

May 15, 2024

Press Release

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Announcement Regarding Revision of Remuneration System and Introduction of a Performance-linked Stock Remuneration System for Directors

Capcom Co., Ltd. (the “Company,” together with its subsidiaries, the “Group”) hereby announces that, based on the deliberation and recommendations from the Nomination and Remuneration Committee, it has resolved at a meeting of the Board of Directors held today to revise the remuneration system of directors as described below (hereinafter referred to as “the Revision”) and to submit a proposal related to the Revision to the Ordinary General Meeting of Shareholders to be held on June 20, 2024 (hereinafter referred to as “this Ordinary General Meeting of Shareholders”).

1. Purpose of the Revision

Regarding the amount of remuneration for directors (excluding directors who are Audit and Supervisory Committee Members) of the Company, the annual monetary remuneration limit was approved to be within 1.1 billion yen per year (including 70 million yen or less for external directors) at the 43rd Ordinary General Meeting of Shareholders held on June 23, 2022.

Now, in addition to granting incentives to help the Group achieve stable profit growth, the Company has decided to review the remuneration system for the Company’s directors (excluding external directors and directors who are Audit and Supervisory Committee Members. Hereinafter referred to as “Eligible Directors”) with the aim of sharing greater value with shareholders and further strengthening efforts to increase the Group’s corporate value over the medium- to long-term.

2. Overview of the Revision

The Revision is intended to revise the remuneration limit of directors (excluding directors who are members of the Audit and Supervisory Committee), and revise the remuneration system of Eligible Directors to one that is more performance-linked, whereby the remuneration of Eligible Directors will vary in accordance with the degree of growth in business performance, etc., and to introduce a new performance-linked stock remuneration system that uses the achievement of growth targets, such as business performance, as an indicator.

Remuneration for external directors (excluding directors who are Audit and Supervisory Committee Members) will continue to be limited to basic remuneration.

(1) Remuneration Structure

The remuneration system following the Revision (hereinafter referred to as “the System”), consists of basic remuneration (fixed/monetary), bonuses (variable/monetary) and performance-linked stock remuneration (variable/stock).

(2) Basic Remuneration (Fixed Remuneration)

Basic remuneration (fixed remuneration) is a fixed monetary amount determined by the Company's Board of Directors that is granted to each director as remuneration in order to encourage steady performance of duties commensurate with position and job responsibilities.

(3) Bonuses (Variable/Monetary)

Bonuses paid as performance-linked remuneration (variable remuneration) are a performance-linked remuneration granted to Eligible Directors in a monetary amount calculated according to the method specified below in order to increase awareness of the performance-based nature of the System and improvement of the Company's business performance in each fiscal year.

<Calculation Method for Bonuses under the System>

Bonuses will be based on consolidated operating income as an indicator to evaluate business performance in accordance with the degree of growth of the Group's business performance, etc.

Specifically, the Company will pay a monetary amount that links the rate of change in the total monetary remuneration of Eligible Directors to the rate of change in consolidated operating income compared to the previous fiscal year each year during the period from April 1 until March 31 of the following year (hereinafter referred to as "the Evaluation Period." Note that the initial Evaluation Period will be the single fiscal year beginning April 1, 2024, and ending March 31, 2025).

Accordingly, bonuses are the payment of money based on the degree of business performance growth, etc. At the time of introduction of the System, whether or not the money will be paid to each Eligible Director, as well as the amount to be paid, have not yet been determined.

[Calculation Formula]

$$\text{Total amount of bonuses} = \text{Total monetary remuneration for the previous fiscal year} \times \left(1 + \text{Rate of change in consolidated operating income for the Evaluation Period compared to the previous fiscal year} \right) - \text{Total amount of basic remuneration for the Evaluation Period}$$

Regarding the amount to be paid to each individual Eligible Director, the total amount of bonuses calculated using the above calculation formula will be distributed in proportion to the positions and responsibilities of each Eligible Director as determined in advance by the Board of Directors for each fiscal year.

Total monetary remuneration amount for the previous fiscal year	Total monetary remuneration for Eligible Directors for the one-year period beginning at the conclusion of the 43 rd Ordinary General Meeting of Shareholders convened on June 23, 2022, and ending at the conclusion of the 44 th Ordinary General Meeting of Shareholders convened on June 20, 2023.
Total basic remuneration amount for the Evaluation Period	Total annual basic remuneration determined by the Company's Board of Directors based on position and job responsibilities of Eligible Directors at the conclusion of the 44 th Ordinary General Meeting of Shareholders convened on June 20, 2023.

