is to continue exploring the ideal state of the Board of Directors. We plan to begin examining this issue during the current fiscal year, so right now I would ask you to please wait a bit longer until we have come to a conclusion with respect to the evaluation criteria.

Q I want you to discuss your thoughts regarding how to indicate objectives to investors going forward.

A We will not only simply respond to market changes, but also want to pursue business that I hope enables us to create markets ourselves. There is no first-mover advantage in following changes. Rather than focusing on how to pursue, it is important to focus on how we can create markets on our own. To this end, we external directors will proactively propose structures and directions for the Company.

Participants

Capcom Co., Ltd. : Takayuki Morinaga (External Director, Chairman of the Audit and Supervisory Committee)/Tamio Oda (Director, Audit and Supervisory Committee)/Kenkichi Nomura (Director, Executive Corporate Officer and Chief Financial Officer)

Investors in Attendance : Akitsugu Era (BlackRock Japan Co., Ltd.)/Ichiro Yamaguchi (Daiwa Asset Management Co., Ltd.)/Daisuke Oshidari (JPMorgan Asset Management (Japan) Ltd.)/Kenji Kido (Mizuho Trust & Banking Co., Ltd.)/Tomoki Ito (Nikko Asset Management Co., Ltd.)/Mitsuyasu Iwao (Nissay Asset Management Corporation)/Naoki Iwata (Nomura Asset Management Co., Ltd.)/Akio Otani (Tokio Marine Asset Management Co., Ltd.)

Governance Reforms for Further Growth

Course of Governance Reforms

One of the purposes of Capcom's governance reforms is the creation of systems for management - that is, making management more transparent and visible.

Generally, the strengths of an owner-run company are momentum via fast decision making, and managerial flexibility that makes it possible to not dwell on the past and implement structural reforms. Conversely, concerns over the founder's complacency and the difficulty of passing on management to the next generation can be presented as weaknesses of this system.

In order to eliminate these concerns, Capcom believes the creation of management systems which are easily visible from outside the company as well such as with external directors and stock markets. In addition, formal systems alone are meaningless; the systems must also be effective. To this end, Capcom has implemented the governance reforms listed in the table below.

Specifically, in 2001 Capcom was one of the first Japanese companies to bring on board external directors. This was because Capcom sought differing opinions, such as dispassionate judgement of our management and business activities by experts with high level knowledge in a variety of fields. In that same time period, Capcom strengthened its investor relations activities, the main point of which was to engage in highly transparent management by promoting dialogue with stock markets and releasing relevant information. In addition, in 2011 Capcom established its own Audit Committee. From another perspective, legal auditing provided by corporate

auditors was initiated as a unique organization in Capcom for the management of risk in the administration of business matters and preceded the concept of the "propriety audit" in today's company with an audit and supervisory committee. Since 2014, Capcom has released portions of Board of Directors meeting discussions and held meetings between external directors and institutional investors. Amidst a string of corporate scandals both in Japan and overseas, the purpose of the meetings was to have institutional investors determine whether management monitoring by external directors was functioning effectively. And in 2016, Capcom significantly changed its organizational design, transitioning from being a company with a corporate auditor system to a company with an audit and supervisory committee. A more detailed description is provided on the following page, however Capcom has broadly strengthened supervisory functions across the entirety of its management, including 1) giving voting rights at Board of Directors meetings to directors who are Audit and Supervisory Committee members; 2) implementing propriety audits in addition to legal audits; and 3) making it possible for the Audit and Supervisory Committee to engage in systematic monitoring using internal control systems.

Capcom believes that corporate governance is essential to corporate growth and as such will continue to strengthen its governance system both in terms of organization and operation.

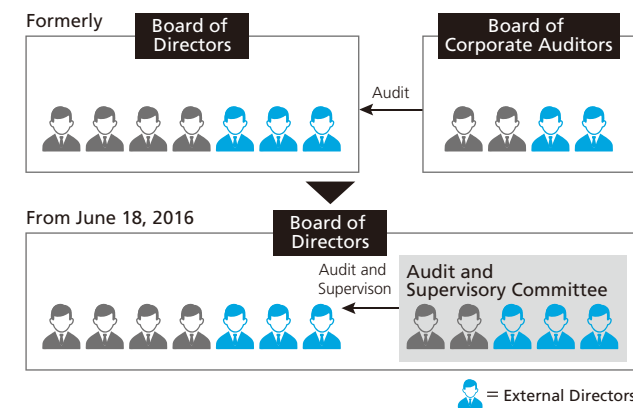
Main Governance Reform Initiatives

Month/year	Measure	Purpose
Jul. 1999	Introduced Corporate Officer System	Clearly separated execution of management and supervision
Jun. 2001	Brought on board first two external directors	Strengthened management monitoring functions
Jun. 2001	Increased number of external auditors by one, appointing three	Strengthened auditing functions
Jun. 2001	Strengthened investor relation activities	Secured transparency
Feb. 2002	Established Remuneration Committee	Secured fairness and propriety of director remuneration decisions
Apr. 2003	Established Compliance Committee	Prevented violations of laws and ordinances
Jun. 2003	Increased number of external directors by one, appointing three	Strengthened management monitoring functions
Apr. 2011	Established Audit Committee	Strengthening risk management through auditing the state of business administration
Jan. 2014	Strengthened shareholder relations activities	Promoted understanding of agenda items
Jun. 2014	Shortened director terms from two years to one year	Clarified director management responsibilities
Sep. 2014	Released major Board of Directors' meeting discussions in the annual report	Provided example of effectiveness of management monitoring functions
Jun. 2015	Held small group meeting between external directors and institutional investors	Provided example of effectiveness of management monitoring functions
Jun. 2016	Transitioned into a company with an audit and supervisory committee with a 50% ratio of external directors	Strengthened supervisory function of Board of Directors meetings
Jun. 2016	Established Nominating Committee	Secured objectivity and propriety of decision process for selecting director candidates

Four Features of Capcom Corporate Governance

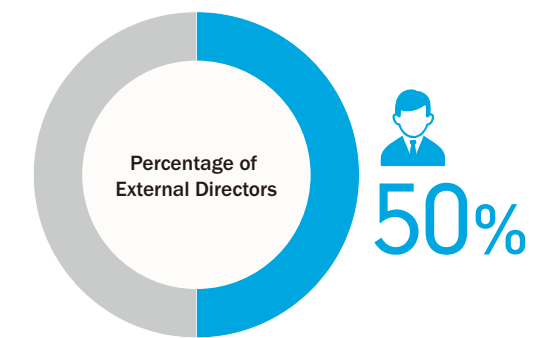
1 Transition into a company with an audit and supervisory committee to strengthen governance

Capcom established an Audit and Supervisory Committee and grants voting rights at Board of Directors' meetings to directors who are also Audit and Supervisory Committee members. In addition, Capcom aims to further strengthen supervisory functions across the entirety of management and further enhance corporate governance via the implementation of propriety audits together with conventional legal audits.



2 Proactive appointment of external directors

Capcom has reached our highest ever rate of external directors at 50% through proactively appointing external directors since June 2001. The advice, opinions, and scrutiny provided by external directors increases the transparency and credibility of Board of Directors' meetings and vitalizes the same while also strengthening the function of the meetings to supervise management.



3 Full disclosure of 73 Corporate Governance Code items

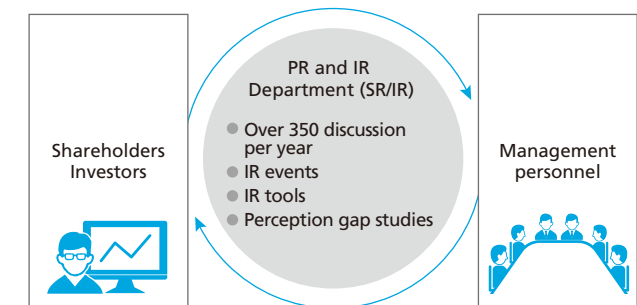
Capcom has disclosed all 73 of its Corporate Governance Code items in order to revalidate the current state of the company's governance system and its ideal state, together with achieving accountability for each item. Capcom attaches particular importance to 26 items which are comprised of 10 items which contribute to our growth strategy, 3 items which contribute to our management system, and 13 items which serve as the base for achieving these, and provides greater detail concerning the same.

Items which contribute to growth strategy	<ul style="list-style-type: none"> ● Ensure diversity within the Company, including promoting the activity of women. ● Thorough disclosure of information. ● Duties, etc. of the Board of Directors, etc.
Items which contribute to management system	<ul style="list-style-type: none"> ● So-called cross-shareholdings. ● Selection and dismissal of key members of management staff. ● Quality and standard of determining independence of independent external directors.
Items which serve as a base for the above	<ul style="list-style-type: none"> ● Basic policy for capital policy. ● Establishing an environment to support the risk-taking of the Board of Directors. ● Role and duties of independent external directors, etc.

→ Please refer to the Corporate Governance page on Capcom's investor relations site: <http://www.capcom.co.jp/ir/english/president/governance.html>

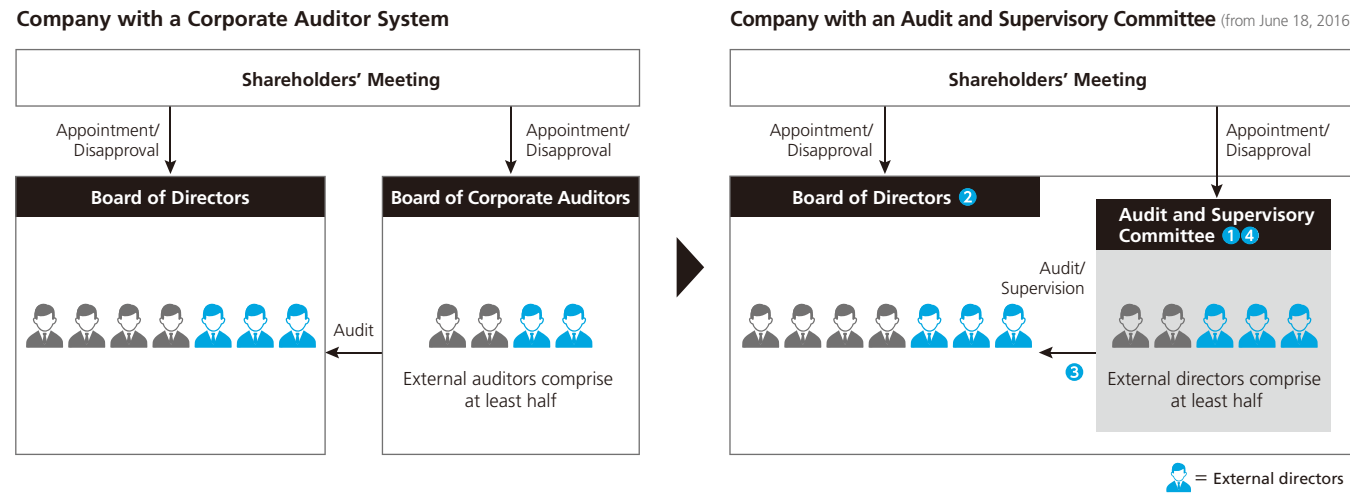
4 Mechanism for reflecting investor and analyst opinions in management

Capcom's IR Department engages in discussions with analysts and investors over 350 times per year. In addition to promoting understanding of management policies and business strategies, the IR Department applies these activities to corporate management, summarizing market opinions and providing feedback to management personnel. Capcom is also further enhancing events and tools for investors, strengthening shareholder and investor relation activities.



Transition into a Company with an Audit and Supervisory Committee

Structure and Merits of a Company with an Audit and Supervisory Committee



Merits of the Transition for Capcom

- 1 Voting rights in Board of Directors meetings for directors who are Audit and Supervisory Committee members
- 2 A portion of important business administration matters can be entrusted to directors
- 3 Adds propriety audits to legal audits
- 4 Audit and Supervisory Committee members can engage in systematic audits using internal control systems

Capcom aims to maximize long term corporate value based on its growth strategy. However, in order to ensure stable corporate management, Capcom believes it is essential to have a management base which can engage in thorough risk management. As such, on June 18, 2016 Capcom transitioned from a company with a corporate auditor system to a company with an audit and supervisory committee in order to strengthen the monitoring function of Board of Directors' meetings to further strengthen our management base, as well as to functionally expand management via fast decision making and increase understanding among overseas investors.

1. Structure

A company with an audit and supervisory committee is one type of organizational design for a public company introduced with the revisions to the Companies Act made in 2014.

In a company with an audit and supervisory committee, there are no auditors or auditor system. Instead, directors who are Audit and Supervisory Committee members are selected and an Audit and Supervisory Committee is established comprised of a majority of external directors. In other words, it is like a company with a corporate auditor system which has given Board of Directors meeting voting rights to its auditors. This type of structure makes it possible to further strengthen the monitoring function of Board of Directors' meetings.

2. Merits

This transition offers the four merits listed in the table above to Capcom.

As concerns merit 1, not only is there no such corporate auditor system in Europe and North America as found in Japan, auditors have no voting rights in Board of Directors meetings. As such, overseas institutional investors and others found it difficult to understand the monitoring function of our Board of Directors meetings. Compared with the corporate auditor system, a company with an audit and supervisory committee is a much easier to understand organizational design. As concerns merit 2, by narrowing down Board of Directors meeting agenda items to highly important topics such as management policies and business strategy, management can be developed more quickly and flexibly, and external directors can focus further on their supervisory function. Merit 3 not only gives the Audit and Supervisory Committee the right to state its opinions on director selection and remuneration at general shareholder meetings but also strengthens Capcom's risk management through the monitoring of the administration of business matters. As regards merit 4, as auditors are independent, they fundamentally engage in their own auditing, but Audit and Supervisory Committee members can order staff in the Internal Audit Department, an organization under their direct control, to implement an internal audit, and can scrutinize the resulting report. As the scope of business grows larger, such as through the expansion of the number of subsidiaries both domestic and international, the auditing function grows stronger than having several corporate auditors check the entirety of the companies in a group.

Message from the Chairman of the Audit and Supervisory Committee



Serving in the role of risk control for company growth

Takayuki Morinaga
External Director
Chairman of the Audit and Supervisory Committee

"It is said that the transition to a company with an audit and supervisory committee in order to further the growth strategy was necessary, but what is lacking now?" "In order to strengthen monitoring functions, why is a company with a nominating committee not acceptable?" – As this is an important change to the company's organizational design, there were many questions from the Board of Directors and investigating the necessity of this move was discussed over many hours. Initially, there were concerns about what it meant to so easily transition to the organizational design in fashion today. However, we have reached the conclusion that a company with an audit and supervisory committee is the best method to further enhance governance and increase corporate value.

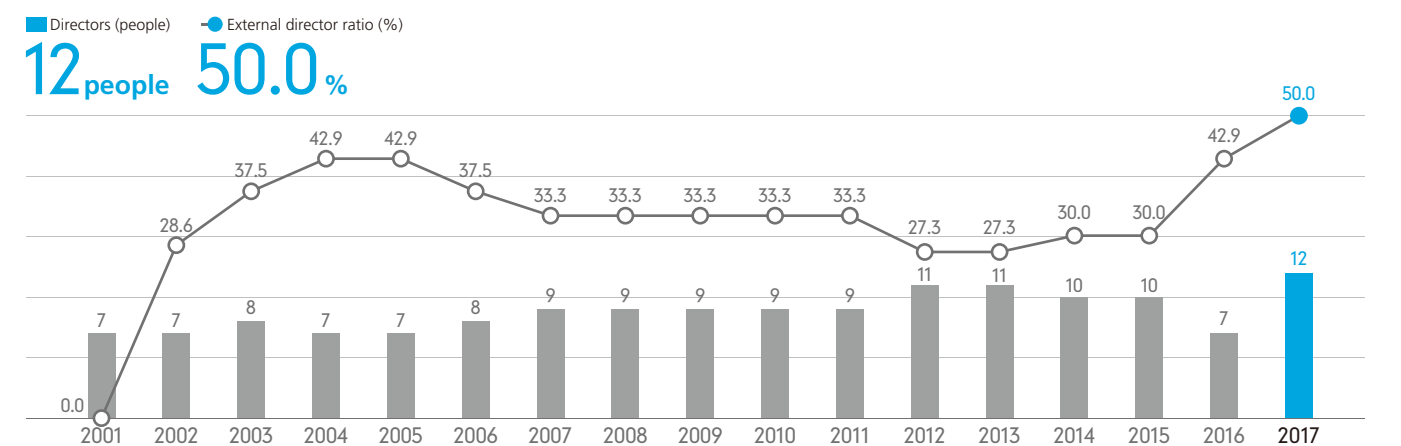
In my experience managing risk as part of corporate management, a company's fate is determined by how quickly it can gather data both internally and externally. For global companies, in addition to auditing the lawfulness of the administration of business matters, the necessity of auditing the propriety of the administration of business matters is increasing. This is because business risk expands in proportion to the implementation of a company's growth strategy, which also significantly influences

corporate value. Because of this, we have established an Internal Audit Department under the direct control of the Audit and Supervisory Committee in order to make it possible to gather information and audit it in an agile manner. It has also become clear in recent years, through corporate scandals both in Japan and overseas, that the presence or absence of a system like this significantly influences the effectiveness of risk management. However, in "auditing of propriety," the Audit and Supervisory Committee must have the ability to appropriately evaluate propriety, which I feel is a large responsibility.

