The CEO's Discussion
of Performance Summary and Progress Towards Medium-Term Goals

Two Consecutive Years of Operating Income Improvements are Proof Positive of Reorganization's Effectiveness. With an Eye Towards Sustained Growth, Next Year We Will Attain Our Third Straight Year of Growth in Operating Income.

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Chairman and
Chief Executive Officer (CEO)

In this section, I'd like to respond to investor and stakeholder concerns that came up in meetings during the past year. These concerns involved performance during this fiscal year (ended March 31, 2015), medium-term business goals and strategies, CSR, corporate governance and financial and dividend measures. These issues will be addressed on the following pages in a Q&A format.

This section is only an overview. For more detailed information, please see pages referenced in the text or visit our IR website.

Performance and Commitment

Q1 What were the factors behind the increase in operating income this fiscal year despite a 37.1% decline in sales?

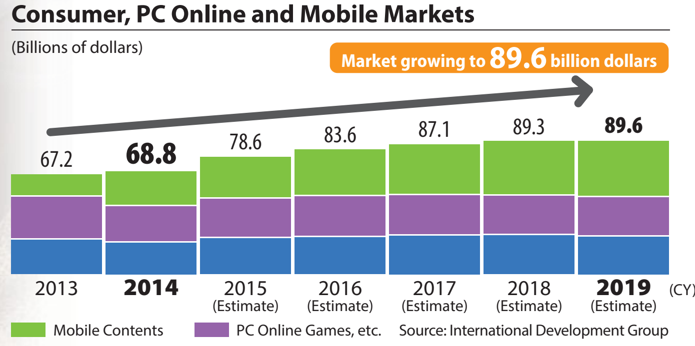
A1 Among other effects from Stage 1 reorganization, operating income increased for the second straight year due to efficiencies in internal development and an increase in the ratio of download sales in the Consumer sub-segment.

1. Market Environment Surrounding Capcom

The game market surrounding Capcom, which has been expanding for several years, at present has three major components: the Consumer sub-segment, which consists of home video game package software and digital download contents, Mobile Contents and PC Online Games (the latter two will be defined as online games below). Together, these amounted to a game market worth 68.8 billion dollars in 2014 (up 2.4% from the previous year). Diagram 1

The reasons for the modest increase in 2014 compared to double-digit growth in the previous fiscal year include (1) rapid growth in global adoption of devices in the mobile market, contrasted with (2) a decline in game unit sales (despite robust sales of digital download contents, which was not enough to offset the difference) in the consumer package market due to it being the second year since the launch of the current

Diagram 1
Consumer, PC Online and Mobile Markets



Source: International Development Group

generation of consoles (a transition period), and (3) lower PC online game sales on social networking services overseas.

2. Earnings Results Analysis

As a result of these conditions, earnings in the fiscal year ended March 31, 2015, involved a significant decline in sales but an increase in income, as net sales were 64,277 million yen (down 37.1% from the previous fiscal year), operating income was 10,582 million yen (up 2.7% from the previous fiscal year) and net income was 6,616 million yen (up 92.1% from the previous fiscal year). Above all, the operating margin significantly improved to 16.5% (6.4 percentage points higher than the previous year). Diagram 2 3 4

The decline in sales was attributable to (1) lower unit sales in the Consumer sub-segment due to a narrower focus on highly profitable titles and (2) the delayed sales launch of pachislo machines due to revised pachislo model certification* methods.

With regard to (2), not only Capcom, but all pachislo manufacturers were affected by these changes.

Main Reasons for the Decline in Sales

	FY ended March 31, 2014	FY ended March 31,2015	Difference
Consumer games (Thousands of units)	17,500	13,000	- 4,500
Pachislo machines (Units)	71,000	24,000	- 47,000

On the other hand, the reason operating income grew despite the significant decline in sales was due to changes to the structure of the core Consumer and Online business during the past two fiscal years as well as enhancements to our operations and management structures this fiscal year. The three-staged reform conducted over the past three fiscal years has substantially improved profitability.

In particular, a significant decline in the cost of sales due to cost ratio improvements in the Consumer sub-segment had a major influence.

Reforms Aimed at Increased Income

Stage 1 FY ended March 31, 2013	Consumer Business Structure Changes Objectives: Strengthen digital download contents, shift to internal R&D
Stage 2 FY ended March 31, 2014	Online Business Structure Changes Objective: Improve monetization (earnings from free content) in Mobile and PC Online sub-segments
Stage 3 FY ended March 31, 2015	Strengthen Operating and Administrative Framework Objective: Switch to lean management and eliminate waste

Specifically, the cost to sales ratio (59.7%) in the year under review improved by 11 percentage points compared to the previous fiscal year (70.7%), which effectively reduced the cost of sales to 7 billion yen. The main contributing factor was cost of sales improvements in the Consumer sub-segment, which included (1) improvements to title outsourcing consisting of the discontinuation of unprofitable title outsourcing in the previous fiscal year, which stopped losses with a 2 billion yen rebound, (2) optimizing internal title development by tightening the focus to highly profitable (major) titles and the impact of 2.1 billion yen from improvements to the employee utilization rate based on the 60-month title development plan as well as (3) an improved digital sales ratio due to growth in digital sales of catalog titles overseas amounting to 1 billion yen.

