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Promoting Growth Strategies and Governance Reforms Aimed at Enhancing Corporate Value

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

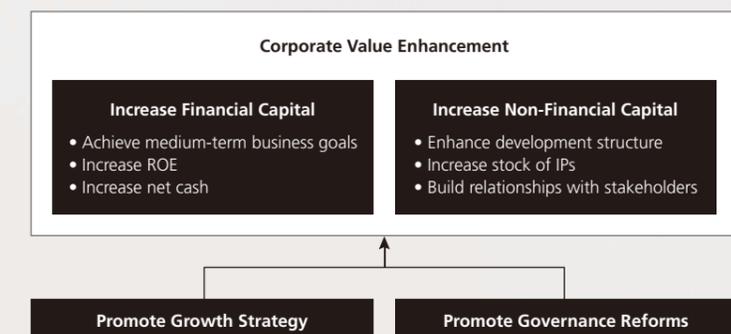
This is the cornerstone of Capcom's business activities and the source of our corporate value. Through our business activities, we bring the Company economic benefits while providing society with new value. We believe the value of a corporation stems from shared value creation.

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

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

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

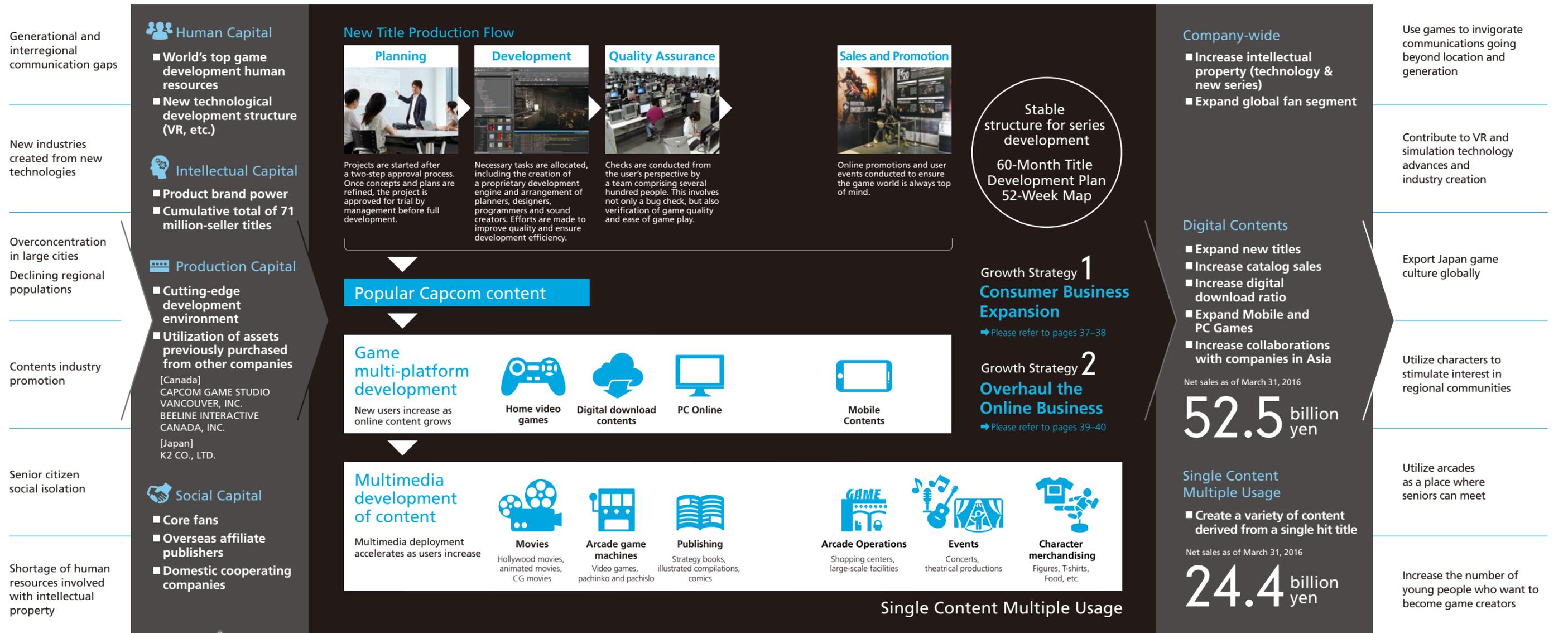
Through these various initiatives, we believe we can contribute to shareholder and investor profits by becoming a company of sustainable growth.



