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1. Operating results

(1) Qualitative information and consolidated financial statements

Operating results of the fiscal year ended March 31, 2016

During the fiscal year ended March 31, 2016, the employment and income environments as well as capital investments remained satisfactory. But the Japanese economy basically found itself in a holding pattern, as a result of volatility in the stock market and the rise in the Japanese yen from the beginning of the year, in addition to the stagnation of consumer spending and the decelerating Chinese economy, while an air of increasing uncertainty over the future began to prevail.

In the game industry, in addition to the continued expansion of the mobile game population centering on smartphones, the overall game population also expanded thanks to efforts to further cultivate the existing market by catering to diverse customer tastes and by attracting women, families and senior players through new customer development.

In such an environment, the Company focused on improving the development process and revenue management in order to reduce development costs and shorten the development period. This was achieved by increasing the ratio of internally produced titles through a reduction in the volume of outsourced operations. Additionally, in an effort to develop diverse revenue sources, the Company pushed forward its Single Content Multiple Usage strategy by leveraging its premier contents such as “Monster Hunter” and “Street Fighter”.

Furthermore, the Company has been focusing on expanding its profitable digital download sales in order to mitigate inventory risk and reduce distribution costs. Among the major titles launched this fiscal year, the overwhelming sales of the featured title, “Monster Hunter X (Cross)” (for the Nintendo 3DS system), contributed to the total unit sales and helped to improve business performance overall.

Meanwhile, in the continuously growing Chinese market, distribution of the PC online game “Monster Hunter Online” by Tencent Holdings Limited in cooperation with the Company, which began in December 2015, was off to a good start, thus increasing the possibility of even greater business development in China going forward.

On the other hand, the amusement market failed to show signs of improvement, and the results remained soft.

The resulting consolidated net sales for the fiscal year ended March 31, 2016 were 77,021 million yen (up 19.8% from the previous fiscal year). Regarding profitability, operating income was 12,029 million yen (up 13.7% from the previous fiscal year), ordinary income amounted to 11,348 million yen (up 4.6% from the previous fiscal year) and net income attributable to owners of the parent amounted to 7,745 million yen (up 17.1% from the previous fiscal year).

The Company has been engaged in initiatives to employ people of diverse backgrounds and has been promoting diversity by conducting personnel recruiting, evaluations and promotions without prejudice based on one's nationality, gender, age, etc. As part of such efforts, the Company is pushing forward with its support for child-rearing by providing child-care leave and shorter working hours, and promoting women to management positions as well as employing and nurturing global human resources. As a result, the Company, as of the end of the fiscal year under review, employs 24 women in manager positions (10.3% of all the employees in manager positions) and 91 foreigners (4.0% of all the employees).

Status of business by segment

① Digital Contents business

In the Digital Contents business, the latest title in the featured series, "Monster Hunter X (Cross)" (for the Nintendo 3DS system), was a major hit, with sales of more than 3 million units, surpassing the initially-planned 2.5 million units, which contributed significantly to both sales and profits. Additionally, "Resident Evil 0 (HD Remastered)" (for PlayStation 4, PlayStation 3, Xbox One, Xbox 360, and PC) steadily increased unit sales, while "Street Fighter V" (for PlayStation 4 and PC) remained a perennial favorite and maintained steady sales mainly overseas. Moreover, sales of catalog titles grew, while digital downloads also became a stable source of revenue from a solid performance thanks to the synergistic effects from package sales.

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

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

② Arcade Operations business

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

Nonetheless, the segment results were soft, partly because of the lack of a high-performance product as well as sluggish demand due to the dispersion of entertainment, resulting from the overlapping of arcade game players with smartphone users.

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

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

③ Amusement Equipments business

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

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

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

④ Other Businesses

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

Prospects for the next fiscal year

As for the future outlook, with the growth of mobile games, which face relatively low barriers to entry, the industry will continue to expand its market size, while the competitive environment is expected to intensify even further, as a fierce battle for survival will unfold for market leadership.

Amid structural changes to the industry, the Company will concentrate its management resources on the core division of home video game software development, while unifying its US-Japan development structure and improving its product line-up based on a medium-term development map, in order to inject new life into the underperforming Mobile Contents business. Additionally, the Company will strive to increase the number of customers through enhanced customer satisfaction by offering contents that will appeal to a broad range of users, in addition to accumulating optimal operating and management knowhow required after the games have been distributed.