Furthermore, fixed expenses within selling, general and administrative expenses decreased 1.1 billion yen. Although the SG&A expenses ratio increased due to the decline in sales, labor costs decreased as a result of restructuring in Europe and the United States and other general expenses related to facilities declined.

As a result of these measures, the operating margin was 16.5% (up 6.4 percentage points from the previous year), enabling us to create a lean organization.

*** 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.**

3. Fulfilling Our Commitment

At the beginning of the year, I promised to address three issues. First, compared to our initial projection of 3.9 million units sold for "Monster Hunter 4 Ultimate", at the end of the fiscal year, unit sales were 3.4 million; however, cumulatively sales have amounted to 3.9 million units. Also, despite falling short of our sales projections in the Mobile Contents and PC Online Games sub-segments, operating margins were over 20% and over 15%, respectively, exceeding initial operating income projections at the beginning of the fiscal year.

Commitment Achievement Status in the Fiscal Year Ended March 31, 2015

(◎ Achieved, ○ Practically achieved, × Not achieved)

1	Reach sales projections of 3.9 million units for "Monster Hunter 4 Ultimate"	×
2	Create an organizational structure with stronger management capabilities via structural reforms in the Mobile Contents sub-segment and achieve projections for this fiscal year (net sales of 5 billion yen, operating margin of 10% or higher)	○
3	Carry out major updates to core titles to revitalize the PC Online Games sub-segment and meet projections for this fiscal year (net sales of 8 billion yen, operating margin of 10% or higher)	○

Diagram 2

Net Sales

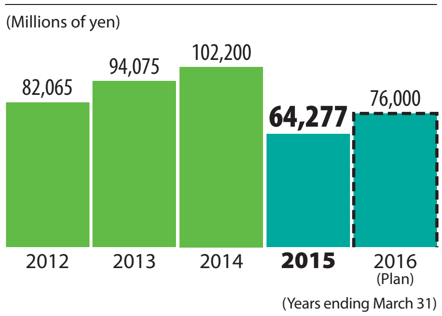


Diagram 3

Operating Income

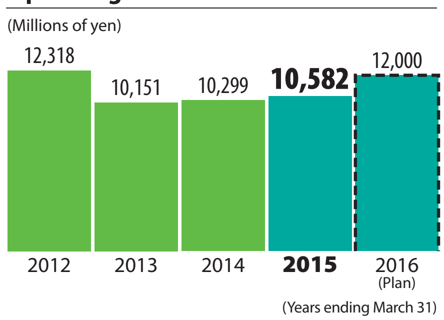
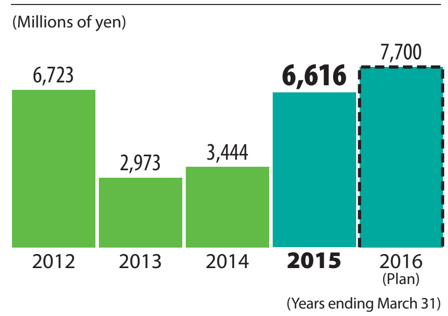


Diagram 4

Net Income



Q2 Capcom is projecting growth in sales and income for the fiscal year ending March 31, 2016. Is this a manifestation of the effects of reforms conducted over the past three fiscal years?

A2 Effects from Three Stages of reforms are starting to affect our cost structure and Online business model, thus we forecast net sales to grow 18.2% and operating income to increase for a third straight year by 13.4%.

1. Market Outlook

We expect continued growth in the game market, which grew to 78.6 billion dollars (up 14.2% from the previous year) in 2015.

This was due to (1) the full-scale adoption of current game consoles in the consumer (package and digital) market, as well as significant digital growth, (2) continued expansion of the mobile market in Asia and (3) browser game expansion in PC online markets in Europe and Asia.

2. Foundation for Projected Growth in Sales and Income

Next fiscal year (ending March 31, 2016), Capcom is projecting growth in sales and income, with net sales of 76 billion yen (up 18.2% from the previous year), operating income of 12 billion yen (up 13.4% from the previous year) and net income of 7.7 billion yen (up 16.4% from the previous year). There are two major foundations for these projections.

First, in the Amusement Equipments business, the lineup will be bolstered with the addition of several new pachislo machines compliant with revised pachislo model certification methods. We are projecting sales of 45,000 machines (an increase of 21,000 machines from the previous year) amounting to sales of 15 billion yen (up 98.9% from the previous year).

Second, in the Digital Contents business, we will launch content utilizing popular intellectual property (IP) in the Consumer, Mobile and PC Online sub-segments that will expand our lineup, resulting in projected operating income of 11 billion yen (up 7.8% from the previous year).

3. A New Year, A New Commitment

I believe we have four major tasks ahead of us in the fiscal year ending March 31, 2016. (1) Achieving the combined total sales projection of 4.5 million units for the major titles "Monster Hunter X (Cross)" and "Street Fighter V", (2) strengthening our digital business, which is necessary for our growth strategy, and achieving projections for the next fiscal year (sales of 9 billion yen), (3) ensuring "Monster Hunter Explore" is a hit, which is the key to the Mobile sub-segment counteroffensive, and (4) achieving next fiscal year projections (operating income of 3 billion yen) with sales of pachislo machines compliant with revised pachislo model certification methods.

