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]

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.

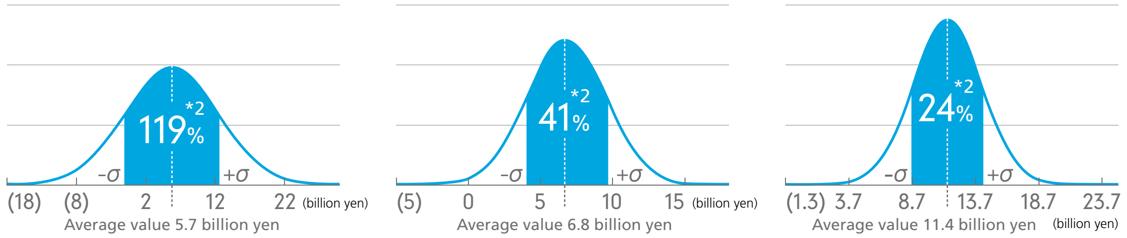
Until now, the value games have provided to society involved the alleviation of stress and other psychological benefits, but the application and diffusion of these simulation technologies will resolve new social issues, creating a whole new future of enjoyment for the game industry.

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

Diagram 1

Normal Distribution of Operating Income in Each Stage

Stage 1 (1990–1998 (ended March 31))*1	Stage 2 (1999–2007 (ended March 31))	Stage 3 (2008–2016 (ended March 31))
Cumulative net sales 460.7 billion yen	Cumulative net sales 527.1 billion yen	Cumulative net sales 759.1 billion yen
Cumulative operating income 48.5 billion yen	Cumulative operating income 61.5 billion yen	Cumulative operating income 103 billion yen
Operating margin 10.5%	Operating margin 11.7%	Operating margin 13.6%



*1 Ordinary income is substituted as the fiscal year ended March 31, 1990 was before public listing. *2 Relative standard deviation of operating income at each stage period.

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 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.

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 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.

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.

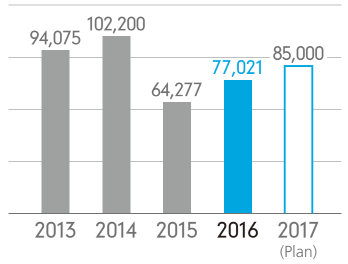
1	Achieve the combined total sales projection of 4.5 million units for *Monster Hunter X (Cross)* and *Street Fighter V*	○
2	Achieve projections for the next fiscal year in digital download sales (sales of 9 billion yen)	○
3	Make *Monster Hunter Explore* a hit	○
4	Achieve next fiscal year projections (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)

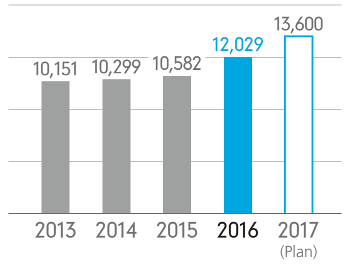
77,021 million yen



(Years ending March 31)

Diagram 4
Operating Income (Millions of yen)

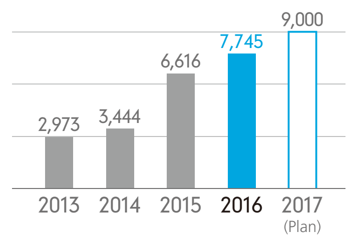
12,029 million yen



(Years ending March 31)

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

7,745 million yen



(Years ending March 31)

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.

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.

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.

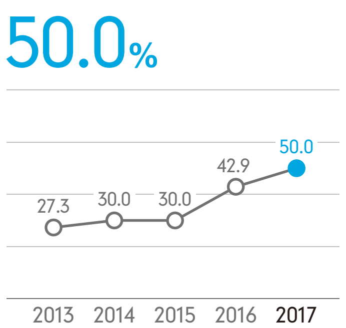
Going forward, we will continue to strengthen shareholder return by securing investment capital, buying back shares and gradually raising the dividend in line with earnings.