In addition, as concerns a company with a nominating committee, another possible organizational design in the Companies Act is North American-style "monitoring" (with a supervisory body). We found this differs from the conventional Japanese-style "management" (with an ultimate decision-making body concerning the administration of business matters) not only in terms of the composition of directors but also the corporate culture, and arranging these would have required a significant amount of time. The Nominating Committee and Remuneration Committee established as part of our transition are advisory committees, the Audit and Supervisory Committee holds the right to express its opinion at general shareholders meetings concerning director selection and remuneration. We acknowledge that this will serve as a strong check and balance function and that at this time a company with an audit and supervisory committee is the best for Capcom.

Conversely, while obvious, no organization is perfect. I do not mean this in the sense of "ploughing the field and forgetting the seed" but rather that what is important is to what extent we make use of this system to improve Capcom's governance system. It is my desire to fulfil my role of risk control in Capcom's growth strategy based on a firm understanding of the balance between execution and supervision and the independence of auditing as discussed at the Board of Directors.

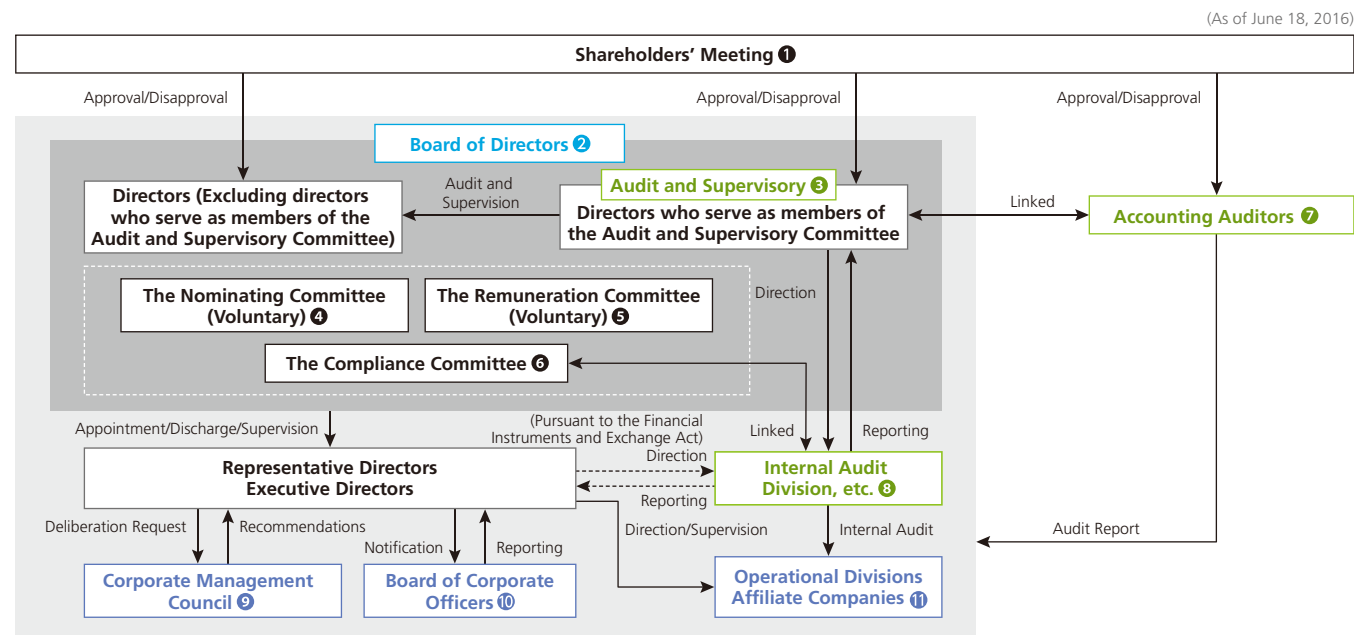
Ratio of Internal Directors to External Directors



(Fiscal years ending March 31)

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 systems 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. Because of this, in addition to enhancing management soundness and transparency, by building a trusting relationship with our stakeholders, such as shareholders, business partners, employees and regional society, we are increasing corporate value.

1 Shareholders' Meeting (Convened on June 17, 2016)

Determines Important Matters as the Highest Decision-Making Body

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.

Seven resolutions were brought up for discussion at this year's shareholders' meeting, all of which were approved and passed.

2 Board of Directors (Convened 14 times in the year ended March 31, 2016)

Supervision

Management Decisions that Incorporate Outside Opinions

In addition to the regular Board of Directors meeting being convened once every month, it is also convened when the need arises.

The Board of Directors is composed of a total of twelve directors. Of that total, five directors are Audit and Supervisory Committee members. Also, of the twelve directors, six are external directors. All six of the external directors have been registered with Tokyo Stock Exchange, Inc. as independent directors.

3 Audit and Supervisory Committee (newly established for the year ending March 31, 2017)

Audit

Accounting Auditors Partner with Internal Auditing Department to Monitor Management

The Audit and Supervisory Committee is composed of five directors (three of whom are external directors). Also, the collection and sharing of information is carried out by selecting two full time members of the Audit and Supervisory Committee in addition to using an internal control system to carryout organizational audits and supervision.

In addition to formulating auditing policies and providing consultation regarding audit results, the Audit and Supervisory Committee cooperates with the Internal Audit Division and gives advice to audited divisions regarding items to be improved, etc., working to see that internal control functions effectively in each division.

They also objectively and fairly check the legality and propriety of execution of operations by directors by exchanging opinions and information with the Accounting Auditors and attending important meetings.

NEW

4 The Nominating Committee

A Consulting Organization For Selecting Candidates for Director

In June 2016 Capcom established a voluntary nominating committee with an external director as committee chairman as a consulting organization to the Board of Directors in order to ensure the objectivity and propriety of the decision process to select candidates for director.

5 The Remuneration Committee (Convened two times in the year ended March 31, 2016)

Recommending Details of Director Compensation

Capcom has established a voluntary remuneration committee with an external director as committee chairman as a consulting organization to the Board of Directors in order to ensure the objectivity and appropriateness of the decision process for setting compensation of directors (excluding directors who are members of the Audit and Supervisory Committee).

6 The Compliance Committee (Convened four times in the year ended March 31, 2016)

Focusing on Compliance as an Important Management Issue

In order to ensure compliance, the Compliance Committee meets quarterly and has an external director with the qualification of a lawyer as the chairman. In order to prevent illegal activities and misconduct Capcom has established Compliance Hotline Rules and, so that all employees can directly report illegal activities or misconduct, we have also established an internal hotline, and conduct periodic compliance checks to regularly monitor status, etc. To ensure effectiveness, problems confirmed by this committee and issues that must be dealt with are properly disposed of.

7 Accounting Auditors

Audit

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

Auditor Remuneration (Year ended March 31, 2016)

	Audit Operations	Non-Audit Operations
Delivery company	41 million yen	0 million yen
Consolidated subsidiary	2 million yen	-
Total	43 million yen	0 million yen

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

Note: Assistants to certified audit operations; Certified public accountants: 10; Others: 7 (those who have passed the certified public accountant exam and persons in charge of system audits)

and this audit corporation or the engagement partners at this firm who perform audits at Capcom.

8 Internal Auditing Division

Audit

Ensuring and Verifying Legal Compliance and Operating Efficiencies

We have established an internal auditing division as an internal audit organization in support of the Audit and Supervisory Committee. This division primarily conducts regular monitoring of each division and Group companies from the standpoint of risk management. In addition information is collected and analyzed from the standpoint of legality, propriety, and efficiency so internal operational risk and inefficiencies are properly understood, working to prevent the occurrence of crises and improve operations. In addition, in the event of an unforeseen situation, the Audit and Supervisory Committee contributes to the formulation of appropriate management decisions by quickly reporting to the Audit and Supervisory Board with a report examining and analyzing the causal factors in an attempt to minimize losses to the company.

9 Corporate Management Council (Convened 24 times in the year ended March 31, 2016)

Implementation

Supporting the Board of Directors' Decisions

The President and Executive Corporate Officers participate in the Corporate Management Meeting, which is held the day before a meeting of the Board of Directors. At the Corporate Management Meeting we ensure the fairness and transparency of the decision process with careful review of special items, items brought up to the Board of Directors and items delegated to executive corporate officers such as the President.

10 Board of Corporate Officers (Convened 12 times in the year ended March 31, 2016)

Implementation

Executing Operations Based on Clear Management Policy

In order to clarify monitoring and business operation functions, Capcom adopted the corporate officer system. The Board of Corporate Officers is convened once a month. At the Board of Corporate Officers, in addition to executing business based on Board of Directors' decisions, there are reports on policies for execution of business and the formulation of plans. Also, there are reports at the monthly meetings of the Board of Directors about the status of business execution by the Corporate Officers.

11 Affiliate Companies

Implementation

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.

External Directors

Using External Perspectives to Ensure Effective Governance

External directors ensure the effectiveness of the corporate governance function by playing key roles in the Compliance, Nominating 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.

Also, the Secretariat staff helps with the work of the external directors not Members of the Audit and Supervisory Committee and with regards to external directors who are Members of the Audit and Supervisory Committee, the full-time staff of the Internal Audit Task Force helps with their work.

Board of Directors and External Auditors Rate of Attendance (Year ended March 2016)

	Name	Independent director	Reasons for selection	Board of Directors/Board of Corporate Auditors Rate of Attendance (Year ended March 2016)
External Directors	Hiroshi Yasuda	○	Appointed with overall consideration for character, business acumen and successive appointments to important posts	Board of Directors Attended 14 of 14 meetings (100%)
	Makoto Matsuo	○	A legal professional able to provide precise guidance and advice and ensure the effectiveness of corporate governance	Board of Directors Attended 13 of 14 meetings (92.9%)
	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 14 of 14 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 14 of 14 meetings (100%) Board of Corporate Auditors Attended 13 of 13 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 14 of 14 meetings (100%) Board of Corporate Auditors Attended 13 of 13 meetings (100%)

Officer Remuneration

The Remuneration Committee Makes Recommendations to Ensure Fairness and Transparency

To ensure fairness and transparency, the compensation of Directors is consulted on with the voluntary Remuneration Committee which has an external director as chairman and is decided upon by the Board of Directors based on this committee's recommendations. The current remuneration system is composed of set monthly remuneration and performance-based bonuses paid in cash but the percentage of set remuneration is high. Because of this, we are looking into introducing a new remuneration system to increase the directors' incentive to increase corporate value over the medium- to long-term. And also, as part of an overall environment to support risk-taking, the remuneration linked to performance will be set to an appropriate percentage.

2 The remuneration of the directors who serve as members of the Audit and Supervisory Committee

The remuneration of the directors who serve as members of the Audit and Supervisory Committee is not linked to performance from the perspective of securing their independence and thus determined through discussions, taking the difference of full-time or part-time service into account, by the directors who serve as members of the Audit and Supervisory Committee.

Officer Remuneration (Year ended March 31, 2016)

Total remuneration, etc. by type of director for delivery companies, total amount by type of remuneration, etc., and number of directors the remuneration was paid to

Type of director	Total Remuneration (million yen)	Total of remuneration, etc. by type (million yen)				Number of directors paid
		Basic remuneration	Stock options	Bonus	Severance	
Director (excluding external directors)	324	265	-	50	9	7
Auditor (excluding external auditors)	28	28	-	-	0	2
External director	56	56	-	-	-	5

Notes 1: The above includes three directors who left office due to their tenure ending at the conclusion of the 36th Regular General Meeting of Shareholders held on June 12, 2015.
2: The above includes one auditor who died in office on March 2, 2016.

Total amount of consolidated remuneration, etc. by director of delivery company

Name	Total of consolidated remuneration, etc. (million yen)	Type of director	Type of company	Total of consolidated remuneration, etc. by type (million yen)			
				Basic remuneration	Stock options	Bonus	Severance
Kenzo Tsujimoto	100	Director	Delivery company	80	-	20	-

Note: The listing of total of consolidated remuneration, etc. is restricted to persons with 100 million yen or more.

Policy Regarding Deciding the Calculation Method and Amount of Directors' Remuneration

1 Regarding Remuneration of Directors (excluding directors who are members of the Audit and Supervisory Committee)

To ensure fairness and transparency of Directors' remuneration, the Board of Directors consults the Remuneration Committee, which has an external director as chairman. The Remuneration Committee considers each board member's position, duties, tenure, full/part-time service, etc. as well as Capcom's earnings and individual job performance, and recommends an appropriation amount. The Board of Directors makes a decision based on this.

- a. Monthly remuneration is fixed.
- b. The amount of bonus is determined within the reasonable range based on the monthly remuneration and the Company's performance.
- c. Other than the remunerations listed above, appropriate remuneration based on individual achievement may be paid within a determined range.

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 35th among 3,460 listed companies in Japan in the "NEEDS-Cges" 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 1 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 8.75 points, placing us in the top 1.1% of Japan's listed companies. Our score also exceeded the average for all listed companies and for the industry, at 5.45 points and 7.77 points, respectively. We continued to receive the full 10 points for "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.

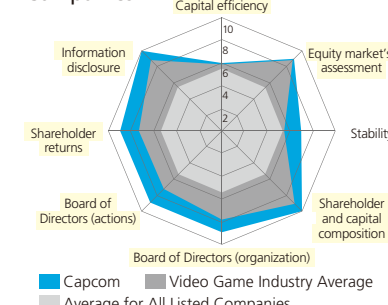
Going forward, we continue making improvements based on consideration of external data to earn an even stronger assessment, and further promote the external visibility of our governance by posting this and other data on our corporate website.

Third-Party Assessment Results of Capcom's Corporate Governance

Details of Capcom's Corporate Governance Assessment

Categories	Score
Total Score	8.75
Rank	35
Capital efficiency	6
Equity market's assessment	9
Stability	7
Shareholder and capital composition	10
Board of Directors (organization)	9
Board of Directors (actions)	9
Shareholder returns	9
Information disclosure	10

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
Board of Directors (organization)	9	Board of Director members Managing Corporate Officers External director ratio Adoption of the Corporate Officer System
Board of Directors (actions)	9	Amount of director treasury stock holdings Amount of president's treasury stock holding
Shareholder returns	9	Shareholder return ratio
Information disclosure	10	Changes in accounting policy Date of general shareholders' meeting Corporate website

Source: NEEDS-Cges from Nikkei Digital Media Inc.

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, 2015, general shareholders' meeting, and the results of voting.

Resolutions	Approval Votes	Votes Opposed	Abstained Votes	Approval Rate (%)	Voting Results
First proposal: Proposed Appropriation of Retained Earnings	453,673	3,570	0	98.60	Approved
Second proposal: Partial Amendments to the Articles of Incorporation	453,725	3,517	0	98.61	Approved
Third proposal: Election of Seven Directors (excluding Directors who are members of the audit and supervisory committee)					Approved
Kenzo Tsujimoto	450,336	6,905	0	97.88	
Haruhiro Tsujimoto	446,497	10,744	0	97.04	
Yoichi Egawa	448,133	9,108	0	97.40	
Kenkichi Nomura	448,116	9,125	0	97.39	
Hiroshi Yasuda	445,388	11,854	0	96.80	
Masao Sato	455,128	2,115	0	98.92	
Toru Muranaka	438,455	18,788	0	95.29	

Resolutions	Approval Votes	Votes Opposed	Abstained Votes	Approval Rate (%)	Voting Results
Fourth proposal: Appointment of Five Directors who are Members of the audit and supervisory committee Kazushi Hirao Yoshihiko Iwasaki Tamio Oda Makoto Matsuo Takayuki Morinaga	444,350 454,862 446,190 427,051 454,919	12,889 2,380 11,049 30,191 2,323	0 0 0 0 0	96.58 98.86 96.98 92.82 98.87	Approved
Fifth proposal: Election of One Director who is a substitute member of the audit and supervisory committee	457,069	174	0	99.34	Approved
Sixth Proposal: Determination of the Amount of Remuneration for Directors (excluding Directors who are members of the audit and supervisory committee)	456,489	242	511	99.21	Approved
Seventh proposal: Determination of Amount of Remuneration for Directors who are members of the audit and supervisory committee	456,467	264	511	99.21	Approved

→Please refer to the "Shareholders Meeting Resolutions" section of our IR web page for information about the conditions for each proposal to be passed <http://www.capcom.co.jp/ir/english/stock/meeting.html>

Internal Control System and Initiatives

Status of Internal Control System

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. Develop a System to Maintain Appropriate Business Practices

(1) System for storage and management of information related to directors' performance of duties

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

(2) System Regulations, etc. Concerning Risk Management

We are working to see that with "crisis management regulations," and other such means the system-wide risk management structure functions to proactively prevent crises and execute the appropriate actions if unforeseen events occur.