To succeed in these tasks, we plan to eliminate waste and maintain a highly profitable lean structure while enhancing our title lineup via the full-scale execution of the 60-month title development plan and strengthening marketing and monetization in the Online sub-segment.

Commitments for the Next Fiscal Year (Ending March 31, 2016)

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

Medium-Term Business Goals

Q3 What progress have you made towards medium-term business goals?

A3 We were forced to revise our future pipeline due to changes in the pachislo model certification method, which lowered by 10 billion yen. At the same time, from a perspective emphasizing capital efficiency, we added an ROE target.

1. Corporate Philosophy and the Direction of Management

Our corporate philosophy is to create "entertainment culture" through the development of highly creative software contents that excite our customers and stimulate their senses. To make this a reality, as a company with world-leading development capabilities, we utilize our highly original IP to provide users with entertaining games that wholly satisfy.

Further, with our "Single Content Multiple Usage" strategy and

Diagram 5

Capcom Popular IPs and Single Content Multiple Usage Expansion

Series Name	Initial Release	Number of Titles	Total Units Sold (in thousands)	Sub-segment			Other Mediums		
				Consumer	Mobile	PC Online	Gaming Machines	Arcade Machines	Movies/Animation
Resident Evil	1996	99	65,000	●	●	●	●		●
Street Fighter	1987	81	36,000	●	●	●	●	●	●
Monster Hunter	2004	30	32,000	●	●	●	●	●	●
Mega Man	1987	131	30,000	●	●	●		●	●
Devil May Cry	2001	23	14,000	●	●	●	●		●
Dead Rising	2006	13	8,300	●	●	●			●
Lost Planet	2006	17	5,800	●	●	●			
Ace Attorney	2001	20	5,300	●	●	●			●
Sengoku BASARA	2005	26	3,600	●	●	●	●	●	●

(As of June 31, 2015)

five-year management planning as a base, we are leveraging our IP into various entertainment mediums thus increasing earnings and enlarging our fan base by delighting users outside of the game market, as we aim to be a comprehensive entertainment company boasting stable corporate growth and a commanding presence in all areas of operations. Diagram 5

2. Partial Revision to Medium-Term Business Goals and Addition of ROE Target

Capcom's medium-term business goals for the cumulative five year period from 2014 to 2018 (ending March 31) were (1) an operating income of 80 billion yen and (2) operating margins of 20% in the final year ending March 31, 2018. However, as a result of a reinvestigation due to circumstances described hereafter, we have revised these targets.

The revision involved lowering the cumulative operating income target from 80 billion yen to 70 billion yen. Diagram 6

Nevertheless, our operating margin target of 20% remains unchanged. We also announced a new target calling for ROE between 8-10% (a moving average for the three year period from 2015–2017 (ending March 31)). To meet shareholder expectations, we aim to exceed capital costs and become a value creation company. Diagram 7

3. Reasons for Target Revisions

Progress in the Amusement Equipments business was on track through the second year, surpassing the cumulative operating income target of 9.3 billion yen to achieve 9.8 billion yen amid fierce competition from other companies.

Despite this progress, the reason for the 10 billion yen downward revision to the cumulative operating income target was changes in the pachislo model certification method, which occurred in September 2014. These changes forced us to revise the specifications of machines under development, which in turn required us to revise the entire development schedule.

In the three year period beginning in the fiscal year ending March 31, 2016, we originally planned on releasing four new machines, however, taking into account the reduction of machines released due to the effects of the change in rules and as a result of assuming an annual operating income of 3-4 billion yen during the three year period moving forward, we revised the initial five-year cumulative operating income target of 30 billion yen to 20 billion yen.

Operating income targets for Other Businesses remain unchanged, as do the operating margin targets for all business segments.

For a detailed analysis of our progress, please refer to the "Past, Present, Future" section on the next page.

4. Medium- and Long-Term Strategies

To recap the medium-term business goals through the second year of the plan, we have reached 20.8 billion yen of our initial 22.5 billion yen cumulative operating income target. In order to attain the remaining 1.7 billion yen and reach the target, it is essential that we promote the expansion of the Consumer and Online sub-segments, both of which are key elements of our growth strategy. Firstly, we will strive to maintain our initial high-profit structure in the Consumer sub-segment (operating margins in excess of 20%) while expanding our lineup of titles.

Specifically, we will strengthen our digital offerings with ongoing distribution of add-on DLC to lengthen the revenue cycle of each title and promote the transition from package to digital sales for full games to avoid inventory shortages and other lost sales opportunities as well as inventory risks. In addition, we will stably acquire additional revenue over the long term by capturing users through the ongoing distribution of add-on DLC. Furthermore, next fiscal year we will officially begin operation of our 60-month development plan, which encapsulates our title portfolio.

In terms of the Online sub-segment, we will (1) strengthen marketing and monetization, (2) enhance our lineup of titles developed internally and (3) promote business alliances in the Asia region. Considering country risk, up to this point we had been temperate with expansion into the Asia region in particular, however, having introduced a licensing model established via alliances with prominent local companies, we have mitigated this risk; moving forward we will increase management resources in the region for both the Mobile and PC Online sub-segments with a focus on China, a market of staggering size that maintains the potential for growth.