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)

Diagram 6
Ratio of External Directors (%)



(Years ending March 31)

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

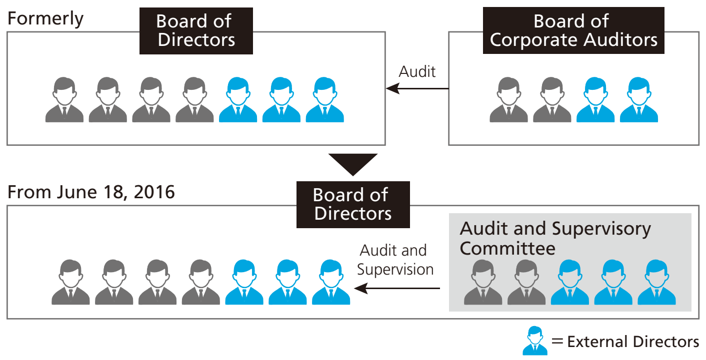
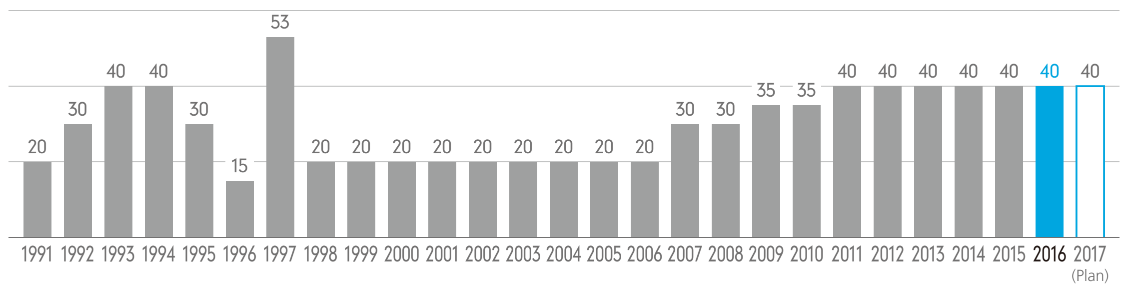


Diagram 8
Dividends Per Share Since Public Listing (yen)



(Years ending March 31)

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 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]

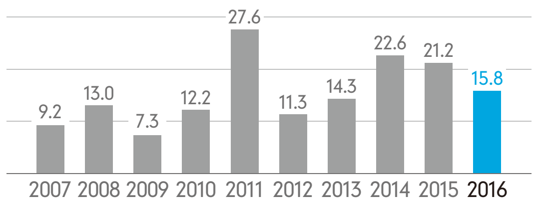
Investment Strategy

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 9

Net Cash on a Historical Basis (Billions of yen)

15.8 billion yen

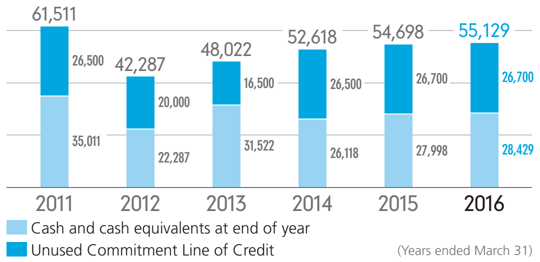


(Years ended March 31)

Diagram 10

Liquidity in Hand (Millions of yen)