(3) System to Ensure that Directors Perform Duties Efficiently

Capcom introduced a Corporate Officer System under which the duties of the Board of Directors, which decides business policy, and corporate officers, who execute operations, are separated and promote smooth and flexible business operations through speedy decision-making and enhanced management efficiency.

(4) System to Ensure that Performance of Duties by Employees Conforms with Laws and Regulations, etc.

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) System to Ensure the Appropriateness of Duties in the Capcom Group

Capcom requires the reporting of important subsidiary information, such as the current state of business and business forecasts. This is accomplished through close cooperation and mutual understanding between the parent and subsidiaries based on convening Board of Directors meetings at subsidiaries in which Capcom directors, etc. participate and "Subsidiary Management Regulations," etc. Also, we are aiming for rationalization of duties so that corporate governance functions, and we are promoting the maintenance of the overall

Group's compliance system with "Risk Management Regulations."

(6) System for Employees Who Help in the Duties of the Audit and Supervisory Committee, System Regarding the Independence of the Employees Concerned from the Director and System to Ensure Effectiveness of Direction Given to the Employees Concerned

The Audit and Supervisory Committee works so that the internal controls function effectively, auditing the execution of operations by directors and employees based on auditing policies and, as necessary, submitting items found in audits and making advice and suggestions for corrections, etc. Because of this, we have established an Internal Auditing Division directly under the control of the Audit and Supervisory Committee to enable the work of the Committee to be performed duties smoothly and appropriately. This Division has a full-time staff of 18 who help with execution of operations of the Audit and Supervisory Committee and the consent of the Audit and Supervisory Committee is obtained regarding the reassignment of members of this staff.

(7) System for Capcom Group Employees and Directors to Report to the Audit and Supervisory Committee, System for Other Reports to the Audit and Supervisory Committee, System to Prevent Unfavorable Treatment Due to Having Made a Report

When the Audit and Supervisory Committee request a Capcom employee or director for information regarding the execution of operations, that employee or director responds promptly and appropriately and also reports appropriately about the required items. Also, when an employee or director of Capcom or the Capcom Group makes a report to the Audit and Supervisory Committee, she/he is not treated unfavorably because of that report.

(8) Other Systems to Ensure that Audit and Supervisory Committee Audits are Carried out Effectively

Regarding the expenses incurred in the execution of operations by Directors who are Members of the Audit and Supervisory Committee, in addition to having established a budget of a given size, we bear the costs for applicable expenses when requested to pay ahead of time.

(9) Overview of Operational Status of the System to Ensure Appropriate Operations

In addition to the above systems, the Compliance Committee, which has an External Director as chairman, meets once a quarter and reports on inherent risks and the probability of actualization, etc. to the Board of Directors, working for early discovery and prevention of illegal activities and misconduct. Also, in order to deepen Directors' understanding of compliance, with e-learning and checking the effectiveness of use of periodic compliance check sheets, we are preventing insider trading and the leakage of information, ensuring information security, and thoroughly promulgating observance of laws and regulations. Additionally, with regards to Capcom Group companies, in addition to conveying Capcom's management policies

to management at subsidiaries, we are working to have the internal control system for the entire Capcom Group work effectively by continually monitoring the business status of subsidiaries by collecting information from Capcom's Directors who hold two posts concurrently and dispatched employees, etc.

Initiatives to Strengthen Compliance

Focusing on the Viability and Effectiveness of Our Compliance System

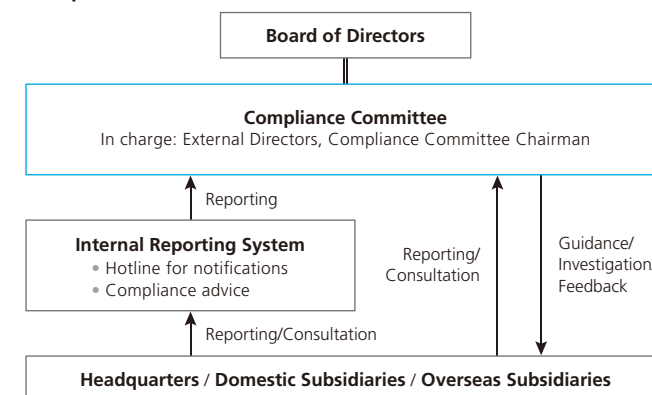
As noted on page 72, Capcom has established the Compliance Committee chaired by an external director who is qualified as a lawyer and consisting of directors and directors who serve as members of the Audit and Supervisory Committee to prevent any violation of laws and regulations. In addition, the Company is working to improve the effectiveness of compliance on a group-wide basis by measures to maintain the functionality of the department responsible for accepting the consultation requests and whistleblower reports such as announcing necessary matters through the Company's intranet.

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.

Compliance Structure



Status of Training Programs (Year ended March 31, 2016)

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

Capcom will continue to instill this understanding in all its officers and employees.

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.

Accordingly, to protect Capcom's information assets from a variety of threats and maintain an information security policy appropriate for a corporation trusted by society, we 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 past few years, we have been implementing measures to prevent information leaks, which include the (1) identification of information leak risks, (2) creation of an early response structure to respond to information leaks and (3) establishment of a response process to minimize damage in event information is leaked.

Moreover, to prevent the remote takeover of computers and other cyber-attacks that are on the rise recently, we constantly monitor for suspicious communications with external networks and implement virus detection on computers issued to employees.

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

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2016	
For the Year:	Millions of yen					Millions of yen							Thousands of U.S. dollars
Net sales	¥ 70,253	¥ 74,542	¥ 83,097	¥ 91,878	¥ 66,837	¥ 97,716	¥ 82,065	¥ 94,075	¥ 102,200	¥ 64,277	¥ 77,021	\$ 687,695	
Operating income	6,580	9,602	13,121	14,618	5,587	14,295	12,318	10,151	10,299	10,582	12,029	107,408	
Net income (loss) before income taxes	6,912	9,986	11,962	12,448	1,124	10,807	11,425	3,719	5,315	10,701	11,150		
Net income attributable to owners of the parent	6,941	5,852	7,807	8,063	2,167	7,750	6,723	2,973	3,444	6,616	7,745	69,156	
Depreciation & amortization	1,936	2,774	3,393	4,143	3,368	3,315	3,123	3,406	4,638	3,535	5,712	51,003	
Capital expenditures	1,600	4,495	4,503	2,906	2,205	2,758	4,153	8,724	8,064	10,177		73,879	
R&D expenses	1,864	1,828	2,972	2,329	2,125	2,924	2,236	1,982	2,002	823	1,073	9,588	
At Year-End:	Millions of yen					Millions of yen							Thousands of U.S. dollars
Total assets	¥ 98,457	¥ 91,478	¥ 93,606	¥ 106,210	¥ 86,621	¥ 90,408	¥ 98,247	¥ 104,365	¥ 96,611	¥ 100,773	¥ 113,057	\$ 1,009,441	
Net assets	39,464	45,144	53,660	59,349	53,956	58,007	59,352	62,828	63,875	71,331	75,168	671,150	
Net cash	(678)	9,200	13,061	7,378	12,299	27,655	11,348	14,327	22,670	21,212	15,821	141,259	
Developer numbers	705	728	809	1,047	1,132	1,339	1,455	1,623	1,808	1,902			
Cash Flows:	Millions of yen					Millions of yen							Thousands of U.S. dollars
Cash flows from operating activities	¥ 13,921	¥ 16,063	¥ 7,452	¥ (551)	¥ 14,320	¥ 22,392	¥ (7,672)	¥ 6,647	¥ 13,201	¥ 4,286	¥ 4,347	\$ 38,812	
Cash flows from investing activities	(1,779)	(6,715)	(3,374)	(2,715)	(1,618)	(2,046)	(4,794)	(1,375)	(6,155)	(5,496)	(1,639)	(14,641)	
Cash flows from financing activities	(18,259)	(15,206)	(2,448)	(342)	(10,747)	(12,919)	587	1,162	(15,099)	1,278	(1,115)	(9,956)	
Net increase (decrease) in cash and cash equivalents	(4,885)	(5,654)	(2,256)	(4,454)	1,203	5,196	(12,724)	9,235	(5,404)	1,879	431	3,852	
Cash and cash equivalents at end of year	40,652	35,020	32,763	28,611	29,815	35,011	22,287	31,522	26,118	27,998	28,429	253,836	
Per Share Data:	yen					yen							U.S. dollars
Net income (loss) per share	¥ 125.19	¥ 107.52	¥ 132.90	¥ 130.98	¥ 35.71	¥ 131.18	¥ 116.10	¥ 51.64	¥ 61.11	¥ 117.67	¥ 137.75	\$ 1.23	
Dividend per share	20.00	30.00	30.00	35.00	35.00	40.00	40.00	40.00	40.00	40.00	40.00	0.36	
Net assets per share	716.91	799.35	881.13	961.38	913.18	981.76	1,030.70	1,091.08	1,135.91	1,268.56	1,336.86	11.94	
Financial Index:	%					%							
Operating margin	9.4	12.9	15.8	15.9	8.4	14.6	15.0	10.8	10.1	16.5	15.6		
ROE	19.3	13.8	15.8	14.3	3.8	13.8	11.5	4.9	5.4	9.8	10.6		
ROA	6.8	6.2	8.4	8.1	2.3	8.8	7.1	2.9	3.4	6.7	7.2		
Net worth ratio	40.1	49.3	57.3	55.9	62.3	64.2	60.4	60.2	66.1	70.8	66.5		
Interest coverage ratio (times)	82.6	237.3	103.7	-	86.9	155.8	-	62.4	136.8	50.2	36.5		
Debt-equity ratio	149.4	102.8	74.4	79.0	60.5	55.9	65.5	66.1	51.2	41.3	50.4		
Stock Information:													
Price earnings ratio (times)	9.7	15.7	25.6	13.3	49.5	12.1	16.3	28.6	32.0	20.3	19.9		
Number of outstanding shares (thousands shares)	58,435	62,269	66,719	67,394	67,723	67,723	67,723	67,723	67,723	67,723	67,723		
Foreign investors (%)	23.35	32.60	27.72	33.73	24.22	22.17	27.05	32.37	37.29	36.87	39.35		
Digital Contents Business:	Billions of yen					Billions of yen							
Consumer business net sales	¥ 42.7	¥ 43.8	¥ 51.6	¥ 60.0	¥ 38.7	¥ 63.6	¥ 46.9	¥ 45.9	¥ 53.0	¥ 35.2	¥ 42.1		
Online business net sales	1.5	2.7	4.1	6.6	8.5	10.5	12.9	17.7	12.8	10.1	10.4		
Consumer Game Sales (Package Software and Full-game Digital Content)	Thousands					Thousands							
Total number of units	13,400	12,200	15,750	18,100	13,900	21,700	17,000	16,700	17,500	13,000	15,000		
Sales of major titles	Resident Evil 4 (PS2) 1,810	Lost Planet Extreme Condition 1,370	Devil May Cry 4 2,320	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	Monster Hunter 4 Ultimate 3,400	Monster Hunter X (Cross) 3,300		
	Onimusha DAWN of DREAMS 640	Dead Rising 1,220	Resident Evil 4 Wii edition 1,300	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	Resident Evil Revelations 2 1,100	Street Fighter V 1,400		
	Monster Hunter Freedom 610	Monster Hunter Freedom 2 1,220	Resident Evil: The Umbrella Chronicles 1,060	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	Resident Evil (HD Remastered) 900	Resident Evil Revelations 2 850		

1. Operating Results

Capcom announced that in the fiscal year ended March 31, 2016 net sales increased to 77,021 million yen (up 19.8% from the previous year), operating income increased to 12,029 million yen (up 13.7% from the previous year), and ordinary income increased to 11,348 million yen (up 4.6% from the previous year). Net income attributable to owners of the parent for the year increased to 7,745 million yen (up 17.1% from the previous year).

2. Sales and Profits

(1) Net sales

In this fiscal year, net sales were 77,021 million yen (up 19.8% from the previous fiscal year). This increase was driven by our core business, Digital Contents, in which *Monster Hunter X (Cross)* performed favorably, selling 3.3 million units to exceed initial projections of 2.5 million units. Digital download sales of *Resident Evil Revelations 2* and other previously developed catalog titles also strongly contributed to results. In addition, the launch of *Dragon's Dogma Online*, a new service in the PC Online business was solidly on track. Furthermore, in the Amusement Equipments business, Capcom pachislo frame *Resident Evil 6* sold 37,000 units, surpassing unit sales in the previous fiscal year. The increase in net sales was driven primarily by the Digital Contents and Amusement Equipments businesses.

(2) Operating income

Cost of sales increased to 47,175 million yen (up 22.9% from the previous fiscal year) and the cost of sales ratio was 61.2%, up 1.5 percentage points from the previous fiscal year. This was mainly due to (1) increased general costs associated with Capcom pachislo machines in the Amusement Equipments business and (2) increased development costs associated with the expansion of new titles in the Digital Contents business. With regard to (1), this was mainly due to the rebound effect of attempting to lower costs by reusing certain components used in *Sengoku BASARA 3* machines sold in the previous fiscal year. This fiscal year, the cost ratio is expected to return to normal levels.

Selling, general and administrative expenses were 17,816 million yen (up 15.7% from the previous fiscal year) and SG&A as a percentage of sales was 23.1%, down 0.9 percentage points compared to the previous fiscal year. As increased sales caused the fixed overhead rate to decline, the SG&A expenses ratio on a consolidated basis fell adequately within Capcom's assumed 25% range.

As a result, operating income was 12,029 million yen (up 13.7% from the previous fiscal year). Despite this increase, lower profitability in the Amusement Equipments business dampened overall earnings, resulting in an operating margin of 15.6% (down 0.9 percentage points from the previous fiscal year).

(3) Net income attributable to owners of the parent

This fiscal year, regarding non-operating expenses, price adjustments in line with an Advanced Pricing Agreement (an APA is a contract between Capcom and tax authorities in Japan and overseas specifying the pricing method Capcom will apply to its related-company transactions) resulted in the recognition of an exchange loss related to transactions with overseas subsidiaries amounting to 752 million yen. However, operating income growth offset this loss, resulting in ordinary income of 11,348 million yen (up 4.6% from the previous fiscal year).

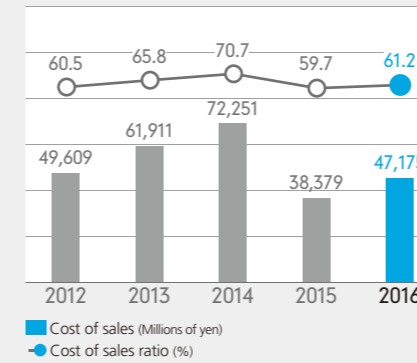
Special losses amounting to 197 million yen were also recognized, resulting in net income attributable to owners of the parent of 7,745 million yen (up 17.1% from the previous fiscal year) and the net margin was 10.1% (down 0.2 percentage points from the previous fiscal year).