(4) Performance-linked Stock Remuneration (Variable/Stock)

Performance-linked stock remuneration (variable remuneration) grants Eligible Directors a number of shares of the Company's ordinary stock (hereinafter "the Company's stock"), calculated based on the achievement etc. of the objectives set forth below during a period of three continuous fiscal years that begin each year on April 1 and end three years later on March 31 (hereinafter referred to as "the Target Evaluation Period." The initial Target Evaluation Period will begin April 1, 2024 and end March 31, 2027, the next Target Evaluation Period will begin April 1, 2025 and end March 31, 2028, and the same will apply to periods of three continuous fiscal years thereafter), after the conclusion of the eligible period in order to promote greater value sharing from the shareholder perspective and provide further incentive to sustainably improve the Group's medium- to long-term performance and corporate value.

Accordingly, performance-linked stock remuneration is the delivery of the Company's stock according to the achievement rate of growth targets such as performance, etc. At the time of introduction of the System, whether or not the shares will be delivered to each Eligible Director, as well as the amount to be delivered, have not yet been determined.

① Details of the Restricted Stock Allocation Agreement

When issuing or disposing of the Company's stock as performance-linked stock remuneration, the Company and the Eligible Directors (limited to Eligible Directors who are Directors of the Company or serve in other positions determined by the Company's Board of Directors on the date of the resolution of the Company's Board of Directors) will enter into a restricted stock allocation agreement (hereinafter referred to as the "Allocation Agreement"). The contents of the Allocation Agreement include the following.

- a. During the period from the date of issuance of restricted stocks until the date on which the Eligible Directors no longer holds their position as Director of the Company or other positions determined by the Board of Directors of the Company, Eligible Directors may not transfer, create security interests in, or otherwise dispose of the Company's stock allocated under the Allocation Agreement (hereinafter referred to as the "Allocated Shares").
- b. In the event that the Company's Board of Directors determines that it is appropriate for the Company to acquire the Allocated Shares free of charge due to a violation of laws and regulations, internal rules, or the Allocation Agreement by an Eligible Director, or for other reasons, the Company shall acquire the Allocated Shares free of charge.

② Allocation Method of Restricted Stock

The Company will issue shares of the Company's stock with transfer restrictions (hereinafter referred to as "Restricted Stock (RS)") as performance-linked stock remuneration based on performance indicators and the degree of growth in corporate value and shareholder value during the Target Evaluation Period. The delivery of Restricted Stock (RS) will be carried out via either method (i.) or (ii.) below.

- (i.) Allocate the Company's stock free of charge as consideration for the Directors' execution of duties, without requiring any payment of money, etc. in exchange for the offered shares.

- (ii.) Pay monetary remuneration claims in an amount to be calculated by multiplying the number of shares to be allocated to relevant Eligible Directors by the amount to be paid in for the Company's stock to be allocated, and in exchange for the in-kind contribution of such monetary remuneration claims by each Eligible Director, allocate the Company's stock to each Eligible Director.

Note that the remuneration amount for Eligible Directors in (i.) above and monetary amount paid in for the Company's stock to be allocated in (ii.) above will be determined by the Company's Board of Directors based on the closing price of ordinary trading of the Company's stock on the Tokyo Stock Exchange on the business day preceding the day of the resolution of the Board of Directors regarding the determination of such allocation (if no trading is concluded on said day, the closing price on the most recent trading day preceding it), within a range that it is not particularly advantageous to the Eligible Directors.

③ Calculation Method for Performance-linked Stock Remuneration under the System

The number of shares of Restricted Stock (RS) to be allocated to each Eligible Director will be calculated according to the following formula.