55,129 million yen

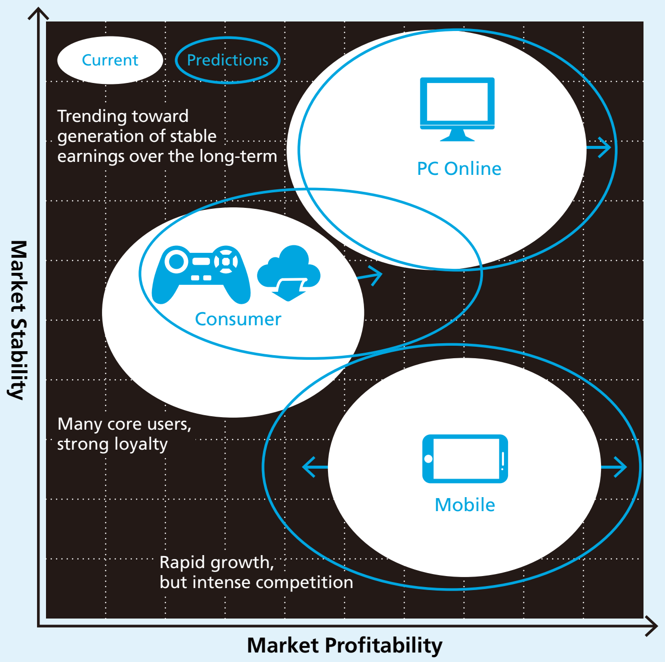


(Years ended March 31)

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

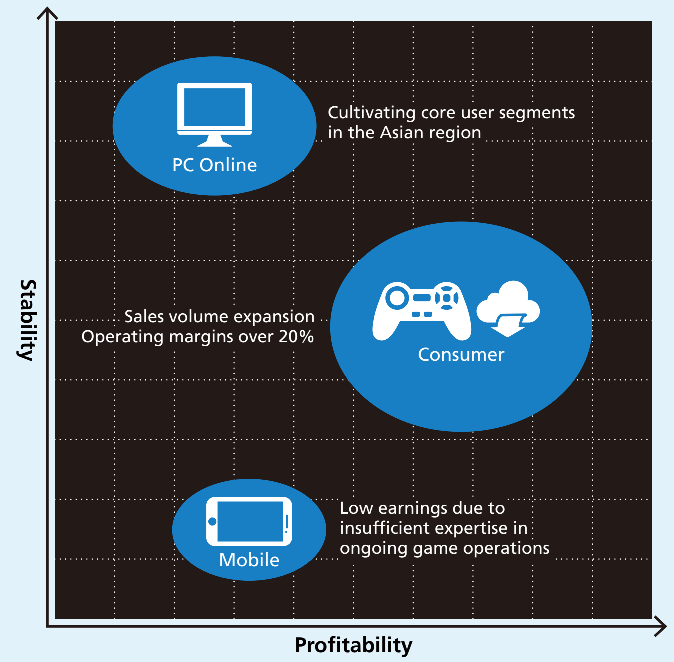
Five Competitive Factors in Each Business (Five Forces Analysis)

	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)

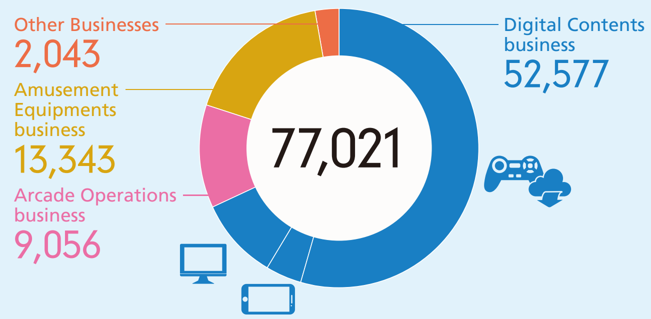
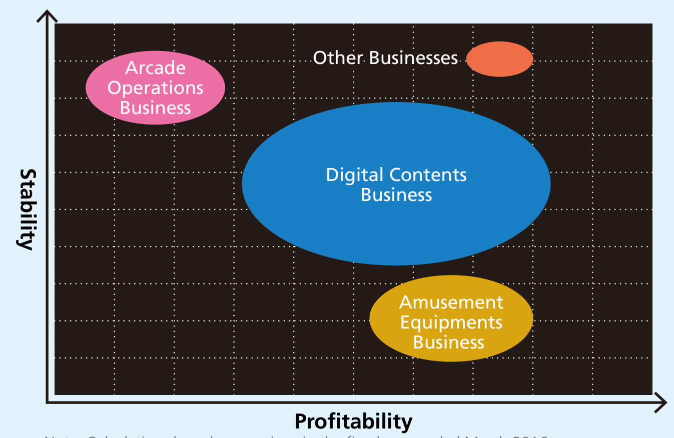


Diagram 15

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, in sufficient 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