3. Status of Each Operational Department

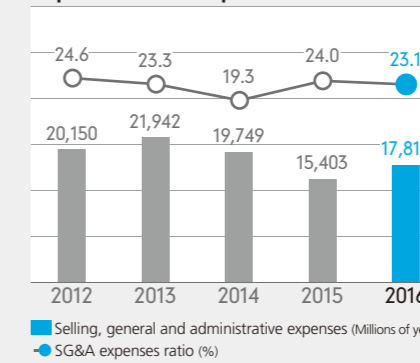
(1) Digital Contents business

In the Digital Contents business, the latest title in the flagship series, *Monster Hunter X (Cross)* (for the Nintendo 3DS system), was a major hit, with sales of more than 3 million units, surpassing the initially-planned 2.5 million units, which contributed significantly to both sales and profits. Additionally, *Resident Evil 0 (HD Remastered)* (for PlayStation 4, PlayStation 3, Xbox One, Xbox 360 and PC) steadily increased unit sales, while *Street Fighter V* (for PlayStation 4 and PC) remained a perennial favorite and maintained steady sales

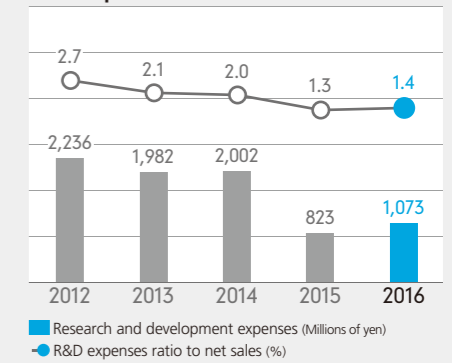
Cost of sales/Cost of sales ratio



Selling, general and administrative expenses/SG&A expenses ratio



Research and development expenses/R&D expenses ratio to net sales



mainly overseas. Moreover, sales of catalog titles grew, while digital downloads also became a stable source of revenue from a solid performance thanks to the synergistic effects from package sales.

Meanwhile with regard to online games, *Dragon's Dogma Online* (for PlayStation 4, PlayStation 3 and PC), an online open-world action game where players can freely experience a host of adventures, performed favorably. At the same time, mobile contents sales improved as downloads of *Monster Hunter Explore* (for Android and iOS) surpassed 3 million, indicating signs of a breakthrough in the current situation of the mobile contents segment.

The resulting net sales were 52,577 million yen (up 15.9% from the previous fiscal year), and operating income was 12,167 million yen (up 19.2% from the previous fiscal year).

(2) Arcade Operations business

In the Arcade Operations business, with the slow pace of market recovery, the Company strived to expand its customer base by means of community-based store strategies. For example, measures were taken to attract customers including women and families by holding various events and conducting service days for the middle-aged and seniors by offering "free game experience tours" and setting up additional "Asobi Oukoku Peekaboo" sites and "Kids' Corner" sections targeting younger children. Nonetheless, the segment results were soft, partly because of

the lack of a high-performance product as well as sluggish demand due to the dispersion of entertainment, resulting from the overlapping of arcade game players with smartphone users.

During the period under review, the Company developed its arcade operations through its scrap and build strategy, and opened four arcades including the Amuse Factory Tokoname (Aichi Prefecture) and the innovative Capcom Café (Saitama Prefecture), while closing three arcades, bringing the total number of arcades to 34.

The resulting net sales were 9,056 million yen (down 2.0% from the previous fiscal year), and operating income was 699 million yen (down 25.6% from the previous fiscal year).

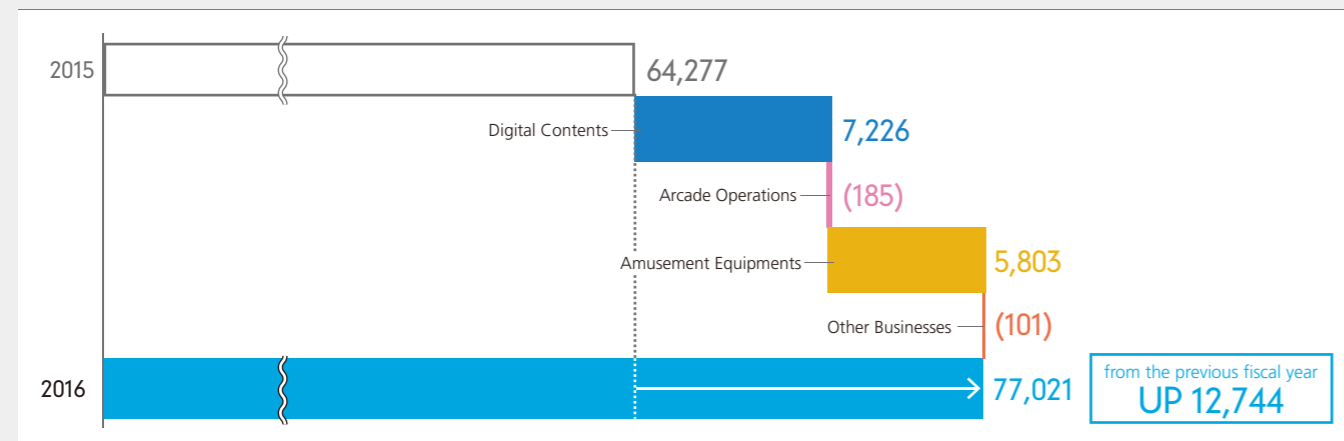
(3) Amusement Equipments business

In the Pachinko & Pachislo sub-segment, *Resident Evil 6* demonstrated its strengths as a major brand by strongly increasing unit sales, backing the improvement in revenue as it contributed to the increase in sales. However, sales of *Asura's Wrath* remained weak.

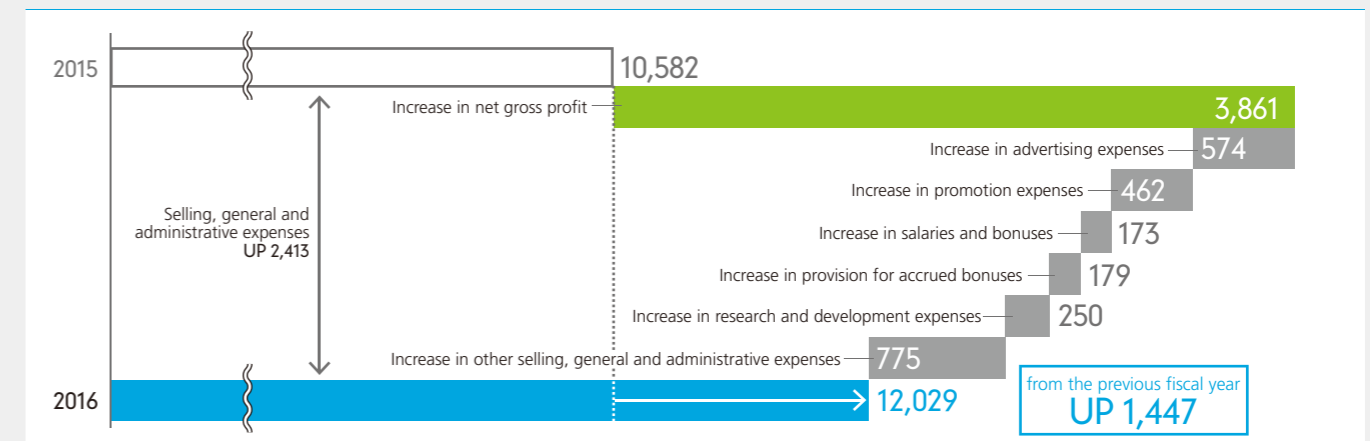
Meanwhile, in the Arcade Games Sales sub-segment, sales of *Luigi Mansion Arcade* were weak reflecting the sluggish market, while *crossbeats REV.* for arcades also struggled.

The resulting net sales were 13,343 million yen (up 77.0% from the previous fiscal year), and operating income was 2,812 million yen (up 2.8% from the previous fiscal year).

Net Sales (Millions of yen)



Operating Income (Millions of yen)



(4) Other Businesses

The net sales from Other Businesses, mainly consisting of the publication of game guidebooks and sale of character merchandise, were 2,043 million yen (down 4.7% from the previous fiscal year), and operating income was 511 million yen (down 22.7% from the previous fiscal year).

4. Analysis of Assets, Liabilities and Net Assets

(1) Assets

Total assets as of the end of the fiscal year ended March 31, 2016 increased by 12,284 million yen from the end of the previous fiscal year to 113,057 million yen.

Primary increases were as follows: 7,991 million yen in work-in-progress for game software, 5,161 million yen in buildings and structures.

(2) Liabilities

Total liabilities as of the end of the fiscal year ended March 31, 2016 increased by 8,446 million yen from the end of the previous fiscal year to 37,888 million yen.

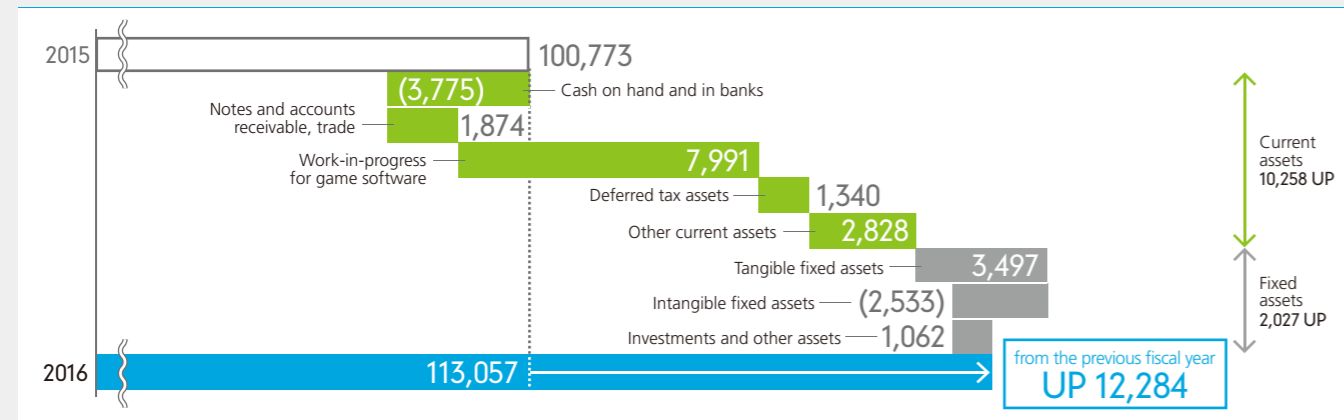
Primary increases were 5,646 million yen in accrued income taxes and 3,571 million yen in long-term borrowings. Primary decrease was 1,955 million yen in short-term borrowings.

(3) Net assets

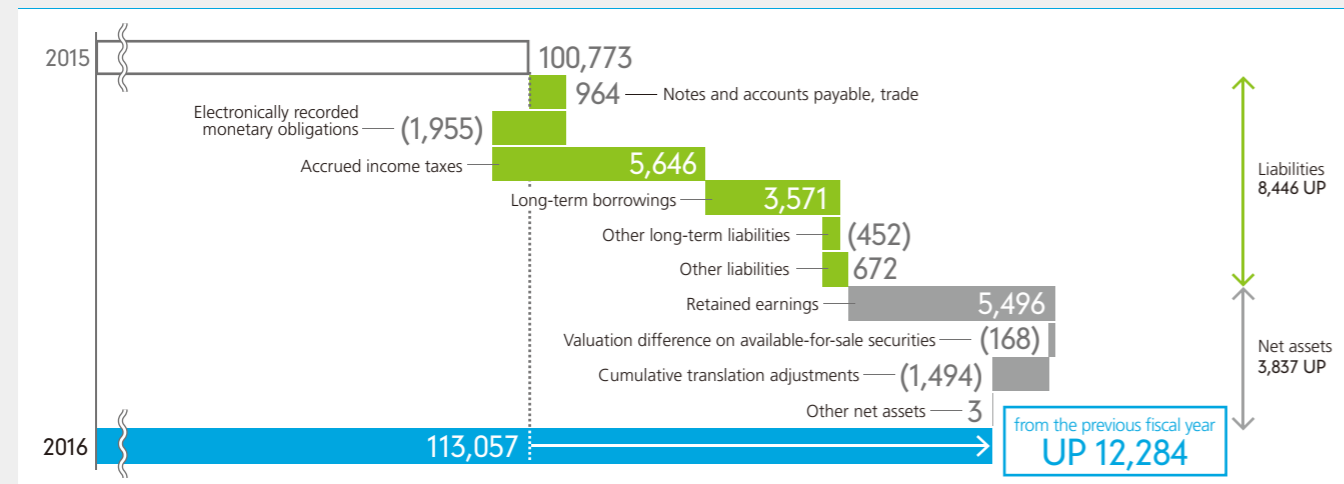
Net assets as of the end of the fiscal year ended March 31, 2016 increased by 3,837 million yen from the previous fiscal year to 75,168 million yen.

The Primary increase was 7,745 million yen in net income attributable to owners of the parent. The Primary decreases were 1,494 million yen in cumulative translation adjustments which related to foreign exchange translation of the net assets of foreign consolidated subsidiaries and 2,249 million yen in cash dividends.

Assets (Millions of yen)



Liabilities, Net Assets (Millions of yen)



5. Analysis of Cash Flow

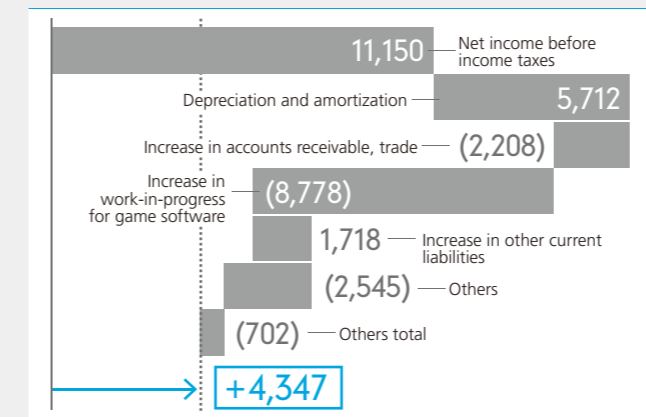
Cash and cash equivalents as of the end of the fiscal year ended March 31, 2016 increased by 431 million yen from the end of the previous fiscal year to 28,429 million yen. Cash flow positions of each activity and their factors are described below.

(1) Cash flows from operating activities

Net cash gained from operating activities was 4,347 million yen (4,286 million yen in the previous fiscal year).

The primary items increasing cash flows were 11,150 million yen in net income before income taxes (10,701 million yen in the previous fiscal year) and 5,712 million yen increase in depreciation and amortization (3,535 million yen in the previous fiscal year). The primary items decreasing cash flows were 8,778 million yen increase in work-in-progress for game software (6,443 million yen in the previous fiscal year) and 2,208 million yen increase in accounts receivable, trade (decrease of 10,382 million yen in the previous fiscal year).

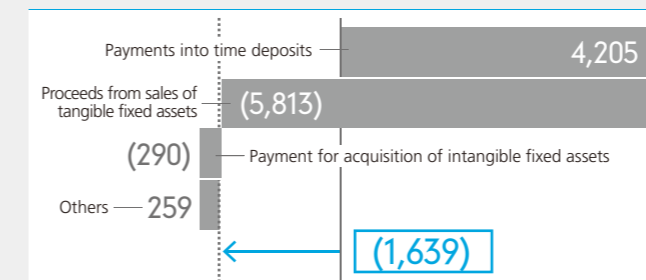
Cash Flows from Operating Activities (Millions of yen)



(2) Cash flows from investing activities

Net cash used in investing activities was 1,639 million yen (5,496 million yen in the previous fiscal year). The Primary item increasing cash flows was 5,813 million yen in payment for acquisition of tangible fixed assets (5,465 million yen in the previous fiscal year). The Primary item decreasing cash flows was 4,205 million yen in withdrawal of time deposit (no withdrawal in the previous fiscal year).

Cash Flows from Investing Activities (Millions of yen)

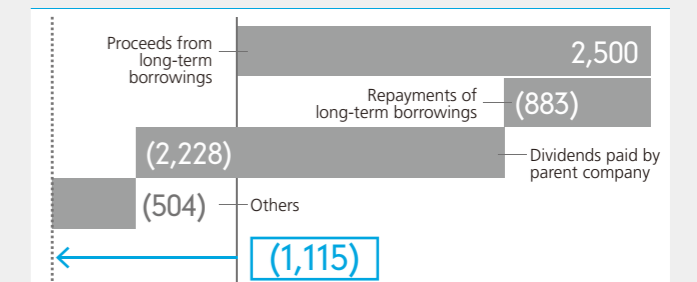


(3) Cash flows from financing activities

Net cash used in financing activities was 1,115 million yen (1,278 million yen gained in the previous fiscal year).

The Primary increases used were as follows: 2,228 million yen in dividends paid by parent company (2,251 million yen in the previous fiscal year), 883 million yen in repayment for long-term borrowings (3,169 million yen in the previous fiscal year) and 496 million yen in repayment for lease obligations (406 million yen in the previous fiscal year). The Primary decrease was 2,500 million yen provided from long-term borrowings (8,162 million yen in the previous fiscal year).