[Calculation Formula]

$$\begin{array}{|c|} \hline \text{Number of Restricted Shares (RS)} \\ \hline \text{Delivered to Each Director} \\ \hline \end{array} = \begin{array}{|c|} \hline \text{Standard Number} \\ \hline \text{of Shares} \\ \hline \text{①} \\ \hline \end{array} \times \begin{array}{|c|} \hline \text{Degree of achievement of} \\ \hline \text{growth targets, performance etc.} \\ \hline \text{②} \\ \hline \end{array}$$

- ① The "Standard Number of Shares" is determined by the Company's Board of Directors according to the positions and responsibilities of the Eligible Directors.
- ② "Degree of achievement of growth targets, performance etc." is calculated within a range from 0% to 150%, depending on the achievement rate of the evaluation indicators determined by the Company's Board of Directors during the Target Evaluation Period.

(5) Remuneration Limits for Directors (excluding directors who are Audit and Supervisory Committee Members)

- ① Remuneration for the Company's Directors (excluding Directors who are Audit and Supervisory Committee Members) will be 900 million yen or less per year (including 100 million yen or less for External Directors) in basic remuneration (fixed/monetary), and in addition to it 800 million yen or less per year (External Directors are ineligible) for bonuses (variable/monetary).
- ② The total amount of monetary remuneration claims to be paid to Eligible Directors as performance-linked stock remuneration (variable/stock) will be 800 million yen or less per year. The total number of the Company's stock delivered to Eligible Directors will be set within 2 million shares per year, which represents 0.48% of the total number of shares outstanding excluding treasury stock as of the end of April 2024. (Note that treasury stock also includes the Company's shares held by the Stock Grant ESOP trust account.)

However, if prior to the delivery of shares to be performance-linked stock remuneration a stock split of the Company's stock (including the gratis allotment of the Company's stock) or a reverse stock split occurs, or if any other reason arises that may necessitate an adjustment to the total number of the Company's stock to be issued or disposed of, the total amount will be adjusted accordingly within a reasonable range.

(6) Forfeiture of the Right to Receive Performance-linked Remuneration and Clawback

Eligible Directors will lose the right to receive bonuses and performance-linked stock remuneration if they engage in specific misconduct as determined by the Company's Board of Directors or resign from office due to specific reasons determined by the Company's Board of Directors.

In addition, as determined by the Board of Directors and based on the results of deliberation and recommendations by the Nomination and Remuneration Committee, Eligible Directors may be asked to return all or part of the bonuses and performance-linked stock remuneration received during the fiscal year (and during the previous three fiscal years) in which financial statements were revised due to serious misconduct, fraud, or a serious accounting error.

(7) Regarding Future Revisions to the System

Performance evaluation indicators, methods of calculation and other aspects of the System may be changed from time to time by decision of the Board of Directors as appropriate in response to changes in the business environment, revisions to management objectives, etc.

Summary Reference

Remuneration Structure for Eligible Directors

Type of remuneration			Overview
Fixed remuneration	Monetary	Basic remuneration	<ul style="list-style-type: none"> A fixed amount of remuneration based on position and responsibility is paid out proportionately each month
Performance-linked remuneration (variable remuneration)	Short-term	Bonuses	<ul style="list-style-type: none"> Short-term incentive to consistently achieve the Group's management goal of 10% increased operating income per fiscal year and heighten awareness of business performance enhancement. The amount obtained by subtracting the basic remuneration amount from the amount obtained by multiplying the total amount of monetary remuneration (basic remuneration and bonuses) paid to Eligible Directors in the previous fiscal year by the rate of change in consolidated operating income from the previous fiscal year is paid. In principle, paid at a fixed time every year
	Medium-to long-term	Performance-linked stock remuneration	<ul style="list-style-type: none"> Medium- to long-term incentive that aims for sustainable enhancement of business performance and corporate value, and to share awareness of profit with shareholders. Evaluation indicators: (i.) The degree of achievement of the Company's net income attributable to owners of the parent growth target and (ii.) the Company's share price growth rate (TSR (Note (1)) divided by the Tokyo Stock Price Index (TOPIX) growth rate), both during the three-year Target Evaluation Period (Note (2)). After the evaluation period has elapsed, Restricted Shares (RS) with a restricted transfer period until retirement from the position of director or other positions determined by the Board of Directors of the Company shall be allocated in accordance with the degree of achievement of the above evaluation indicators.

(Note)

- TSR is an abbreviation for Total Shareholder Return. It indicates total investment return for shareholders, including capital gains and dividends.
- The ratio of evaluation indicators, or weight, for (i) and (ii) are 50% each and vary from 0% to 150%.