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

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

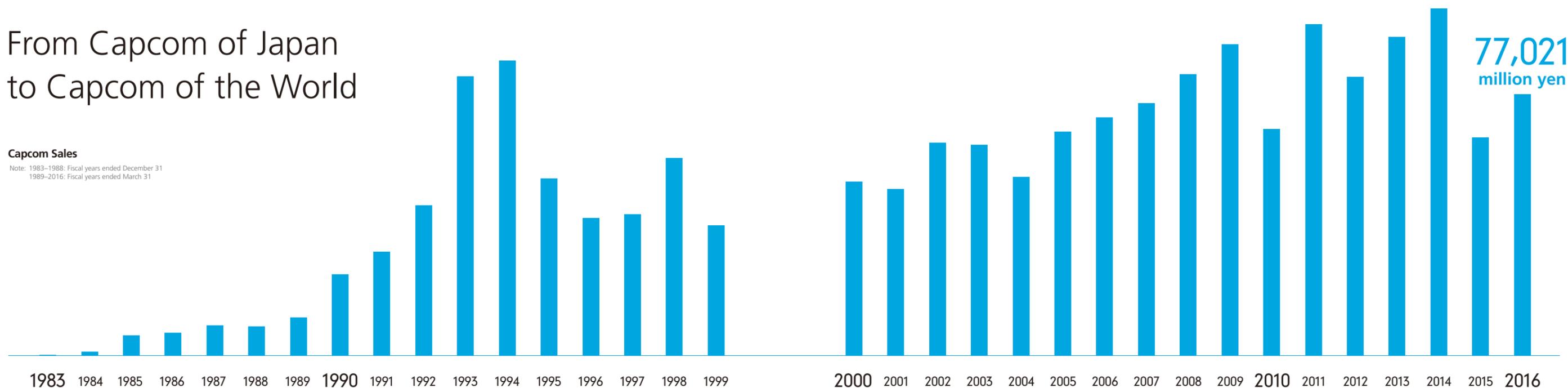
Social Issues > INPUT > Business Activities > OUTPUT/OUTCOME > Impact on Society



From Capcom of Japan to Capcom of the World

Capcom Sales

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



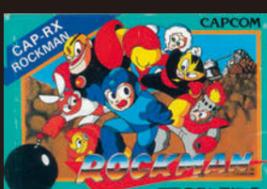
Genesis

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

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



1984
Released our first arcade video game *Vulgus*.



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



1987
Released *Mega Man* for NES.



Big Hits Drive Business Expansion

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

1992
Released *Street Fighter II* for Super NES.



1993
Released *Breath of Fire* for Super NES.



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



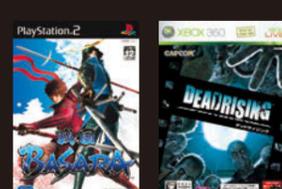
Going Global

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

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



2005
Released *Sengoku BASARA* for PlayStation 2.



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



Multimedia

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

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



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



Game Industry History

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



1990
Next-generation Super NES was launched.



1994
PlayStation was launched. 3D game popularity skyrockets.



2000
PlayStation 2 was launched.



2005
Microsoft Corporation launched the Xbox 360.



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



2012
Wii U was launched.



2013
PlayStation 4 was launched.

2013
Xbox One was launched.



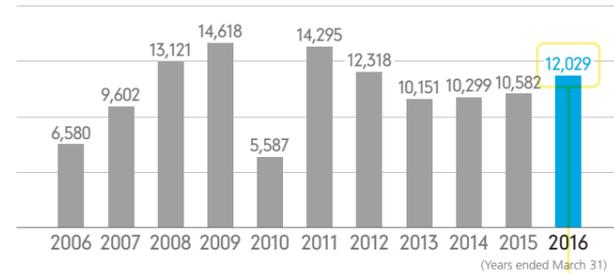
Financial Highlight

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

Operating Income/Operating Margins

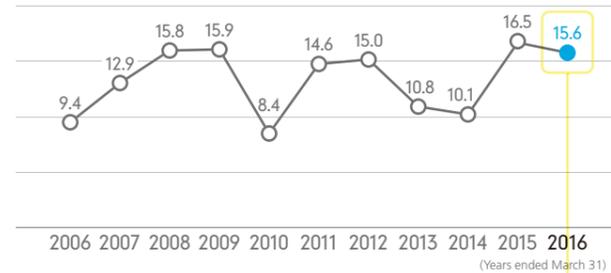
Operating Income (Millions of yen)