Cash Flows from Financing Activities (Millions of yen)



Trends of Cash Flow Indicators

	Year ended March 2014	Year ended March 2015	Year ended March 2016
Shareholders' equity ratio to total assets (%)	66.1	70.8	66.5
Shareholders' equity ratio to total assets based on fair market value (%)	114.0	133.3	136.5
Debt amortization ratio to cash flows (%)	53.4	256.5	290.1
Interest coverage ratio (times)	136.8	50.2	36.5

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 used are 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 interest.
 Note 5: As the cash flows from operating activities fell into the red in the fiscal year ended March 2012, we have omitted the 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, 2016 AND 2015

	Previous fiscal year (As of March 31, 2015)	Current fiscal year (As of March 31, 2016)	Current fiscal year (As of March 31, 2016)
	Millions of yen	Millions of yen	Thousands of U.S. dollars
(Assets)			
Current assets:			
Cash on hand and in banks	¥ 32,204	¥ 28,429	\$ 253,836
Notes and accounts receivable, trade	8,005	9,879	88,213
Merchandise and finished goods	1,225	1,704	15,221
Work in progress	1,672	2,085	18,621
Raw materials and supplies	1,020	1,954	17,452
Work in progress for game software	16,833	24,825	221,653
Deferred tax assets	2,042	3,382	30,200
Other	2,712	3,673	32,797
Allowance for doubtful accounts	(56)	(18)	(163)
Total current assets	65,659	75,917	677,833
Fixed assets:			
Tangible fixed assets, net of accumulated depreciation			
Buildings and structures, net	6,136	11,297	100,869
Machinery and vehicles, net	22	23	211
Tools, fixtures and furniture, net	1,578	1,875	16,744
Equipment for amusement facilities, net	1,101	1,342	11,989
Land	4,953	5,234	46,738
Leased assets, net	995	1,042	9,303
Construction in progress	2,541	8	80
Total tangible fixed assets	17,328	20,825	185,937
Intangible assets			
Online contents in progress	7,895	2,395	21,388
Other	2,772	5,740	51,253
Total intangible assets	10,668	8,135	72,641
Investments and other assets			
Investments in securities	621	454	4,062
Claims in bankruptcy and reorganization	66	65	584
Lease deposits	4,036	3,867	34,535
Deferred tax assets	1,595	2,952	26,359
Other	876	916	8,184
Allowance for doubtful accounts	(78)	(78)	(696)
Total investments and other assets	7,117	8,179	73,028
Total fixed assets	35,113	37,140	331,608
Total assets	¥ 100,773	¥ 113,057	\$ 1,009,441

Please refer to Notes to Consolidated Financial Statements of our website at: <http://www.capcom.co.jp/ir/english/data/annual.html>

CAPCOM CO., LTD. AND ITS CONSOLIDATED SUBSIDIARIES. MARCH 31, 2016 AND 2015

	Previous fiscal year (As of March 31, 2015)	Current fiscal year (As of March 31, 2016)	Current fiscal year (As of March 31, 2016)
	Millions of yen	Millions of yen	Thousands of U.S. dollars
(Liabilities)			
Current liabilities:			
Notes and accounts payable, trade	¥ 3,089	¥ 4,053	\$ 36,189
Electronically recorded monetary obligations	988	888	7,932
Short-term borrowings	3,452	1,497	13,367
Lease obligations	483	525	4,693
Accrued income taxes	823	6,470	57,770
Deferred tax liabilities	147	40	364
Accrued bonuses	1,832	2,080	18,575
Asset retirement obligations	6	-	-
Other	6,421	6,799	60,712
Total current liabilities	17,246	22,355	199,604
Long-term liabilities:			
Long-term borrowings	7,540	11,111	99,209
Lease obligations	589	601	5,366
Deferred tax liabilities	48	18	168
Liabilities for retirement benefits for employees	2,101	2,323	20,741
Asset retirement obligations	489	502	4,487
Other	1,427	975	8,713
Total long-term liabilities	12,195	15,532	138,686
Total liabilities	29,442	37,888	338,291
(Net assets)			
Shareholders' equity:			
Common stock	33,239	33,239	296,779
Capital surplus	21,328	21,328	190,436
Retained earnings	33,801	39,297	350,870
Treasury stock	(18,140)	(18,145)	(162,016)
Total shareholders' equity	70,228	75,719	676,069
Accumulated other comprehensive income:			
Net unrealized gain or loss on securities, net of tax	170	2	20
Cumulative translation adjustments	1,215	(278)	(2,485)
Accumulated adjustments for retirement benefits	(283)	(274)	(2,453)
Total accumulated other comprehensive income	1,102	(550)	(4,918)
Total net assets	71,331	75,168	671,150
Total liabilities and net assets	¥ 100,773	¥ 113,057	\$ 1,009,441

Please refer to Notes to Consolidated Financial Statements of our website at: <http://www.capcom.co.jp/ir/english/data/annual.html>

Consolidated statements of income

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

	Previous fiscal year (From April 1, 2014 to March 31, 2015)	Current fiscal year (From April 1, 2015 to March 31, 2016)	Current fiscal year (From April 1, 2015 to March 31, 2016)
	Millions of yen	Millions of yen	Thousands of U.S. dollars
Net sales	¥ 64,277	¥ 77,021	\$ 687,695
Cost of sales	38,379	47,175	421,209
Gross profit	25,898	29,846	266,486
Reversal of allowance for sales returns	87	-	-
Net gross profit	25,985	29,846	266,486
Selling, general and administrative expenses	15,403	17,816	159,078
Operating income	10,582	12,029	107,408
Non-operating income:			
Interest income	98	95	855
Dividend income	13	13	120
Settlement received	92	-	-
Exchange gains, net	292	-	-
Other	168	195	1,742
Total	664	304	2,718
Non-operating expenses:			
Interest expense	85	119	1,067
Exchange losses, net	-	752	6,714
Commission fees	83	59	528
Other	226	55	491
Total	396	985	8,802
Ordinary income	10,851	11,348	101,323
Special losses:			
Loss on sales and/or disposal of fixed assets	100	92	826
Impairment loss	49	105	938
Total	150	197	1,764
Net income before income taxes	10,701	11,150	99,559
Income taxes-current	1,146	6,377	56,944
Income taxes -deferred	2,937	(2,972)	(26,541)
Total	4,084	3,405	30,403
Net income	6,616	7,745	69,156
Net income attributable to owners of the parent	¥ 6,616	¥ 7,745	\$ 69,156

Consolidated statements of comprehensive income

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

	Previous fiscal year (From April 1, 2014 to March 31, 2015)	Current fiscal year (From April 1, 2015 to March 31, 2016)	Current fiscal year (From April 1, 2015 to March 31, 2016)
	Millions of yen	Millions of yen	Thousands of U.S. dollars
Net income	¥ 6,616	¥ 7,745	\$ 69,156
Other comprehensive income			
Net unrealized gain or loss on securities, net of tax	71	(168)	(1,503)
Cumulative translation adjustments	2,863	(1,494)	(13,339)
Adjustments for retirement benefits	(114)	9	80
Total other comprehensive income	2,820	(1,653)	(14,762)
Comprehensive income	¥ 9,436	¥ 6,092	\$ 54,393
Comprehensive income attributable to:			
Owners of the parent	¥ 9,436	¥ 6,092	\$ 54,393
Non-controlling interests	-	-	-

Please refer to Notes to Consolidated Financial Statements of our website at: <http://www.capcom.com.co.jp/ir/english/data/annual.html>

Consolidated statements of changes in net assets

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

Millions of yen	Shareholders' equity				Total shareholders' equity
	Common stock	Capital surplus	Retained earnings	Treasury stock	
Balance as of March 31, 2014	¥ 33,239	¥ 21,328	¥ 29,160	¥ (18,134)	¥ 65,593
Cumulative effect due to changes in accounting policies			273		273
Balance as of April 1, 2014	33,239	21,328	29,433	(18,134)	65,866
Changes of items during the fiscal year					
Cash dividends			(2,249)		(2,249)
Net income attributable to owners of the parent			6,616		6,616
Repurchase of treasury stock				(5)	(5)
Disposal of treasury stock		0		0	0
Net changes of items other than shareholders' equity		0	4,367	(5)	4,361
Total changes of items during the fiscal year	-	0	4,367	(5)	4,361
Balance as of March 31, 2015	¥ 33,239	¥ 21,328	¥ 33,801	¥ (18,140)	¥ 70,228

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, 2014	¥ 99	¥ (1,647)	¥ (169)	¥ (1,717)	¥ 63,875
Cumulative effect due to changes in accounting policies					273
Balance as of April 1, 2014	99	(1,647)	(169)	(1,717)	64,149
Changes of items during the fiscal year					
Cash dividends					(2,249)
Net income attributable to owners of the parent					6,616
Repurchase of treasury stock					(5)
Disposal of treasury stock					0
Net changes of items other than shareholders' equity	71	2,863	(114)	2,820	2,820
Total changes of items during the fiscal year	71	2,863	(114)	2,820	7,181
Balance as of March 31, 2015	¥ 170	¥ 1,215	¥ (283)	¥ 1,102	¥ 71,331

Millions of yen	Shareholders' equity				Total shareholders' equity
	Common stock	Capital surplus	Retained earnings	Treasury stock	
Balance as of April 1, 2015	¥ 33,239	¥ 21,328	¥ 33,801	¥ (18,140)	¥ 70,228
Cumulative effect due to changes in accounting policies					-
Balance as of April 1, 2015	33,239	21,328	33,801	(18,140)	70,228
Changes of items during the fiscal year					
Cash dividends			(2,249)		(2,249)
Net income attributable to owners of the parent			7,745		7,745
Repurchase of treasury stock				(5)	(5)
Disposal of treasury stock					-
Net changes of items other than shareholders' equity			5,496	(5)	5,491
Total changes of items during the fiscal year	-	-	5,496	(5)	5,491
Balance as of March 31, 2016	¥ 33,239	¥ 21,328	¥ 39,297	¥ (18,145)	¥ 75,719

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 April 1, 2015	¥ 170	¥ 1,215	¥ (283)	¥ 1,102	¥ 71,331
Cumulative effect due to changes in accounting policies					-
Balance as of April 1, 2015	170	1,215	(283)	1,102	71,331
Changes of items during the fiscal year					
Cash dividends					(2,249)
Net income attributable to owners of the parent					7,745
Repurchase of treasury stock					(5)
Disposal of treasury stock					-
Net changes of items other than shareholders' equity	(168)	(1,494)	9	(1,653)	(1,653)
Total changes of items during the fiscal year	(168)	(1,494)	9	(1,653)	3,857
Balance as of March 31, 2016	¥ 2	¥ (278)	¥ (274)	¥ (550)	¥ 75,168

Thousands of U.S. dollars	Shareholders' equity				Total shareholders' equity
	Common stock	Capital surplus	Retained earnings	Treasury stock	
Balance as of April 1, 2015	\$ 296,779	\$ 190,436	\$ 301,796	\$ (161,970)	\$ 627,041
Cumulative effect due to changes in accounting policies					-
Balance as of April 1, 2015	296,779	190,436	301,796	(161,970)	627,041
Changes of items during the fiscal year					
Cash dividends			(20,082)		(20,082)
Net income attributable to owners of the parent			69,156		69,156
Repurchase of treasury stock				(45)	(45)
Disposal of treasury stock					-
Net changes of items other than shareholders' equity			49,074	(45)	49,028
Total changes of items during the fiscal year	-	-	49,074	(45)	49,028
Balance as of March 31, 2016	\$ 296,779	\$ 190,436	\$ 350,870	\$ (162,016)	\$ 676,069

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 April 1, 2015	\$ 1,524	\$ 10,854	\$ (2,534)	\$ 9,843	\$ 636,885
Cumulative effect due to changes in accounting policies					-
Balance as of April 1, 2015	1,524	10,854	(2,534)	9,843	636,885
Changes of items during the fiscal year					
Cash dividends					(20,082)
Net income attributable to owners of the parent					69,156
Repurchase of treasury stock					(45)
Disposal of treasury stock					-
Net changes of items other than shareholders' equity	(1,503)	(13,339)	80	(14,762)	(14,762)
Total changes of items during the fiscal year	(1,503)	(13,339)	80	(14,762)	34,265
Balance as of March 31, 2016	\$ 20	\$ (2,485)	\$ (2,453)	\$ (4,918)	\$ 671,150

Please refer to Notes to Consolidated Financial Statements of our website at: <http://www.capcom.com.co.jp/ir/english/data/annual.html>

Consolidated statements of cash flows

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

	Previous fiscal year (From April 1, 2014 to March 31, 2015)	Current fiscal year (From April 1, 2015 to March 31, 2016)	Current fiscal year (From April 1, 2015 to March 31, 2016)
	Millions of yen	Millions of yen	Thousands of U.S. dollars
Cash flows from operating activities:			
Net income before income taxes	¥ 10,701	¥ 11,150	\$ 99,559
Depreciation and amortization	3,535	5,712	51,003
Impairment loss	49	105	938
Amortization of goodwill	63	—	—
Decrease in allowance for doubtful accounts	(1)	(38)	(345)
(Decrease) increase in accrued bonuses	(3)	263	2,348
Decrease in allowance for sales returns	(87)	—	—
Increase in liabilities for retirement benefits for employees	207	264	2,362
Interest and dividend income	(111)	(109)	(976)
Interest expense	85	119	1,066
Exchange (gains) losses, net	(188)	60	537
Loss on sales and/or disposal of fixed assets	100	92	826
Decrease (increase) in accounts receivable, trade	10,382	(2,208)	(19,714)
(Increase) decrease in inventories	(764)	(1,651)	(14,749)
(Increase) decrease in work in progress for game software	(6,443)	(8,778)	(78,377)
Increase in online contents in progress	(3,347)	1,479	13,207
(Decrease) increase in notes and accounts payable, trade	(7,856)	935	8,357
(Increase) decrease in other current assets	(239)	(1,260)	(11,253)
Decrease in other current liabilities	(497)	1,718	15,340
Other	(393)	(2,545)	(22,723)
Subtotal	5,187	5,309	47,405
Interest and dividends received	118	130	1,167
Interest paid	(85)	(120)	(1,076)
Income taxes paid	(934)	(972)	(8,683)
Net cash provided by operating activities	4,286	4,347	38,812
Cash flows from investing activities:			
Proceeds from time deposits	—	4,205	37,550
Payment for acquisition of tangible fixed assets	(5,465)	(5,813)	(51,907)
Proceeds from sales of tangible fixed assets	206	4	42
Payment for acquisition of intangible assets	(195)	(290)	(2,598)
Payment for purchase of investments in securities	(12)	(13)	(116)
Payment for other investing activities	(141)	(113)	(1,009)
Proceeds from other investing activities	111	380	3,397
Net cash used in investing activities	(5,496)	(1,639)	(14,641)
Cash flows from financing activities:			
Net (decrease) increase in short-term borrowings	(1,050)	—	—
Proceeds from long-term borrowings	8,162	2,500	22,321
Repayments of long-term borrowings	(3,169)	(883)	(7,892)
Repayments of lease obligations	(406)	(496)	(4,437)
Payment for repurchase of treasury stock	(5)	(5)	(45)
Proceeds from sales of treasury stock	0	—	—
Dividends paid by parent company	(2,251)	(2,228)	(19,901)
Net cash provided by (used in) financing activities	1,278	(1,115)	(9,956)
Effect of exchange rate changes on cash and cash equivalents	1,811	(1,160)	(10,362)
Net increase (decrease) in cash and cash equivalents	1,879	431	3,852
Cash and cash equivalents at beginning of year	26,118	27,998	249,983
Cash and cash equivalents at end of year	¥ 27,998	¥ 28,429	\$ 253,836

 Please refer to Notes to Consolidated Financial Statements of our website at:
<http://www.capcom.co.jp/ir/english/data/annual.html>

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, 2016 and 2015, 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, 2016 and 2015, 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, 2016 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.