Specifically, we will increase the number of developers, who are the core of our management resources, from the current 1,900 people to 2,500 people over the next six years, while increasing the proportion of Online sub-segment sales. Through these strategies, we will expand sales and maintain an operating margin of 22% or more in the Digital Contents business to raise the company-wide consolidated operating margin to 20% in the fiscal year ending March 2018.

In terms of ROE, to achieve our goal we will promote the aforementioned strategies, focusing efforts on profitability (net margin) improvements, which Capcom considers to be of great importance.

Diagram 6

Medium-Term Business Goals

- **Cumulative targets for the 5 years starting FY ending March 2014**
  - **(1) Cumulative operating income: 70 billion yen** (2014–2018 (ending March 31))
  - **(2) Operating margins of 20% in FY ending March 2018**
- **Cumulative Operating Incomes & Operating Margins for FY ending March 2018 by Business Segment**

	Cumulative Operating Income	FY2018 Operating Margins
Digital Contents	57.0 billion yen	22%
Arcade Operations	8.5 billion yen	15%
Amusement Equipments	20.0 billion yen	27%
Other Businesses	5.5 billion yen	45%
Consolidated Total	70.0 billion yen	20%

Revised from 30 billion yen to 20 billion yen

Revised from 80 billion yen to 70 billion yen

Diagram 7

ROE Achievements and Goals

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

Capcom's Past Present Future Thorough Verification

In the fiscal year ended March 31, 2015, consolidated operating income was in line with projections, enabling us to realize from the fruits of reforms conducted during the past three years. At the same time, revised pachislo model certification methods forced us to update the specifications for all pachislo machines under development. As a result, we lowered our medium-term business goal for cumulative operating income by 10 billion yen. However, reforms in our core Digital Contents business are proceeding on track. This section will explain the verification of issues, measures and results in the current and next fiscal years.

The Past (Past two years)

Stage 1 (Fiscal year ended March 31, 2013)

Consumer Business Structure Changes

Measures
- Digital download content strengthened, increased internal R&D ratio
- Rigorously evaluated work-in-progress game software as part of business restructuring measures

Please refer to our website at: http://www.capcom.co.jp/ir/ar/ppf14e.html

Stage 2 (Fiscal year ended March 31, 2014)

Online Business (Mobile Contents / PC Online Games) Structure Changes

Measures
- Rigorously evaluated work-in-progress game software in mobile and online games as part of business restructuring measures
- Drastically revised PC Online development flow, formulated new development map

The Present (Current fiscal year)

Stage 3 (Fiscal year ended March 31, 2015)

Strengthen Operating and Administrative Framework

Issues

Build a lean operating and administrative framework with absolutely no waste
(Improve cost to sales ratio 6.7 percentage points, raise operating margins 3 percentage points)

Results

Profitability significantly improved
Cost to sales ratio (company-wide) improved 11 percentage points to 59.7%
Operating margins (company-wide) rose 6.4 percentage points to 16.5%

▼ Assumptions at the beginning of the year

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

▼ Results at the end of the year

In terms of achievements, the cost to sales ratio improved 11 percentage points year on year, to 59.7%, while operating margins rose 6.4 percentage points to 16.5%. Both surpassed initial projections of a 6.7 percentage point improvement in the cost to sales ratio and a 3 percentage point improvement in operating margins. This significant improvement to profitability was due to structural revisions in the core Consumer Online business during the past two years, as well as operational and management structure enhancements during the fiscal year under review.

In addition, further progress from stage 1 results includes a digital download ratio improvement from 11% in fiscal 2012, to 18% in fiscal 2013, to 26% in fiscal 2014. Similarly, progress from stage 2 includes Online operating margins improving from a negative in fiscal 2013 to 15-20% in fiscal 2015.

▼ Factors behind these achievements

The main factors behind these achievements include the effects of reduced cost of sales (7 billion yen) and the realization of reductions in selling, general and administrative expenses (1.1 billion yen in fixed expenses).

Specifically, these factors mainly involved the Consumer sub-segment and included (1) the discontinuation of unprofitable title outsourcing in the previous fiscal year, which stopped losses with a 2 billion yen rebound, (2) a tightened focus on highly profitable (major) titles and the impact of 2.1 billion yen from improvements to the employee utilization rate based on the 60-month title development plan and (3) growth in digital sales of catalog titles overseas amounting to 1 billion yen.

Furthermore, fixed expenses within selling, general and administrative expenses decreased 1.1 billion yen due to lower labor costs resulting from restructuring in Europe and the United States as well as a reduction in other general expenses related to facilities.

▼ Issues next fiscal year and beyond

Over the past three years, we have been able to see results from the nearly completed operation and management structure aimed at accelerating our growth strategy. Issues going forward include the achievement of our medium-term business goal for top line sales growth (cumulative operating income of 70 billion yen and operating margins of 20% in the final year ending March 31, 2018). Progress analysis and policies necessary to achieve these goals are explained on the next page.

The Future

Final Stage

Accelerating the growth strategy to achieve medium-term business goals

Issues
- Sales growth in the highly profitable Digital Contents business.

Measures
- Strengthen lineup for Consumer, Mobile and PC Online.
- Expand licensing in Asian regions.

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

In Q3 on Page 19, we revised the medium-term business goals and updated progress on the Amusement Equipments business, which was the cause of the revision.