12,029 million yen
13.7% UP ↗



Operating Margins (%)

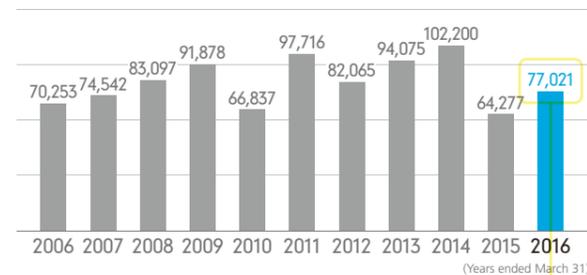
15.6%
0.9point DOWN ↘



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

Net Sales (Millions of yen)

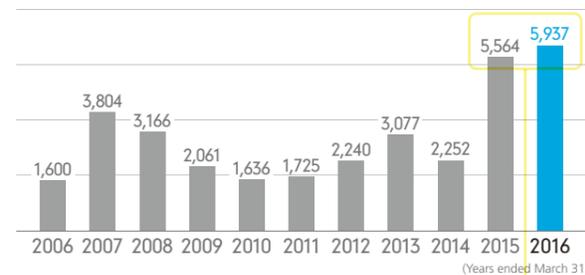
77,021 million yen
19.8% UP ↗



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

Capital Investments Costs (Millions of yen)

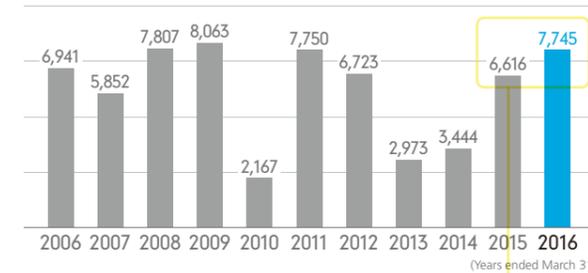
5,937 million yen
6.7% UP ↗



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

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

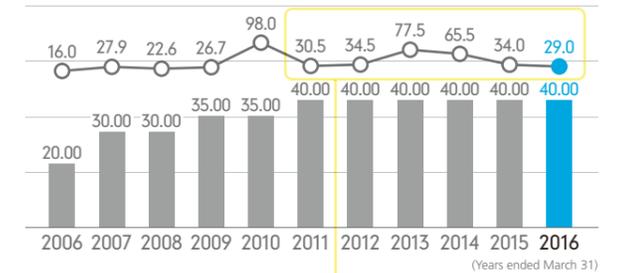
7,745 million yen
17.1% UP ↗



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

Dividend per Share/Dividend Payout Ratio

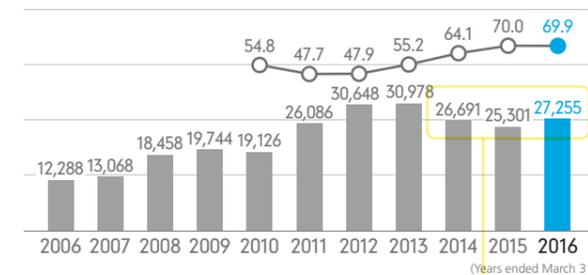
Dividend per Share (Yen) **40.0** yen ±0 →
Dividend Payout Ratio (%) **29.0%** 5.0point DOWN ↘



Capcom has its fundamental dividend policy of providing a continued and stable dividend to the shareholders. In accordance with its policy, an annual dividend of 20 yen per share was paid from the fiscal year ended March 1998 to that ended March 2006. Cash dividend per share for the fiscal year ended March 2007 to 2008 was raised to 30 yen thanks to its stable revenue base brought by its structural reform. Moreover, we continued to incrementally increase dividend payments in line with earnings based on our policy of providing stable dividends aiming for a payout ratio of 30%; from the fiscal year ended March 2009, the annual dividend was increased to 35 yen and again up to 40 yen since the fiscal year ended March 2011.