 July 27, 2016
 Osaka, Japan

Stock Data

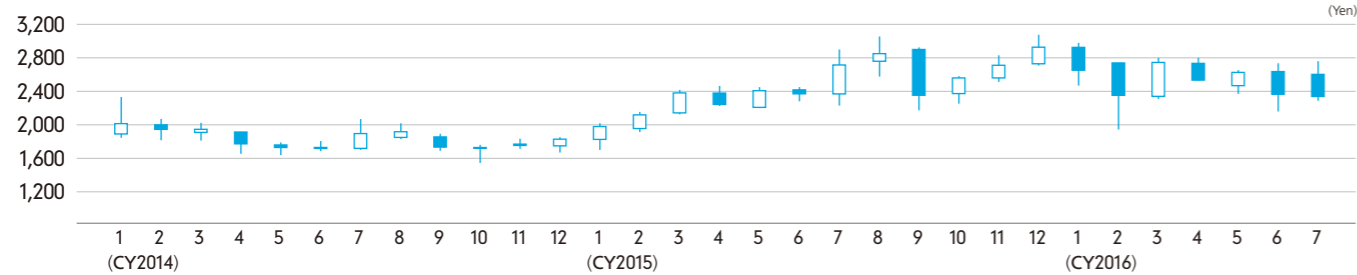
Number of Shares Authorized 150,000,000 shares
 Number of Shares Issued 67,723,244 shares
 Number of Shareholders 11,564

Major Shareholders (Top 10)

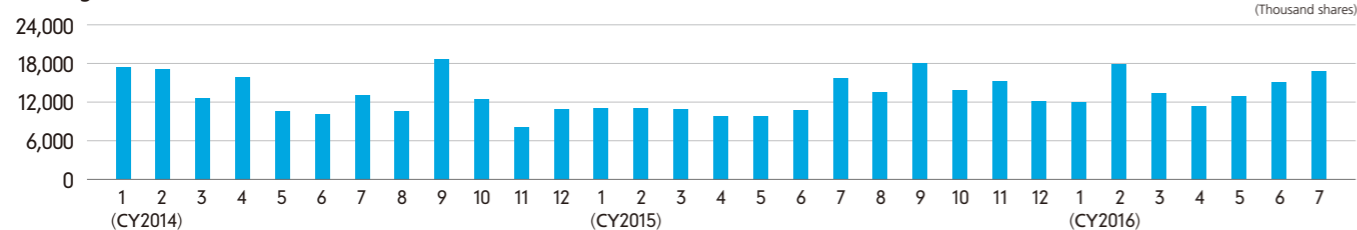
Major Shareholders	Number of Shares Held (in thousands)	Percentage of Shareholding (%)
Crossroad Limited	5,276	9.38
Japan Trustee Services Bank, Ltd. (Trust Account)	2,553	4.54
Yoshiyuki Tsujimoto	2,325	4.14
Haruhiro Tsujimoto	2,202	3.92
Ryozo Tsujimoto	2,199	3.91
Kenzo Tsujimoto	2,009	3.57
The Master Trust Bank of Japan, Ltd. (Trust Account)	1,844	3.28
GOLDMAN,SACHS & CO.REG	1,650	2.94
Pictet and Cie (Europe) S.A.	1,151	2.05
JPMorgan Chase Bank 385174	1,062	1.89

Note: Capcom owns 11,495 thousand shares as treasury stocks.
 The stocks owned by the company are excluded from the above list.

Stock Price Range



Trading Volume

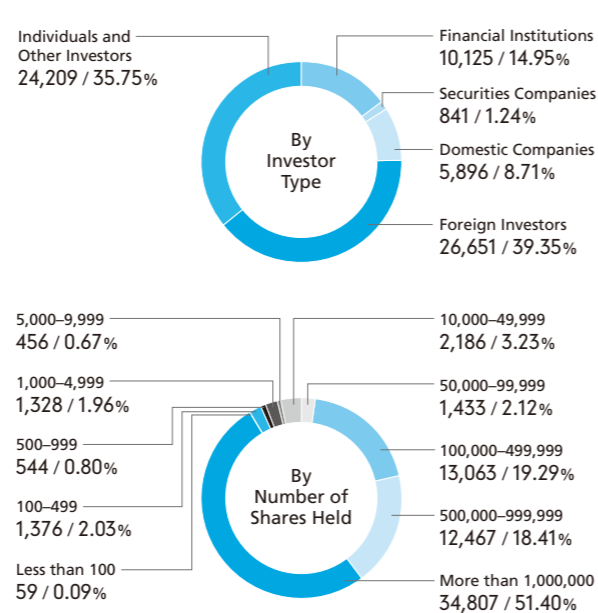


11-Year Trend of Stock Price and Trading Volume

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Stock Price	1,209	1,692	3,400	1,746	1,766	1,590	1,891	1,476	1,958	2,389	2,745
High	1,450	2,445	3,490	3,640	2,010	1,907	2,311	1,959	2,330	2,413	3,075
Low	1,000	1,102	1,660	1,475	1,297	1,145	1,473	1,250	1,396	1,541	1,944
Trading Volume	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	143,234,700	162,642,100

(Years Ended March 31)

Shareholders' Breakdown



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, sale and distribution 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 ... 2,839 (Including consolidated subsidiaries), 2,114 (Capcom CO., LTD.)

Capcom's Subsidiaries (As of June 30, 2016)

CAPTRON CO., LTD. / K2 CO., LTD. / Enterrise CO., LTD. / Capcom Mobile, Inc. / CAPCOM U.S.A., INC. / CAPCOM ASIA CO., LTD. / CE EUROPE LTD. / CAPCOM ENTERTAINMENT GERMANY GmbH / BEELINE INTERACTIVE, INC. / BEELINE INTERACTIVE CANADA, INC. / CAPCOM ENTERTAINMENT KOREA CO., LTD. / CAPCOM ENTERTAINMENT FRANCE, SAS / CAPCOM GAME STUDIO VANCOUVER, INC. / BEELINE INTERACTIVE EUROPE LTD. / CAPCOM TAIWAN CO., LTD.

Major Offices

Head Office 3-1-3 Uchihirano-machi, Chuo-ku, Osaka, 540-0037, Japan
 PHONE: 81-6-6920-3600
 R&D Building 3-2-8 Uchihirano-machi, Chuo-ku, Osaka, 540-0037, Japan
 PHONE: 81-6-6920-7600
 R&D Building #2 3-1-10 Uchihirano-machi, Chuo-ku, Osaka, 540-0037, Japan
 PHONE: 81-6-6920-7750
 Tokyo Branch Shinjuku Mitsui Building 2-1-1 Nishi Shinjuku, Shinjuku-ku, Tokyo, 163-0448, Japan
 PHONE: 81-3-3340-0710
 Ueno Facility 3902 Hatta, Iga, Mie, 518-1155, Japan
 PHONE: 81-595-20-2030



Head Office



R&D Building

R&D Building #2

Separate Volume The Latest Development Report 2016

SECOND TO NONE



P1 Message from the Head of Consumer Games Development

Second to None: Continuously Rising to the Challenge Without Fear of Change, We Aspire to Be the World's No.1 Game Developer
 Yoichi Egawa Director and Executive Corporate Officer

Developers Discuss Capcom Development

P3 01 RESIDENT EVIL 7 biohazard Delivers a Fresh Taste of Fear to the World

Jun Takeuchi Managing Corporate Officer
 Head of Consumer Games Development Division 1

Technologies Underpinning the Development

- P5 RE ENGINE Tomofumi Ishida
- P6 3D Scanning Makoto Fukui
- P7 Virtual Reality Kazuhiro Takahara
- P8 Localization Miguel E. Corti

P9 02 Wowing U.S. and European Fans with the Most Intense Zombie Action Game Ever!

Joe Nickolls Studio Director
 Capcom Game Studio Vancouver, Inc.

P11 03 Virtual Love in the Palm of Your Hand A Game Developed by Women, for Women

Miwa Hara Senior Manager
 Section 3, Department 1, Consumer Games Development Division 1

P13 04 Diving into a World of Adventure in Online Development

Kento Kinoshita Director
 Section 2, Department 4, Consumer Games Development Division 3

P15 Utilizing Popular Characters for Regional Growth

Corporate Profile (As of March 31, 2016)

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R&D Building	3-2-8 Uchihirano-machi, Chuo-ku, Osaka, 540-0037, Japan PHONE: 81-6-6920-7600 FAX: 81-6-6920-7698
R&D Building #2	3-1-10 Uchihirano-machi, Chuo-ku, Osaka, 540-0037, Japan PHONE: 81-6-6920-7750
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 Hattai, Iga, Mie, 518-1155, Japan PHONE: 81-595-20-2030



Please see the Capcom Integrated Report 2016.

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/>

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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.
- 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 100 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.
- Mar. 2015** Signed a regional invigoration and inclusion agreement with the city of Kofu for the use of *Sengoku BASARA* characters in regional invigoration activities and the promotion of tourism in Kofu, Yamanashi Prefecture.
- Dec.** Officially launched *Monster Hunter Online* in China in cooperation with Tencent Holdings Ltd.

SECOND TO NONE | 2016

The Latest Development Report



CAPCOM



Message from the Head of Consumer Games Development

Second to None: Continuously Rising to the Challenge Without Fear of Change, We Aspire to Be the World's No.1 Game Developer

In July 2016, Director and Executive Corporate Officer Yoichi Egawa was placed in charge of Consumer Games Development. Egawa joined Capcom shortly after its founding, working in arcade video game development, Capcom's core business at that time. Later, he developed home video games and contributed to the establishment of the Pachinko & Pachislo and Mobile Contents businesses. This game development pioneer spearheads Capcom R&D.

Taking an Offensive Position Toward Changing Market Trends

The Chairman issued a manifesto, which reemphasized that we will not compromise on the products we release to market; an insistence on quality and the development of the world's number one games. He demands we reflect on whether we are maintaining a balance between meeting our ship-dates and craftsmanship. As I am in charge of Consumer Games Development, my mission is to see these directives carried out anew. Although I have just been appointed, there is no time to waste. First, I think there is a need to understand what issues we're facing on the frontlines of development, so I am deepening communications with R&D staff across all ages and functions.

At present, Capcom is focusing efforts on retaining talented employees and making capital expenditures in an attempt to strengthen development capabilities. In addition to aggressive hiring activities focused on new graduates, we constructed a second R&D building. Furthermore, we have established an environment enabling

development teams to take on new challenges, including the creation of one of Japan's largest motion capture and 3D scanning studios.

These investments further advance our development technologies and enable us to adapt to a game market that is transitioning from a transactional model to an operation-focused, recurring revenue model of business. Releasing games that continue to hold users' attention while maintaining a sense of speed will be indispensable in game development going forward. To this end, we will concentrate development resources internally and respond to changing market trends.

Weeding Out Issues to Build Fertile Ground for Game Creation

During discussions between marketing and senior management (which included development staff as well), two issues came into view: strengthening our development structure and brand management.

First, regarding the former, at present domestic development is conducted under three divisions. Division 1 creates global contents including *Resident Evil*. Division 2 works with online games such as *Street Fighter*. Division 3 develops contents for Japan, including *Monster Hunter* and *Sengoku BASARA*. Although the divisions interact, because each is so focused on getting the best results within their area, it is difficult to say there is overall

coordination. For this reason, I think we must mobilize technologies and expertise in an attempt to optimize R&D overall. Also, to further expand the organization, we must develop core human resources able to drive and lead younger employees.

As for the latter, brand management, we will plan out sales launch timing and platform compatibility for each brand individually, such as for *Monster Hunter* or *Resident Evil*. Production is the role of the development side, but the when and how of sales is the role of the business side, thus we will link these two in an attempt to maximize value.

To address these issues, our immediate objective is to create an environment in which the entire Company can engage in the development of interesting games. I am able to understand both the spirit of R&D and the mind of business precisely because I ascended to a management position after experiencing game development. Armed with this understanding, I will build a soil bed in which our next buds can sprout and grow.

After These Challenges, More Challenges Await!

A new wave is fast approaching the global game market. This year, all eyes are focused on virtual reality (VR). Hardware manufacturers are releasing a variety of gear, which have been a hot topic of conversation. Additionally, eSports (electronic sports), which bring the thrill of baseball or soccer matches to competitive video games, are increasing in popularity around the world. To catch this wave, Capcom will release *RESIDENT EVIL 7 biohazard* in January 2017 (see page 3). This title's shocking world

of horror and incredible VR technology will showcase Capcom's production capabilities to the world. In terms of eSports, in addition to the global Capcom Pro Tour sponsored by subsidiary Capcom U.S.A., INC., we will collaborate with other companies to create eSports event opportunities throughout the year with the aim of acquiring new users.

Going forward, as we aim to become the world's number one game developer, we feel that while it is of course necessary to advance and expand upon existing content, it is also necessary to take on new challenges. We cannot ignore genres such as shooting and strategy games with massive numbers of players when considering Consumer, Online and eSports market growth potential. We will make use of our strengths and keep a close watch on market trends while moving forward with the kind of game creation only possible at Capcom. The new challenges have only just begun.

Yoichi Egawa

Director and Executive Corporate Officer

After joining Capcom, Egawa worked in the development of arcade games for amusement facilities as a programmer involved in the development of CP system boards. Later, after developing home video games, he established the Pachinko & Pachislo (P&S) business in 1996 and the Mobile Contents business in 1999. After serving as General Manager of Creative Division 5 in 1999, Egawa was appointed Corporate Officer, Head of Contents Expansion Business Division. He was appointed Managing Corporate Officer in 2011 and Executive Corporate Officer in 2013, his current position. At present, he is in charge of Consumer Games Development and Amusement Equipments Business.



Proactively listening to the opinions of young team members. Occasionally, heated debates about production take place over meals together.



Positioned between the development workplace and senior management to better communicate the ideas and contentions of both.



Visiting the workplace to understand actual development conditions. Seeing things from a different perspective than immediate supervisors raises awareness of potential issues.

DEVELOPMENT STRATEGY

RESIDENT EVIL 7 biohazard Delivers a Fresh Taste of Fear to the World



Jun Takeuchi
Managing Corporate Officer
Head of Consumer Games Development Division 1
As a Managing Corporate Officer, focuses efforts on global strategy and development management. Worked on *Lost Planet 2* and *Resident Evil 5*. Currently heading up development of the new *RESIDENT EVIL 7 biohazard*.

An Overwhelmingly Terrifying Experience in this Horrific Return to Form

In the dimly lit interior of a dilapidated mansion strewn with broken furniture and tinged with humidity and heat... The trailer for *RESIDENT EVIL 7 biohazard* (hereinafter, *RESIDENT EVIL 7*) was shown at this year's E3, with the January 2017 release date greeted by loud cheers from the audience. Seeing that reaction, I thought

to myself "right on!" The *Resident Evil* series involves fending off a terrifying onslaught of zombies while attempting to escape from desperate situations and make it out alive by any means possible. We've been evolving the series, which has let users enjoy this terrifying world, ever since the first game was released in 1996. However, we've heard some fans say "the old *Resident Evil* was scarier." Of course, the stronger the initial shock, the longer people will remember it. But

was that why it felt scarier? Or did we leave something behind in the process of moving the game forward? Now, with the arrival of promising new trends in VR, we are once again engaged in developing a kind of terror only Capcom—who built the survival horror market—can provide. Crafting a story that delivers a palpable experience of fear through virtual reality, we also revamped our conventional third-person perspective (TPS) game system with a highly immersive isolated view (first person perspective).

Bringing New Technologies to Match the High-Spec, Next-Generation Game Consoles

Development was plagued by a series of difficulties. This was because, in addition to the high-resolution, high-performance PlayStation 4 and Xbox One, we also decided to make the game compatible with the new PlayStation VR. With VR, we couldn't bring the game to market unless it had photorealistic graphics on par with live-action films. To create that level of quality, conventional production methods would take too long and cost too much.

Thus, we had to rethink the way we make games. In order to carry out asset-based (graphic and 3D model elements) development, which is globally the mainstream, we began developing our new RE ENGINE (see page 5). To produce these assets, we adopted 3D scanning (see page 6), facilitating instant data creation by recording

subjects in 360 degrees with one shot. Beyond that, we steadily increased the precision of our VR technologies (see page 7), which was a new challenge for us altogether. At first, the development team members were understandably anxious, as we were simultaneously taking on some non-conventional processes. However, as the completed product began to take shape, the team became energized. Of course, *Resident Evil* is a wildly popular series in the United States and Europe. We localized, or "cultural-ized" (see page 8), the game's content for suitability with other cultures in order to achieve player immersion across the globe.

The Ongoing Pursuit of the Global Pinnacle in Horror Entertainment

This year marks the 20th anniversary of *Resident Evil*, Capcom's flagship title and a series that has sold a cumulative total of 69 million units. The *Resident Evil*

world has been embraced in every country, adapted into Hollywood movies and amusement park attractions, and has become a franchise that even people who do not play games are familiar with. I have strong feelings for this series, having been personally involved since the first game. However, I am exceptionally enthusiastic about this new title. This is because this year, which some are calling "VR year one," we will attempt to take the lead in this new market with *RESIDENT EVIL 7*. If we fail to deliver in terms of the game world or technology, we will be unable to create the kind of innovative game players demand. In order to succeed with both of these and take on the challenges in this new market, a balance between the wild instinct of inspiration and rationality of data analysis is indispensable. Being satisfied with the status quo means game over. Despite this difficult struggle, I am enjoying the challenge. Increasing the focus on fear, we will take you deeper into the world's ultimate survival horror game. I want everyone to experience the upcoming *RESIDENT EVIL 7*.