Next, in terms of progress during the second year of the plan in the Digital Contents business, which is the key to achieving these goals, cumulative operating income reached 14.7 billion yen, 1.2 billion yen short of the 15.9 billion yen projection.

Analyzing this 1.2 billion yen shortfall by sub-segment, (1) Consumer added 4.9 billion yen, (2) Mobile was negative 3.6 billion yen and (3) PC Online was negative 2.5 billion yen. Although each sub-segment performed well in the fiscal year ended March 31, 2015, it was not enough to make up for Mobile and PC Online shortfalls in the fiscal year ended March 31, 2014.

However, we think we can catch up by executing measures (discussed below) over the next three years, thus our projection of 57 billion yen remains unchanged.

Digital Contents Business: Cumulative Operating Income Progress

(Billons of yen)

14/3		15/3		Cumulative total			16/3
Initial Projections	Actual Results	Initial Projections	Actual Results	Initial Projections	Actual Results	Difference	Plan
9.1	4.5	6.8	10.2	15.9	14.7	-1.2	11

▼ Medium-Term Business Goal Progress Analysis 2: Operating Margins

Our goal of achieving operating margins of 20% in the fiscal year ending March 31, 2018, remains unchanged. Structural reforms over the past three years have led to significant improvements in the operating margin, and although this is not a low hurdle, we believe we can achieve the 20% goal.

In terms of what specifically constituted improvements, in the Consumer sub-segment it was due to (1) outsourced title profitability improvements, (2) streamlining internal title production, and (3) increases in the DLC sales ratio.

In terms of business segments, the core Digital Contents business and the Amusement Equipments business both achieved their targets.

In the three years until March 31, 2018, if we are able to successfully implement the measures outlines below in these two businesses, we believe it is more than possible to achieve the 20% target.

Operating Margin Progress by Business Segment

(%)

	14/3 Actual Results	15/3 Actual Results	18/3 Goals
Digital Contents	6.8	22.5	22.0
Arcade Operations	15.2	10.2	15.0
Amusement Equipments	30.8	36.3	27.0
Other Businesses	38.6	30.8	45.0
Total	10.1	16.5	20.0

▼ Necessary Measures

In terms of issues going forward, we will promote the following measures in order to expand sales in the highly profitable Digital Contents business to increase consolidated operating income and operating margins and achieve our goals.

(1) In the Consumer sub-segment, we will utilize leading IP to expand our lineup for current game consoles and further enhance digital sales (both full-game and add-on content).
(2) In the Mobile Contents sub-segment, we will expand our lineup, beginning with distribution of "Monster Hunter Explore".
(3) In the PC Online Games sub-segment, we will launch "Dragon's Dogma Online" as the next mainstay after "Monster Hunter Frontier G".
(4) We will enhance expansion of licensing in Asia and expand profits in the Chinese market.

Executing these measures and expanding our lineup in each sub-segment and region will enable us to achieve post-revision medium-term business goals.

Main Pipeline (Fiscal Years 2013–2017)

	Fiscal year ended March 31, 2014	Fiscal year ended March 31, 2015	Fiscal year ending March 31, 2016 and beyond
Consumer Business	Monster Hunter 4 Dead Rising 3 Resident Evil Revelations Unveiled Edition	Monster Hunter 4 Ultimate Resident Evil Revelations 2 Resident Evil HD Remaster	Monster Hunter X (Cross) Street Fighter V Resident Evil series Monster Hunter series Dead Rising series Devil May Cry series Street Fighter series Other series
Online Business (Mobile Contents and PC Online Games)	Monster Hunter Frontier G →	→	→
			Dragon's Dogma Online → Monster Hunter Online* →

*Managed by Tencent Holdings Ltd.

Series numbered titles / Spin-off titles / PC online games

Fund Procurement

Q4 What are your thoughts regarding the investment strategy and fund procurement required to achieve medium-term business goals?

A4 Fund procurement will come mainly from cash on hand and debt financing, while approximately 80% of management resources will be allocated to our growth strategy to drive business growth.

1. Investment Size and Focus

Capcom is formulating and executing growth strategies in each business in the pursuit of stable medium- to long-term growth. We are cognizant that our top priority is to secure an amount sufficient to invest in high-growth Online businesses such as Mobile Contents and PC Online Games, as well as our largest market, the Consumer business, which acts as the source for our original IPs. Furthermore, we must invest in the construction of new development facilities and more developers to strengthen current game console R&D and expand our title lineup in each business.

Please refer to Q3: 4 "Medium- and Long-Term Strategies" on page 20.

People are the main investment for game software companies. Thus, we plan to increase the number of developers by 100 or more next fiscal year over the current 1,900 people. We will also promote development structure efficiencies by consolidating disparate development departments. To this end, we are investing a total of 8 billion yen in the construction of a new R&D building.

Accordingly, we will allocate about 80% of management resources (R&D investment and capital expenditure totaling 36.2 billion yen in the fiscal year ending March 31, 2016), amounting to an investment of 29.1 billion yen (up 28.3% from the previous fiscal year) into these growth strategies. Diagram 8 9

2. Fund Procurement

Consumer game software development expenses are on the rise in response to 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. As a priority issue, we recognize the need to understand the global economic situation, paying attention to the risk of not recovering receivables and the resultant need to ensure funding.