R&D Investment Costs/Internal R&D Ratio

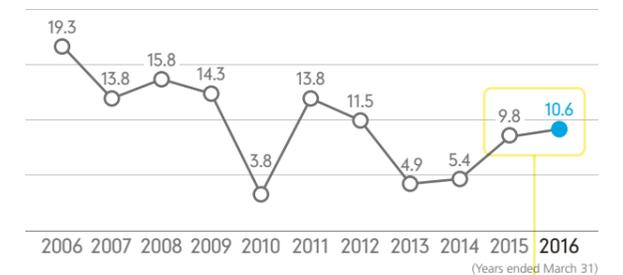
R&D Investment Costs (Millions of yen) **27,255** million yen 7.7% UP ↗
Internal R&D Ratio (%) **69.9%** 0.1point DOWN ↘



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

Return on Equity (ROE) (%)

10.6%
0.8point UP ↗



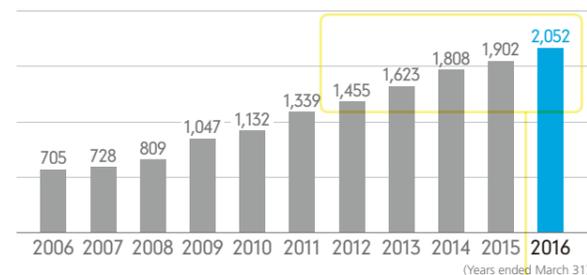
Although net assets increased between the fiscal years ended March 2007 and March 2009, stable net income resulted in ROE of around 14%. In the fiscal years ended in March 2010, 2013 and 2014, this figure declined due to decreases in net income from the recognition of special losses on restructuring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

Non-Financial Highlights

Human Capital

Content Developers (People)

2,052 people
150 people UP



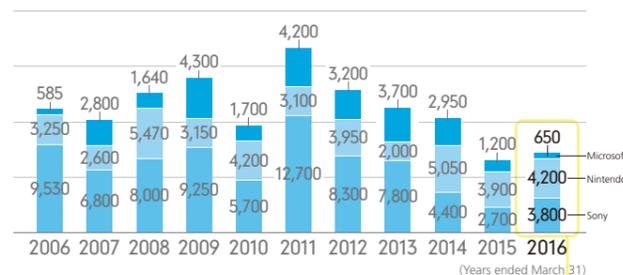
Developers engaged in the creation of content—the source of our competitive advantage—account for 70% of all Capcom employees. To promote our core Single Content Multiple Usage strategy, we strive to retain talented developers through aggressive hiring and training efforts, resulting in a nearly three-fold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

Production Capital

Software Shipments by Hardware Manufacturer (Thousands of units)

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

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

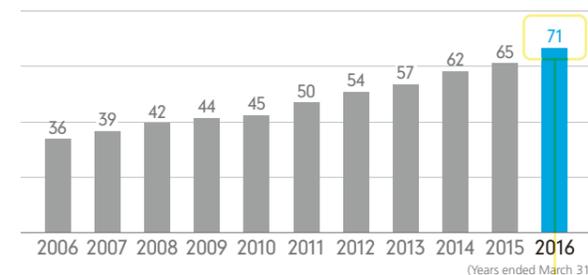


In the Digital Contents business, Capcom has established a basic “multiplatform strategy” aimed at providing content for all game platforms (hardware), ensuring steady sales of software for all types of hardware. Since the fiscal year ended March 2005, hardware has become increasingly diverse amid the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

Intellectual Capital

Cumulative Million-Seller Titles (Titles)

71 titles
6 titles UP

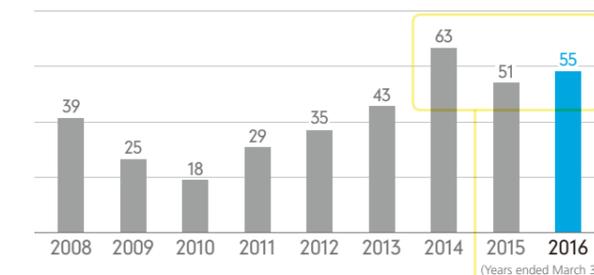


Capcom boasts world-leading development capabilities, as evidenced by our numerous intellectual properties. Our content is popular around the world, and up to now, a total of over 70 titles have sold over one million units. In order to increase our brand value and profitability, we leverage this in-house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

Social Capital

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

55 times
4 times UP



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

TOPICS



Making the Workplace Comfortable for Women

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

TOPICS

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

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



TOPICS



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

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

TOPICS

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

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