Ensuring unity in direction by maintaining close communications with development team members. A variety of technologies were adopted for the development of this installment.



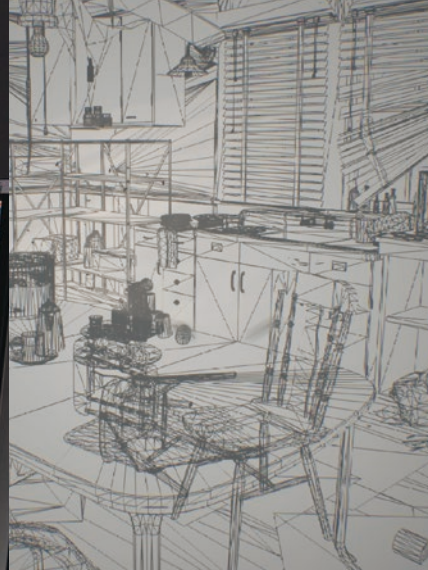
Using the RE ENGINE to carefully check the placement and details of meticulously designed dilapidated mansion walls, furniture and other props.



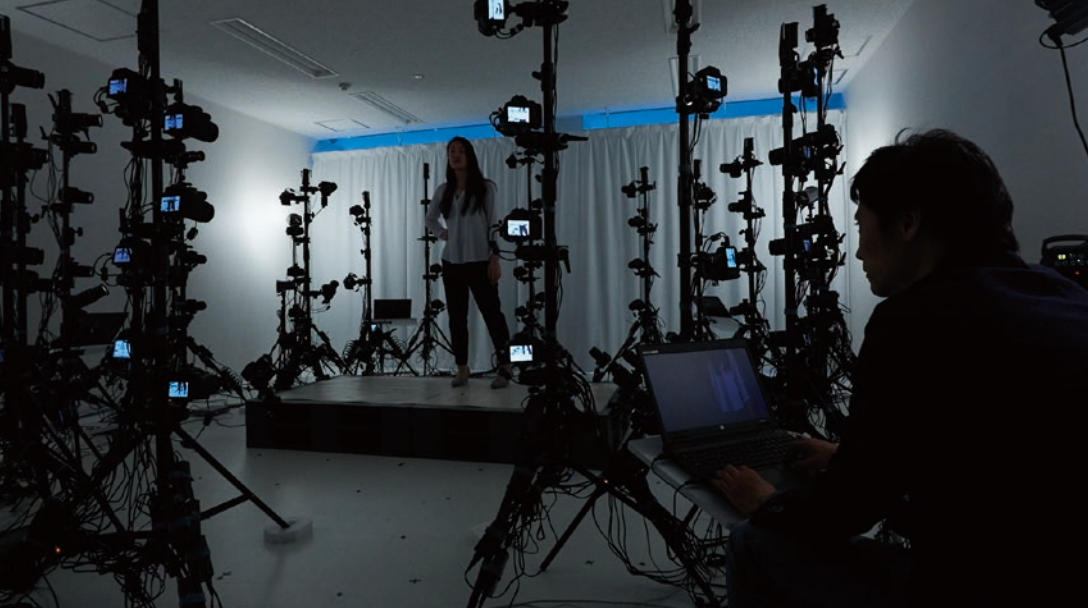
RESIDENT EVIL 7 incorporates psychological horror elements into the story to provide an unprecedented sense of fear in a startling virtual reality world.



Technologies Underpinning the Development of
RESIDENT EVIL 7 biohazard



Rendering an image using the RE Engine



A character generated using the 3D scanning system



RE ENGINE

Capcom's newest game engine, developed for this title. It enables photorealistic graphics that rival live-action film, with details ranging from the textures of various objects to motes of dust floating in the air.

Tomofumi Ishida

Lead Programmer
Technology Section

Joined Capcom in 2003. Involved with developing the MT Framework engine. After that, responsible for successive engine development as a technology leader.



An Engine Enabling the Artist to Fulfill Their Every Wish

Up to now, Capcom had built MT Framework, an innovative proprietary development engine used to make high-quality games. However, conventional engine specs were insufficient for bringing the realistic world pursued by creators in *RESIDENT EVIL 7 biohazard* (hereinafter, *RESIDENT EVIL 7*) to life. Thus, this time we ended up simultaneously working on the development of both the game and the new RE ENGINE.

The main feature of the RE ENGINE is its ability to dramatically reduce the time required for various game development processes. For example, the time required to test program changes has been reduced 90%, and materials made separately by creators can be combined in real time, which enables them to be used to instantly create other materials.

This engine also supports the high-resolution

graphics required for VR compatibility at a rate of 60 frames per second. We faced numerous difficulties in trying to make these features a reality, however the team pulled together as one to make it happen.

Creating an interesting game should not be hindered by development engine constraints. If an artist expresses a desire to do something, the engine must evolve to make it happen. For this reason, all of us on the engine development team work in constant close contact with the game development team to promote improvements. This kind of flexibility can only be achieved through in-house production and is connected to enhancing Capcom quality.

I hope everyone will stop to admire the overwhelming high-quality of *RESIDENT EVIL 7*, the first title created using the RE ENGINE.

Painstakingly Crafted Reality with *Resident Evil*-Appeal

The theme of *RESIDENT EVIL 7* is "fear that sticks with you." Terror waits in the humid and stifling air—I want to create a realistic sense of that in 3DCG, so it clings to your body and memory.

To pursue realism, we created one of the world's largest scale 3D scanning systems, an important tool contributing to the meticulously crafted reality of our games. Leveraging the merits of possessing such a system in-house, we paid particular attention on this title to technologies that faithfully reproduce human expressions. This degree of reproduction is unlike anything that has come before, achieving realism that is truly human. Using this system, we are able to generate data on expressions from a variety of angles with just one shot, dramatically increasing development speed.

However, we are not merely pursuing

efficiency or photorealism. On top of overwhelming realism, we've added characters and other touches typical of *Resident Evil*, resulting in a game that appeals like only Capcom games can. To achieve this, the work flow was revised to complete casting, special-effects makeup and costume coordination in the steps prior to character design. In doing so, we further enhanced accuracy and were able to better reflect the feeling of the *Resident Evil* world in the 3D data, creating reality so convincing it is as if the characters actually exist.

I want everyone to play this new title to experience realism in a game like never before.

3D Scanning

In *RESIDENT EVIL 7 biohazard*, Capcom utilizes 3D scanning, employing its world-class, large-scale camera system to create more realistic characters.

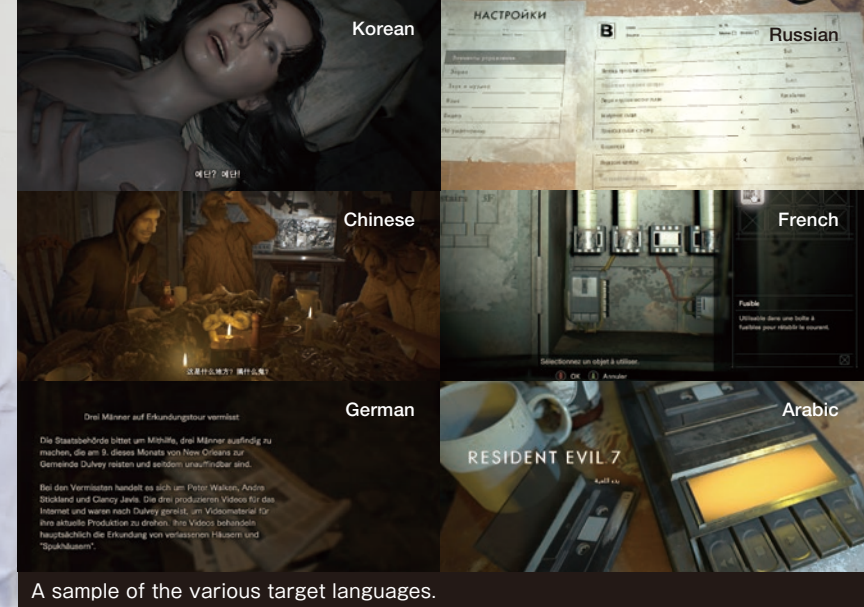
Makoto Fukui

Technical Artist
Section 1

Joined Capcom in 1995. Worked as the character lead on the *Resident Evil* series from 2005. Currently a technical artist on this title working to improve the development environment, including asset pipeline development and creation of flows and tools.



Technologies Underpinning the Development of
RESIDENT EVIL 7 biohazard



A sample of the various target languages.

Virtual Reality

Virtual reality (VR) is a technology that gives users the experience of actually being inside a virtual world. *RESIDENT EVIL 7 biohazard* is fully compatible with PlayStation VR and is Capcom's first VR title.



Kazuhiro Takahara

Programmer
Technology Section

Joined Capcom in 2007. Involved in the development of *Lost Planet 2*. After that, responsible for basic game engine development and in charge of VR technical development on this latest title.

I Want to Show Capcom Means Business With VR

Capcom's first VR demo, *KITCHEN*, was shown at E3 in 2015. Seeing the terrified reactions of show-goers who experienced the demo displayed the affinity between horror and VR and made me confident that utilizing VR in the *Resident Evil* series would lead to success.

The global release of VR headsets in 2016 has led to this year being called "VR year one," and this is truly a time when the game market is evolving. Thus, establishing *RESIDENT EVIL 7*—VR content only Capcom can create—at the center of this market has become one of our objectives. To this end, it is critical to provide content with a sense of realism never seen before intermingled with the enjoyable game play expected from Capcom—which provides us creators with new challenges daily as we proceed with development.

One of the appeals of VR is the ability to break through the "controller wall." Until now, players had to use controllers to change the point of view during a game. In other words, players were only able to experience the game through the screen and controller. However, with VR the point of view changes by actually turning one's head, allowing players to also peer in and around. What if there are some hidden items down there? This fuses realistic experiences with fun. VR even enables us to incorporate ideas that until now were not possible.

When this game is complete, I want everyone to put on a VR headset and try it out. I'm sure then you'll understand that we mean business.

Localization Means Translating Culture

The *Resident Evil* series has a multitude of fans throughout the world. As one of our major titles this fiscal year, *RESIDENT EVIL 7* will be localized into 13 languages and sold in all major regions, including North America, Europe, Asia and Japan.

This installment is sure to go down in series' history, and localization began early in the planning and development stages. We had an American writer create the script based on concepts established by the Japanese design team, while creators and staff in Japan and overseas worked to move development forward. We on the localization team are responsible for bridging these efforts. This back and forth is not limited to language. We also translate non-text elements like cultural aspects and design intentions.

On this title, we paid particular attention to

reality for all users, especially those in the U.S. and Europe. The story takes place in America, and players are sure to notice if any aspect of the game is incongruent with the culture and climate of the United States. If too many elements are out of place, the dark world and atmosphere of the *Resident Evil* series may be lost. Thus, the localization check is not limited to the game's script and plot, but extends to voice actor performances and motion capture movements as well. At the same time, we are careful to avoid changing the unique ideas Capcom is known for. Working closely with designers in Japan, we successfully achieved a high degree of realism and maintained the unique flavor of Capcom.

All these efforts are aimed at providing players around the world with a realistic horror game. I want everyone to experience the new world of *Resident Evil*.

Localization

When people hear the word "localization," many imagine it simply involves language translation. However, localization at Capcom means game content is tailored to the cultural expectations of each country where the game is sold.

Miguel E. Corti

Group Leader
Localization Group
Global R&D Section

Joined Capcom in 2007. Involved in the translation of numerous titles including *Resident Evil 5*. Since *Lost Planet 2*, engaged in enhancing localization quality not only in terms of translation, but also through assistance and observation during motion capture filming and involvement in game script production.



Developers
Discuss Capcom
Development

02

Wowing U.S. and European Fans with the Most Intense Zombie Action Game Ever!

Frank is Back in *Dead Rising 4*

The *Dead Rising* series features action adventure games in which players repel zombie hordes using a variety of weapons while attempting to uncover the truth behind a mysterious outbreak. Compared to other Capcom zombie games like *Resident Evil*, a survival horror game focused on fear, *Dead Rising* is an exhilarating, open-world sandbox action game where players mow down zombies by the truck-load. In addition to the fighting and weapons typical of the zombie genre, the incorporation of humor and a high degree of freedom that enables players to follow the story or just explore and have fun has made this a popular title in the U.S. and Europe.

The latest entry in the series, *Dead Rising 4*, is scheduled to be released in December 2016 for the Xbox One and Windows 10. As in the original title,

this new game will be set in the town of Willamette, Colorado, where the townspeople are being attacked and turned into zombies. As chaos ensues, it's up to Frank West to shoot, smash and splatter his way to the truth. A fan-favorite, Frank is the main character from the original game. *Dead Rising 4* is packed with new elements beyond imagination, which ramps the fun up to new dizzying heights.

Using Cutting-Edge Technologies to Bring a Flood of Ideas to Life

Our aim with *Dead Rising 4* is to provide fans with action and survival that exceeds their expectations while adding humor to the fun. The development team came up with one idea after another, like "let's have faster, scarier zombies that run, jump and climb to get at you," or "why don't we create the ultimate combination and let

Frank combo himself in an Exo Suit?" and "how about if we include fights between survivors that haven't turned into zombies yet?" and even "let's make it so that four users can enjoy online multiplayer action together." Once we decided on the direction of the planning, we next started developing the programs for the animation and game. We maintained the high-quality graphics players demand while enabling the main character to be moved freely. Though you cannot see it onscreen, we used a number of advanced AI and other programs to make the game interesting, all of which are working behind the scenes.

The uncompromising efforts of the creators have resulted in a distinctive new title that will amaze users with the sheer number of zombies appearing onscreen at once, as well as the ability to freely combine weapons and vehicles enabling an unlimited number of ways in

CV is equipped with a soundstage and animation motion capture system, providing an environment that supports creative game production.

The development team constantly demos the game. This provides an important opportunity to check each other's progress and exchange ideas on improvements for the game.

What is behind the government conspiracy to unleash hordes of zombies? Frank will have to get to the truth first...or die trying.



Joe Nickolls

Studio Director
Capcom Game Studio Vancouver, Inc.

Has engaged in development of soccer and other sports games for major game companies. Currently Studio Director of Capcom Game Studio Vancouver and in charge of *Dead Rising 4*.

which to take down the undead. I think the fans are really going to be pleased!

Capcom Game Studio Vancouver's Strengths and the Keys to Successful Global Collaboration

Whether a game is considered fun or not is closely related to the culture and customs of a country or region, so I think it was worthwhile to develop *Dead Rising*, which targets users in the U.S. and Europe, at Capcom Game Studio Vancouver (CV). This is because, by putting yourself within

a country and culture you are better able to naturally understand and express what that culture feels is interesting or fun. However, development collaboration between Japan and Canada is indispensable for making the title even better. At the development stage, the game visuals and programs are continuously shared globally in an attempt to refine them. We strengthen our support for promotional strategies aimed at target segments through teleconferences and business trips between Japan and Canada. No matter which country we are in, we are able to use the common language of gaming to move forward in the same direction.

The kind of game creation we aim for at CV is focused on taking on challenges rather than fearing risks. Titles that simply make the grade are meaningless. To enable staff to make the most of their abilities, we create spaces where opinions can be exchanged freely, hold classes on specific subjects and provide other opportunities for learning. In this way, we strive to make CV the most creative game studio in North America.



Miwa Hara

Senior Manager
Section 3, Department 1
Consumer Games Development Division 1

Responsible for the *Onimusha* series as a designer. After giving birth and taking childcare leave in 2004, was the background section leader on *E.X. Troopers* and *Lost Planet*. Has worked as a project manager since 2015.

03 | Virtual Love in the Palm of Your Hand A Game Developed by Women, for Women

Developers
Discuss Capcom
Development

Making a Romance Game for Women Like Never Before

Toraware no Paruma, a romance game for women released in August 2016, is a distinctively unique title for Capcom, mainly known for action games.

The concept is “experiencing love behind glass.” The player reaches out by communicating with their

love interest through the smartphone screen. This is a kind of game never seen before that women of all ages can enjoy.

The player is brought to a lonely island in a distant sea, where she meets a young man with amnesia being held captive in a room there. The player interacts with him by providing advice, and before she knows it, becomes smitten with him. Despite this unusual

scenario, we successfully created a sense of togetherness by incorporating text messages and other smartphone features into the game. Also, visits with the young man incorporate 3D modeling, and during these, the smartphone LCD screen acts as the visitation room glass barrier. Here, players can enjoy some unconventional touch controls, such as using their foreheads to tap the screen!