To address these funding procurement issues, we determine the level of cash and cash equivalents that needs to be maintained in consideration of reserves from the investment plan and risk management. This amount will then be supplemented with cash on hand (27,998 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. We will continue with our financial strategy to raise funds mainly through debt financing within the commitment line for a period of time, while paying close attention to changes in the financial markets. Diagram 10

CSR (Corporate Social Responsibility)

Q5 What CSR initiatives are you currently focused on?

A5 Capcom CSR is focused on a fusion of Single Content Multiple Usage and ESG initiatives.

1. Basic Approach to CSR

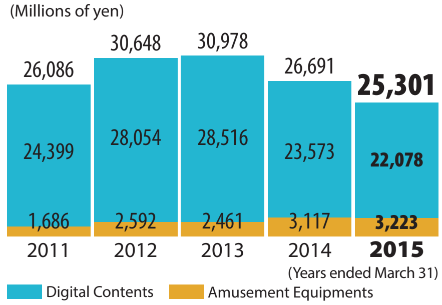
Based on our corporate philosophy and management policies, I think corporate social responsibility at Capcom means our business activities benefit not only the company but also society, while lessening or preventing any burdens these activities place on the public. To fulfill this responsibility, management makes an effort to build relationships of trust and improve the satisfaction of shareholders, customers, employees and all our stakeholders. Diagram 11

2. Our Important CSR Initiatives

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 in support of (1) regional economic development, (2) cultural enlightenment, (3) improved public safety and (4) encouraging involvement in 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 impact on promoting tourism. Further, regarding (2)(3)(4), the common issue is attracting and approaching young people, to which we have proactively made proposals to museums,

Diagram 8

R&D Investment Costs



Note: Before March 2012, Digital Contents combined the Consumer Online Games and Mobile Contents businesses.

Diagram 9

Capital Investment

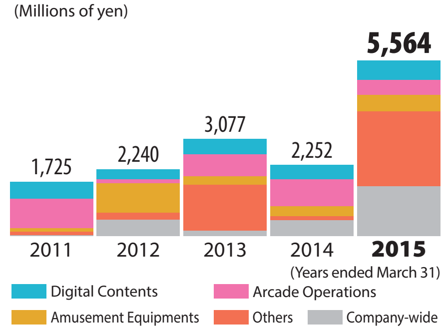
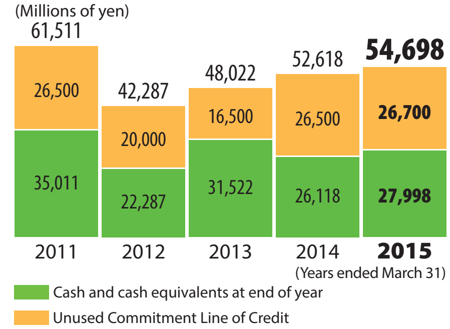


Diagram 10

Liquidity in Hand



police departments and election committees and produced quantifiable results. In this way, via promoting Capcom's basic strategy of utilizing branded content, we are endeavoring to maximize benefits to both the company and society.

Please refer to the Community Involvement section of our website at: http://www.capcom.co.jp/ir/english/csr/csr07.html

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.

Please refer to "Company Visits for Children and On-Site Classes at Schools" on page 45

I am also aware of how important diversity is in the creation of content with global appeal, thus Capcom hires and carries out assessment of employees without regard for gender or nationality to ensure human resource diversity. These efforts include promoting women to management positions, creating systems that support continued employment after marriage or childbirth and securing and cultivating global human resources. As a result, we employ 433 women (accounting for 20% of our workforce), of which 20 are managers (accounting for 9.7% of managers), and 69 foreigners (accounting for 3.4% of our workforce). These numbers increase every year.

Please refer to "Promoting Employee Diversity" on page 47

Corporate Governance

Q6 Strengthening governance is necessary for promoting growth strategies—what about Capcom's governance is unique?

A6 We have a high ratio of authoritative external directors on our board who enhance dialogues with shareholders and investors.

1. Increasing the Ratio of External Directors

Capcom is promoting a growth strategy aimed at attaining our medium-term business goals, some of which we are already beginning to achieve. At the same time, the business investment required for growth involves risks. I believe that, in order to mitigate or avoid these risks altogether, we must enhance corporate governance.

In early 2000, an investor pointed out "Founder-owned companies have an advantage in terms of swift management decision-making and responses to changes in the environment, but there is an inherent risk of arbitrary actions being taken without adequate consultation. Since the development divisions comprise the core of your business, don't the same risks also exist when talented developer egos are involved?"

Consequently, I introduced an external director system in the fiscal year ended March 31, 2002 and appointed two external directors. The next fiscal year I increased the number of external directors to three, bringing the ratio of external directors to 37.5%, which was a great surprise to our investors, however, in fiscal year ending March 31, 2016, we have improved the ratio of external directors to 42.9%. Diagram 12

2. Criteria for Appointing External Directors

The criteria used for appointing external directors 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.

Some investors have asked, "Wouldn't people with a background in the content industry be better able to provide useful business advice?" While they certainly have a point, I give priority to avoiding business investment risks and think appointing 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 and who are not intimidated by the company founder, contributes to the further enhancement of Capcom's corporate value.