Furthermore, in an effort to diversify its revenue sources in conjunction with the diversification of its sales format and to mitigate inventory burden and reduce distribution costs, the Company will promote its profitable digital download sales, in addition to package products that have limited sales runs. Moreover, as business expansion in the vast overseas markets will be indispensable to ensure sustainable growth, the Company will be targeting its offensive on the Asian market where online games are growing in popularity. To this end, it has launched a new division to oversee this region.

Moreover, the Company will take advantage of the foothold provided by the strong showing in China. With the success of “Monster Hunter Online”, which was jointly distributed by Tencent Holdings Limited in cooperation with the Company, the Company shall further focus penetrating the Company brand in the Chinese market where there is still ample room for growth. Through such full-scale expansion The Company seeks further business opportunities.

Meanwhile, in consideration of the Act of Promotion of Women's Participation and Advancement in the Workplace, which went into effect from April 2016, the Company has been making further efforts to support the advancement of women in the workplace by ensuring a friendly environment for female workers through such means as providing internal nursery care services, while at the same time improving the internal environment in order to increase the percentage of women in the Company's manager positions to 15% by 2021.

In the fiscal year ending March 31, 2017, the Company is scheduled to release the strategic titles of "Sengoku BASARA Sanada Yukimura-den" (for PlayStation 4 and PlayStation 3), which showcases the life of Sanada Yukimura, and "Resident Evil Umbrella Corps" (for PlayStation 4 and PC) of the "Resident Evil" series, which marked its 20th anniversary in March 2016, as warm up to the full-scale offensive planned for the second half of the year. Additionally, the Company is also scheduled to launch "Ace Attorney 6" (for the Nintendo 3DS system) and "Monster Hunter Stories" (for the Nintendo 3DS system).

(2) Analysis of the consolidated financial position

① Analysis of assets, liabilities and net assets

(Assets)

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

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

(Liabilities)

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

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

(Net assets)

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

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

② Analysis of cash flow

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

(Cash flows from operating activities)

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

The primary items increasing cash flows were 11,150 million yen in net income before income taxes (10,701 million yen in the previous fiscal year) and 5,712 million yen increase in depreciation and amortization

(3,535 million yen in the previous fiscal year). The primary item decreasing cash flows were 8,778 million yen increase in work-in-progress for game software (6,443 million yen in the previous fiscal year) and 2,208 million yen increase in accounts receivable, trade (decrease of 10,382 million yen in the previous fiscal year).

(Cash flows from investing activities)

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

(Cash flows from financing activities)

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

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

(Reference) Trends of cash flow indicators

	Year ended March 2012	Year ended March 2013	Year ended March 2014	Year ended March 2015	Year ended March 2016
Shareholders' equity ratio to total assets	60.4	60.2	66.1	70.8	66.5
Shareholders' equity ratio to total assets based on fair market value	110.8	81.4	114.0	133.3	136.5
Debt amortization ratio to cash flows	-	258.7	53.4	256.5	290.1
Interest coverage ratio	-	62.4	136.8	50.2	36.5

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

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

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

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

(Note 1) Percentage figures are calculated on a consolidated basis.

(Note 2) Total market value of shares is calculated based on the number of shares as of the end of the fiscal year excluding treasury stock.

(Note 3) Cash flows are used for cash flows from operating activities.

(Note 4) The interest-bearing debt refers to the debts posted in the consolidated balance sheets for which we are paying interests.

(Note 5) As the cash flows from operating activities fell into red in fiscal year ended March 2012, we have omitted debt amortization ratio to cash flows from operating activities and interest coverage ratio.

(3) Basic policy for profit distribution and dividend for the fiscal year

Capcom considers returning profits to the shareholders to be one of the most important management issues. Its fundamental dividend policy is to provide a stable and continued dividend to the shareholders, taking into account the future business development and changes in operating circumstances.

Our surplus dividend is basically paid twice a year, that is, at the end of mid-term and fiscal year.

Dividend payment amount is decided by a competent corporate body, which is the board of directors for the mid-term, and during the shareholders' meeting for the fiscal year.

Regarding internal reserves, Capcom will enhance its corporate value through investment for development of game software, Arcade Operations and Amusement Equipments business.

Capcom plans to pay a year-end dividend for the fiscal year under review of 25 yen per share. The annual dividend for the fiscal year under review is 40 yen per share, since the Company paid an ordinary dividend of 15 yen per share as an interim dividend.

The Company establishes an article to enable interim dividend payment in the Articles of Incorporation.

2. Business policy

(1) Management principle

Our principle is to be a creator of entertainment culture. Through development of highly creative software contents that excite people and stimulate their senses, we have been aiming to offer an entirely new level of game entertainment. Our management objectives are also on strengthening relationships with shareholders, clients and our employees to satisfy demands and to bring about prosperous benefits.