The clear difference from standard romance games is rather than playing up the part of the young man’s preferred “type” of woman, you are simply yourself. Accumulated player data is used to conduct a unique analysis based on Jung’s eight types which shapes the young man so he will warm up to any and all players. This is how we make women’s dreams a reality.

Never Giving Up Led to Better, More Interesting Ideas

If there are no games women can enjoy, we should just make one! This project started with that simple thought, but the road to product launch was by no means an easy one. While a typical smartphone game usually takes 2-3 months to develop, this title took about three and a half years from initial proposal to release. Our proposal won out in an internal call for projects, but even so there is a lack of successful women’s romance games, thus there was a bit of a wait until development was green lighted.

Thinking about it now, the initial proposal did not go beyond simply emphasizing the game’s appeal. We were just

focused on getting development started, but as we consulted with our superiors the weaknesses in our business plan became clear. We revised our plan, analyzed which users to target, broke down the market and competitive trends visually using numbers and graphs, and then resubmitted our proposal. It took a few years, but in doing so we had the opportunity to create a new genre.

As the project got going, the team grew more enthusiastic and things began moving forward. The numerous revisions made at the proposal stage had heightened the quality of the game’s planning and scenario. Furthermore, embodying the spirit of true artisans, our creative members of the team were meticulous down to the finest detail—resulting in quality that, without exaggeration, I can say is on par with a console title. I was reminded once again of the true strength of Capcom, a company with years and years of experience making games.

An Environment Where You can Speak Your Mind, Regardless of Gender

The game industry is generally described as a difficult place for women, but in my everyday work at Capcom I barely sense

any differences between men and women. If one has skills in planning and technology, opportunities will present themselves regardless of gender. If anything, getting people working together in development may be easier when women are around, as we tend to have a strong sense of group orientation.

Be that as it may, women can never fully separate life events from work. Personally, when I returned to work after giving birth to my first son, I felt torn between childrearing and my job. At that time, there were still very few women who had returned to work after giving birth. My husband (who also works in game development) encouraged me, telling me “in the future, there will be more developer-moms. You have to blaze a trail for them.” This gave me the push forward to take on both roles. At present, there are many women who returned to work after childbirth and are playing active roles now, taking advantage of support systems that provide leave for childcare and shortened working hours.

As our user base becomes more diverse, it naturally follows that us developers also becoming diverse is a good thing. The important thing is the will to create interesting games. If you have that, you can play an active role in a wider range of fields.

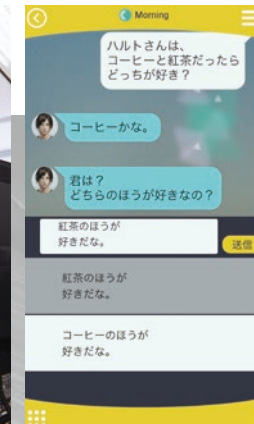
The word “paruma” in the title comes from the Latin “palma,” or palm. This word was chosen because players often touch the young man’s hand in the game.



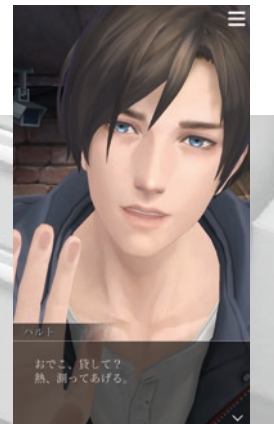
In the “fantasy dream app,” incredible events offer players a break from the main story. Here, the team is brainstorming about what kind of fantasies would be interesting.



Communication is deepened through conversations over text messaging apps.



Players tap their foreheads on the smartphone during visitations to recreate touching through the glass.



Diving into a World of Adventure in Online Development



Kento Kinoshita

Director
Section 2, Department 4
Consumer Games Development Division 3

Worked on the *Monster Hunter* and *Dragon's Dogma* series as a planner. Made his directorial debut on the console title *Dragon's Dogma: Dark Arisen*.

Bringing the World of *Dragon's Dogma* to Online Multi-Player

Creating a new game involves working with colleagues to forge a path where no path exists. Unimaginable difficulties await us along the way. Fortunately, my colleagues at Capcom are dependable and bustling with ideas and technological expertise. And thanks to the collective strengths of these co-workers, *Dragon's*

Dogma Online was launched in August 2015. It has gotten off to an excellent start, with one million downloads in the first month.

This title is based on *Dragon's Dogma*, which was released in 2012 for home video game consoles. In the original, players became the Arisen and set out alongside their pawns in an expansive open-world fantasy adventure. The game both proved popular and heightened anticipation for the next title in this series. Usually,

development of a sequel would only have been for another console game, but the reason we developed an online version was because of extremely strong user demand to bring this world to online multi-player gaming.

However, we quickly hit a major wall. *Dragon's Dogma Online* development staff, including myself, had almost no experience with online development. We gathered in-house programmers and built a server from the ground up. As in the game world, we cleared missions one by

one on our quest in development to deliver this title to the world.

Our Goal was Richer Content to Create Long-Lasting Appeal

With *Dragon's Dogma Online*, we aimed to create a world of adventure with long-lasting fun. We created a new story centered on five dragons, with Season One revolving around the Golden Dragon. The game is offered as a freemium title (basic play is free) for PC, PS4 and PS3 in order to widen the point of entry and encourage casual participation from new users.

The real challenge for online games comes after release. Running the title in such a way that users want to continue playing is a must. We stumbled a bit immediately after release, but once we analyzed the data on how users were playing the game, we began to amass management know-how.

Now, we are ready for Season Two. This adventure revolves around the Spirit Dragon, with a story that unfolds in an expansive open world. In addition to new dungeons and action, we introduced a new system enabling players to customize their own private rooms. We also improved settings that had caused some users stress, and even added other elements such as narration at story ends to provide a sense of anticipation for subsequent developments.

Looking Ahead to Season Three, a New Start

In terms of the appeal of online games from the game provider's perspective, the biggest merit is the ability to immediately understand if and how users are enjoying the game. If the game is interesting, players will visit every day. If it is too difficult, many will stop playing. All this can be understood just by looking at the data. As Capcom

is managing the game's server, updates and revamps are much easier than with Consumer games. Utilizing both the content we provide and feedback from users, we check solutions and perform adjustments on a daily basis. In this way, we make use of accumulated management know-how to hold events and implement updates aimed at further enhancing user satisfaction. We released version 2.0 in June 2016 (the first stage of Season Two), but are moving ahead without a break to simultaneously create the Season Three framework. The world of online games spreads ever outward.

Once we have established a solid foundation in Japan I'd like to consider bringing this game overseas, where there are a great many online game players.

Analyzing an enormous user log to repeatedly consider events and updates.



The appeal of this title is the fun of adventuring in a world of fantasy. Creating the scenes and characters is a critical element.



A new area in version 2.0 of *Dragon's Dogma Online* where a battle unfolds against a grotesque foe called "Shinshokuma."



Utilizing Popular Characters for Regional Growth

The ability to stimulate regional economies and cultures is the unifying force behind games with historical themes. Among these, *Sengoku BASARA* was responsible for igniting a renewed interest in history, and continues to be popular among young people, from teenagers to people in their 30s. In this way, game content popular among the young people expected to lead this regional growth can become a trigger for local revitalization.

Utilizing these strengths, in recent years Capcom has focused CSR activities on

regional municipalities. For example, leveraging the extraordinarily high visibility of *Sengoku BASARA*, Capcom supports regional growth from four angles: economic development, cultural promotion, public safety and participation in elections.

Efforts including gubernatorial election posters targeting young people, vehicle-related theft prevention posters and collaborations with museums to increase attendance are already demonstrating results. The following section introduces examples of Capcom initiatives aimed at regional growth.

The Appeal of *Sengoku BASARA*



While this action game for home video game consoles is based around the warlords and historical facts of the Warring States (*Sengoku*) Period, its fresh, unique take on this theme proved popular and ignited interest in history nationwide; in total, the series has sold 3.8 million units.



Initiatives Across Japan



Miyagi Prefecture: Mascot for gubernatorial election

Ibaraki Prefecture: Co-sponsorship of special museum exhibit

Saitama Prefecture: Co-sponsorship of special museum exhibit

Kofu, Yamanashi Prefecture: Conclusion of comprehensive partnership agreement

Ueda, Nagano Prefecture: Support for tourism event

Kyoto: Mascot for vehicle-related theft prevention awareness

Hyogo Prefecture: Mascot for vehicle-related theft prevention awareness

Okazaki, Aichi Prefecture: Support for tourism promotion

Osaka: Mascot for vehicle-related theft prevention awareness

Wakayama Prefecture: Support for campaign to attract visitors

Okayama Prefecture: Co-sponsorship of special museum exhibit

Kochi Prefecture: Mascot for gubernatorial election



Support for Economic Development

Capcom uses *Sengoku BASARA* characters, which are extremely popular with young men and women, to increase tourist numbers and sales of tie-in merchandise at events. By appealing to the youth and family demographics in particular, we have realized significant economic results.



Example 1 Wakayama Prefecture, August 2016

Sengoku BASARA Character Used in Wakayama Prefecture Tourism Promotion Campaign

The Taiga Drama Sanada Maru/Sanada Yukimura & *Sengoku BASARA* Sanada Yukimura-den, the latest title in the series, as a campaign character. A stamp rally was conducted around historic Sanada-related areas and the game character appeared on a pamphlet providing Wakayama Prefecture sightseeing and gourmet dining information, bringing a sense of excitement to Wakayama Prefecture tourism measures.



Example 2 Kofu, Yamanashi Prefecture, March 2015

Conclusion of a Comprehensive Partnership Agreement with a Regional Municipality, a Game Industry First

Using costumed *Sengoku BASARA* characters including Takeda Shingen, these activities began with a stamp rally and the distribution of premium merchandise gift vouchers in support of tourism promotion activities leading to local revitalization. Looking ahead to 2019, when Kofu celebrates 500 years since its establishment, we plan to utilize local hero Takeda Shingen to expand these measures and generate buzz that attracts people from all over Japan.



See "Message from the Mayor of Kofu" on page 18

Example 3 Saitama Prefecture, July–August 2015

Special Museum Exhibit at the Saitama Prefectural Museum of History and Folklore

Inspired by interest in the game characters, a special exhibit titled *Sengoku Guide—Cool Basara Style* was held at the Saitama Prefectural Museum of History and Folklore to teach young people about the history of Saitama from July 18 to August 30, 2015. The display, which featured arms, armor, helmets and ink paintings, attracted nearly 14,000 people, more than twice as many as any other exhibition project in the past.



Example 4 Tsuchiura, Ibaraki Prefecture, March 2013

Collaboration with Tsuchiura City Museum Draws 28,000 People

Capcom co-sponsored The BASARA's Armory: The Armor and Blades of Busho Who Tore Across Sengoku special exhibition held at the Tsuchiura City Museum in Ibaraki Prefecture. The exhibit featured *Sengoku BASARA* character illustrations and panels that drew a wide range of age groups to the museum. During the seven-week special exhibit, 28,000 people, equivalent to an entire year's worth of visitors, attended the exhibit, the first achievement of this magnitude for the museum.



Support for Cultural Promotion

Capcom co-sponsors events at museums to increase the number of visitors and support historical and cultural enlightenment. These activities aim to provide young people with opportunities to learn about local history and culture through their interest in *Sengoku BASARA* characters.





Support for Public Safety

Capcom supports the maintenance and improvement of local public safety in conjunction with police departments by holding events and creating posters to raise awareness featuring warlords from *Sengoku BASARA* who are associated with each prefecture. These efforts have yielded quantitative results with respect to the reduction of crime.

治安

Example 5 Osaka, Kyoto, Hyogo, February 2014

Using Three Capcom Characters to Prevent Vehicle-Related Theft and Other Crime in the Keihanshin Area

The *Sengoku BASARA* characters Sanada Yukimura, Keiji Maeda and Kuroda Kanbei, associated with Osaka, Kyoto and Hyogo Prefectures, were used as mascots in a joint-campaign aimed at preventing vehicle-related theft and other crime in these areas. In addition to displaying awareness posters, 25,000 leaflets were distributed by police departments and auto parts retailers as part of a broad promotion aimed at reducing crime in these three Kinki region prefectures.



Example 6 Osaka, April 2013

First Use of Date Masamune in an Osaka Police Department Vehicle-Related Theft Prevention Awareness Poster

Date Masamune, a character appearing in *Sengoku BASARA*, was the first mascot utilized for the Osaka Police Department vehicle-related theft prevention campaign. Vehicle-related crimes are common in Osaka, which in 2012 had the highest incidence of vehicle-related thefts in Japan and has since remained at a high level. Amid these conditions, Capcom contributed to police department public relations awareness activities through the use of characters popular with young people that were displayed on posters and distributed on leaflets.



Example 7 Kochi Prefecture, November 2015

Promoting Gubernatorial Elections with a Mascot Based on Local Hero Chosokabe Motochika

A character based on local hero Chosokabe Motochika was used in an attempt to increase voter turnout and stimulate interest among young people, who have little interest in elections, in the Kochi Prefecture gubernatorial elections held in November 2015. A variety of media, including posters displayed throughout the prefecture, television commercials, radio and newspaper advertisements and streetcars wrapped in promotional materials were used to announce the elections, which resulted in significant buzz being generated on social media, mainly Twitter and Facebook.



Example 8 Miyagi Prefecture, October 2009

Promoting Gubernatorial Elections with Overwhelmingly Popular Mascot Date Masamune

Aiming to raise the voter participation rate among young people and spread awareness of Miyagi Prefecture gubernatorial elections, Date Masamune, a well-known feudal lord from the Sengoku Period and overwhelmingly popular *Sengoku BASARA* game character, was chosen as the election awareness mascot. In addition to election posters displayed throughout the prefecture, multimedia including television commercials and public transit ads were vigorously employed in a broad appeal that resulted in raising the voter participation rate 6.2 percentage points.



Support for Participation in Elections

Capcom supports awareness of elections and increased rates of youth participation in voting through the creation of awareness posters and events held in conjunction with election committees making use of local hero characters that appear in *Sengoku BASARA*.

選挙

Message from the Mayor of Kofu

I Feel a Definite Response, with an Influx of New Visitors in Addition to Traditional Tourists

Yuichi Higuchi
Mayor of Kofu, Yamanashi Prefecture

Kofu was established as a castle town in 1519 under the rule of Takeda Nobutora, the father of Takeda Shingen. After the Warring States Period, during which the Takeda clan was very active, Ko-Edo culture flourished during the Edo Period and with the promotion of new industries in the Meiji Period, Kofu culture blossomed. In 2019, we celebrate 500 years since the establishment of Kofu, then two years after that, the 500th anniversary of the birth of Takeda Shingen, then in 2027, the Linear Chuo Shinkansen will commence operations.

I am aware that my mission is to prepare a foundation for the creation of Kofu's bright future through further developments going forward. I believe it is important to enhance the visibility of Kofu and ensure that people understand the city's appeal,

as well as to provide people who will raise the next generation of children with a sense of what Kofu has to offer. Thus, we must engage in measures aimed at encouraging people to relocate here.

As part of these activities, we have concluded a comprehensive partnership agreement for local revitalization with Capcom.

Since last year, we have been engaged in three major projects: the KOFU SAMURAI Wi-Fi & Sengoku BASARA Stamp Rally (approximately 6,500 participants), the KOFU & Sengoku BASARA Warring States Treasure Hunt Game (approximately 2,000 participants) and the tourism PR website "Master Shingen Returns!"

The events attracted a large number of people, from young women with a strong interest in history and families with small children, to foreign tourists

from England who learned of the event online and other new visitors in addition to traditional tourists. The special website received over 70,000 page views in March alone. All of these results were better than anticipated, which made me once again realize the power of popular games.

From the natural wonders of Shosenkyo Gorge, to wine, jewelry and other specialty products representing Japan and historical resources dating from Master Shingen to the present, everyone who visits Kofu will feel its rich charm.

In particular, Takeda Shingen is an important tourism resource and the pride of Kofu. Even today he is loved by local residents as the region's hero. At last year's event, his armor-clad figure issued orders and Kofu was introduced through a dialogue with Master Shingen on our official website, among other PR efforts I myself lead personally. Going forward, in addition to the partnership agreement centered on the promotion of tourism currently under development, we will attempt to cooperate with the activities of other cities, which I believe will lead to revitalization of the region.