In response to the suggestion that accounting personnel would be better able to check for irregularities, we established the Audit Committee in the fiscal year ending March 31, 2012. This committee is composed of members who formerly held positions of responsibility in accounting and development, backgrounds that heighten their potential ability to perceive business details that are difficult for those from outside the company to see; this, coupled with close coordination with the Board of Corporate Auditors (which includes two external auditors), provides the Board of Directors with reports that inform them of problems and enable appropriate management decision-making.

Please refer to "External Directors and Auditors" on page 55

3. Ensuring Effective Governance

To ensure the effectiveness of governance, a company must be intent on utilizing its external directors; otherwise, they may only simply be creating an alibi. To make the system work, we need to be creative to enable

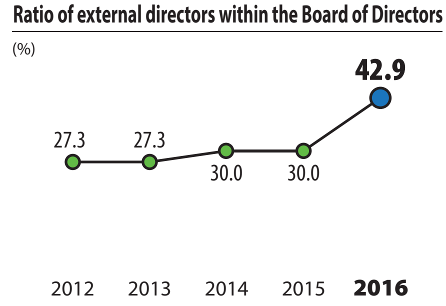
Diagram 11

Priority Initiatives for the Environment, Society and Governance

	Priority Initiatives	Page
Governance	• Hold proactive dialogues with shareholders and investors • Improve ratio of external directors • Hold small meetings between external directors and investors • Establish Audit Committee and Remuneration Committee • Disclose details of discussions at Board of Directors meetings • Disclose non-financial information (developer interview videos, etc.)	P49-64
Society	• Contribute to society using IPs • Host company visits and conduct on-site classes • Promote employee diversity • Contribute to communities in each region	P45-48
Environment	• Reduce CO_2 emissions	P47

Diagram 12

Ratio of external directors within the Board of Directors



shareholders to see and evaluate the work done by external directors. To this end, we conduct third party evaluations of Capcom governance and publish details of discussions held at Board of Director meetings to demonstrate the sharp tenor of the discussions at those meetings.

Please refer to "Third-Party Assessment" on page 56,
"Principal Discussions at Board of Directors Meetings Held in Fiscal 2014" on pages 57–58

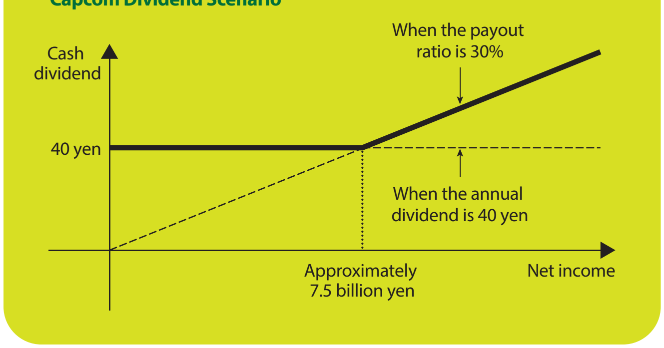
We employ a creative approach to ensure lively exchanges during these discussions. For example, in addition to monthly Board of Directors meetings, directors in charge meet with external directors to exchange information and opinions regarding current issues and the progress of various projects. In addition, we make an effort to build support and information sharing systems which include providing external directors with quantitative-focused materials used at Board of Directors meetings that enable them to visualize management.

Please refer to "An External Director's Perspective on Capcom's Governance" on pages 49–50

Furthermore, Capcom's proactive governance involves various policies that ensure transparency and the timely disclosure of information, protect shareholder rights and equality, and facilitate dialogues with shareholders. With regard to our takeover defense measures in particular, we have engaged in dialogues with investors in Japan and overseas to understand the reasons for their opposition. As a result, we were able to explain our thinking in detail and achieve a considerable amount of understanding, as well as gather numerous investor opinions that led us to make changes to several points, ensuring the appropriateness of procedures.

Going forward, we will continue to promote appropriate growth strategies while engaging in ongoing enhancements to our corporate governance structure.

Capcom Dividend Scenario



Shareholder Return

Q7 Net income has grown consecutively for the past two fiscal years. What are your thoughts on increasing the dividend?

A7 In line with our basic policy, we will maintain the full-year dividend at 40 yen per share.

1. Basic Policy Regarding Dividends

One of our management priorities is to share profits with all our shareholders. Our basic policy is to provide stable and continuous dividends that take into account our financial condition and future business strategies.

Also, in terms of our thinking on the allocation of business investment results (dividend and internal reserve ratios), as I indicated in item 1 of Q4, "Investment Size and Focus", I see the changing times as a favorable opportunity to invest in our future growth. To this end, free cash flows generated from this fiscal year's business will be used as capital for business investment focused on future growth.

In terms of 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.

2. Dividends for This Fiscal Year and the Next

In the fiscal year ended March 31, 2015, although sales declined due to the postponed launch of pachislo machine sales, reforms conducted over the past three years have led to improved profitability and increased operating income. Additionally, net income substantially increased after posting of a special loss in the previous fiscal year. Accordingly, in line with our basic policy, we maintained the full-year dividend at 40 yen per share, a payout ratio of 34.0%, in the fiscal year ended March 31, 2015. Diagram 13

In the fiscal year ending March 31, 2016, we plan on paying a full-year dividend of 40 yen per share, a payout ratio of 29.2%. Diagram 14 Going forward, we will continue to strengthen shareholder return by securing investment capital, buying back shares and gradually raising the dividend in line with earnings. Diagram 15

I would like to express my gratitude to all our shareholders for your encouragement and guidance. We will continue striving to be worthy of your ongoing support.