(2) Key performance indicator

The Group's objective is to enhance corporate value through the continued expansion of businesses. We set ROE (return on equity) as our key performance indicator and strive to increase our capital efficiency by improving ROE in order to enhance corporate value, while focusing on cash flow management and securing profits.

(3) Medium and long-term management strategies

The Company recognizes the development of a corporate structure that can secure stable profits without being influenced by changes in the environment to be a critical management task in promoting its growth scenario and will devote itself to the improvement of its business performance through the implementation of the following measures.

① Promotion of the Single Content Multiple Usage Strategy

The Company has created over 70 million-seller titles, including "Resident Evil", "Monster Hunter" and "Street Fighter", both in Japan and overseas and has steadily expanded its fan base, while also accumulating a vast portfolio of content assets.

To this end, the Company will make efforts to increase penetration of the Capcom brand, through various means including proactive sales pitches for "Made in Capcom" that leverage its high-profile game characters. Additionally, in an effort to create synergy with its popular contents, the Company intends to build a value

chain based on the promotion of the Single Content Multiple Usage strategy in various global businesses that utilize its contents including movies, animation, publishing, the theater, toys and foods/beverages.

② Expansion of Digital Download Sales

In order to keep up with changing business models amid increasingly diverse distribution methods, the Company will focus its efforts on expanding digital download sales, which promise stable revenues as well as reduced distribution costs and no inventory risk, in addition to stocked package games.

③ Strengthening Online Games

While mobile games for smartphones and PC online games are typically “free-to-play,” revenues from such games have begun producing more level and stable revenues compared with stocked package software, as they pose no inventory risk or the risk of piracy and it is possible to sell additional items and contents upon watching the reaction of the customers. Consequently, the Company will make efforts to ensure stable and continuous revenues from online games through such means as accumulating optimal operating and management know-how required after the games have been distributed.

④ Focus on Pachinko & Pachislo Business

Although the Pachinko & Pachislo Business will continue to face a certain level of uncertainty due to the revision in the pachislo model certification method, this segment will be a new source of profits through the effects of synergy with popular titles. Going forward, the Company will respond flexibly by speeding up the development of compliant equipment and endeavor to expand its business opportunities through strategic business development.

⑤ Improvement of Overseas Sales

Given the maturity of the domestic market as well as the demographic changes in Japan, developing the large overseas markets will become crucial for the Company in order to promote its growth strategy. The Company has many brand titles that are popular overseas including “Resident Evil” and “Street Fighter”, both of which have been made into Hollywood movies, and is the world’s leading holder of contents. Consequently, the Company will be making efforts to increase its revenues by proactively targeting Europe, the U.S. and Asia.

(4) Issues to be addressed by the Company

Major issues to be addressed in consideration of the business environments surrounding the Capcom Group and future market trends are as follows:

① Strengthening priority strategic divisions

In order to ensure its competitive superiority, the Company will concentrate its management resources mainly in the mobile contents development and marketing divisions, in addition to the core business of home video game software.

② Expansion of business domains

In an effort to respond to the changing management environment and expand its business domains, the Company will focus on expanding its contents business by distributing games to devices other than home video game consoles, such as smartphones and tablets, as well as strengthening the Pachinko & Pachislo segment among others.

Additionally, in response to the increasing diversification of distribution channels, the Company will make efforts to expand digital download sales.

③ Promotion of overseas business

As the domestic market matures, the Company will need to focus on the overseas markets for its future business expansion. To this end, the Company will engage in strategic global expansion, which will include coordinating with its overseas subsidiaries, such as CAPCOM U.S.A., INC., a core subsidiary, to develop new markets as well as further cultivate the existing markets.

④ Selection and concentration of businesses

As part of the effective utilization of development resources, the Company will revitalize its businesses by means of a clear vision and speedy management and make efforts to enhance its corporate value through the concentrated and selective injection of business resources, including investments into growth fields and the withdrawal from unprofitable businesses so that the Group as a whole may demonstrate its comprehensive strengths.

⑤ Strengthening corporate structure

Through management reforms, the Company will strive to achieve flexible business management and enhance its management efficiency while pressing forward with the development of a corporate structure to the end of reinforcing its revenue base.

As part of these efforts, the Company will further improve its management by practicing strategic management of the Group by means of a precise management structure including its domestic and overseas affiliates, as well as reforms of the Group's financial structure.

3. Basic views on the selection of accounting standards

We are in consideration whether to adopt the International Financial Reporting Standards (IFRS) in light of the ratio of foreign shareholders and trend of adoption of IFRS by other companies among gaming industry in Japan.