Diagram 13
Dividend per Share

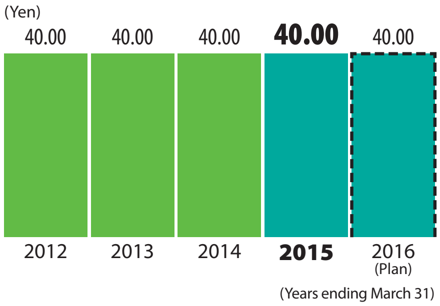


Diagram 14
Dividend Payout Ratio

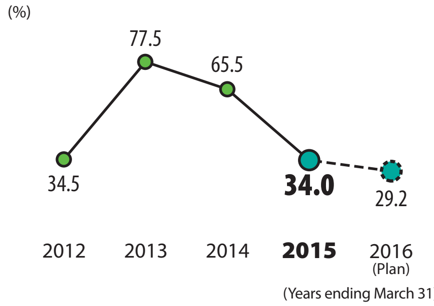
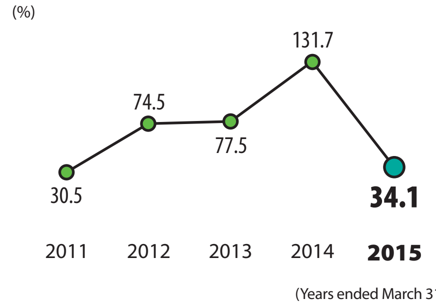


Diagram 15
Total Return Ratio



Financial Strategy According to the CFO

Financial Strategies Supporting Investment in Development Aimed at Achieving Medium-Term Business Goals

Capcom is engaged in improving net cash and increasing capital efficiency as two financial strategies aimed at building a lean financial foundation and securing funding to invest in growth.

The reason for these goals is the significant expansion underway in the game software market amid the incorporation of home video games as well as mobile and PC online games, which represent a market growth opportunity for Capcom. We have therefore formulated basic strategies for our online and mobile platforms in addition to our basic strategy of developing high-quality content, and have sought to reinforce our investments in development.

Through these financial strategies, we will support the promotion of growth strategies aimed at achieving our medium-term business goals on the funding side.

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

1. Securing Net Cash

In the fiscal year ended March 31, 2015, net cash decreased 1.4 billion yen year on year, to 21.2 billion yen. Despite higher net income from a rise in cash reserves, the decline was due to increased borrowings of approximately 3 billion yen used for investment in development in accordance with strengthening our lineup of titles in development aimed at growth from the next fiscal year forward.

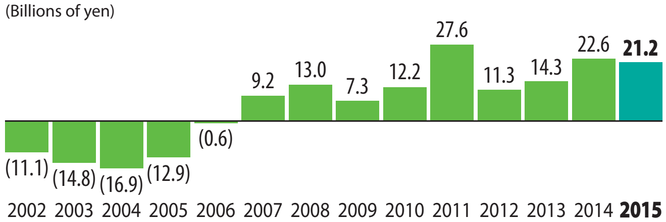
However, in terms of trends in past fiscal years, in the fiscal year ended March 31, 2002, when I was appointed as a director, net cash (cash minus interest bearing debt) was negative 11.1 billion yen. In the fiscal year ended March 31, 2015, net cash was 21.2 billion yen, revealing that our cash position has improved 32.3 billion yen in the past 13 years. Diagram 16

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 by category, such as brand or producer, while ascertaining and analyzing the investment profitability of each project. The second strategy is to maximize working capital efficiency. To this end, we are expanding the invested capital management system of each business and creating a framework to manage our investment turnover period and turnover ratio in a more visible manner.

Diagram 16

Net Cash on a Historical Basis

(Billions of yen)



(Years ended March 31)

2. Increasing Capital Efficiency

As Capcom aims for sustainable growth and improved corporate value over the medium- to long-term, we established the following ROE targets as an index of capital efficiency.

ROE Achievements and Goals	Moving average for three fiscal years ended Mar 2015	Moving average for three fiscal years ending Mar 2017
	6.7%	8–10%

In light of the 6.7% average recorded during the past three fiscal years ending March 31, 2015, we made raising the average to 8–10% the foremost goal during the three fiscal year period ending March 31, 2017.

To achieve this goal, I believe there are three ROE components we need to address.

ROE components	2012/3	2013/3	2014/3	2015/3
Net margin (%)	8.2	3.2	3.4	10.3
TAT (%)	83.5	90.1	105.8	63.8
Financial leverage (multiplier)	1.66	1.66	1.51	1.41

The most critical component we must give priority to is net margin improvement.

During the past three years, changes to the Digital Contents business and enhancements to our operation and management structures have substantially improved the net margin. Going forward, we will aim for further margin improvements through the steady execution of growth strategies and enhancements to our lineup of titles.

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. We will consider the use of treasury stock during discussions at Board of Directors meetings and make an effort to conduct management focused on capital efficiency.