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1. Operating results overview

(1) Operating results for the fiscal year under review

During the fiscal year ended March 31, 2018, our industry saw major growth in the market for home video games due to the strong performance of both hardware and software. In addition, “esports” (Electronic Sports), which are becoming increasingly popular in Europe, the U.S., China, South Korea and other overseas markets, are raising hopes for further market growth. This is driven by games coming to be recognized as a new sport, following esports’ adoption as an official event at the 2022 Asian Games. Furthermore, opportunities to develop this new business domain in Japan, a region that trails other countries, have been building, as evidenced by the overwhelming audience response for *Street Fighter V*, one of the Company’s popular titles, at the esports event held during the Tokyo Game Show 2017.

Under these circumstances, the Company’s flagship title *Monster Hunter: World* (for PlayStation 4 and Xbox One), which was released worldwide in January 2018, significantly contributed to the Company’s performance after garnering immense popularity for its near-flawless execution and shipping more than 7.5 million units worldwide, a landmark achievement that made it the bestselling game in the Company’s history. Of particular note is that the worldwide expansion of the user base due to the game’s tremendous success overseas—in addition to its established domestic popularity—has marked the start of a new era for the brand, and that this international recognition has served to energize the Company’s global operations. The Company has made strategic preparations for a full-scale entry into the esports business in Japan, which include the establishment of the Capcom Esports Club at the Plaza Capcom arcade in Kichijoji (Tokyo). Additionally, the Company strove to bolster its management structure, enhance its development team and improve its development environment, enabling it to focus on home video game software development, which is the source of its competitiveness. Further, in addition to one-time physical product sales, the Company concentrated its efforts on expanding its digital offerings, which promise recurring revenues.

At the same time, in an effort to shore up its stagnant mobile contents performance, the Company made organizational reforms and developed appealing titles, aiming to increase customer satisfaction.

As a result, net sales increased to 94,515 million yen (up 8.4 % from the previous fiscal year). In terms of profitability, all three figures increased to record highs, with operating income of 16,037 million yen (up 17.5 % from the previous fiscal year), ordinary income of 15,254 million yen (up 21.2 % from the previous fiscal year) and net income attributable to owners of the parent of 10,937 million yen (up 23.2 % from the previous fiscal year).

Status of business by operating segment

① Digital Contents business

In this business, the record-breaking success of *Monster Hunter: World* (for PlayStation 4 and Xbox One) drove the increase in sales and contributed greatly to improved profit. Furthermore, in addition to *Resident Evil 7 biohazard* (for PlayStation 4, Xbox One and PC) and *Monster Hunter XX (Double Cross) Nintendo Switch Ver.* (for Nintendo Switch) giving strong performances, *Ultra Street Fighter II: The Final Challengers* (for Nintendo Switch) became a smash hit.

Meanwhile, sales of *Marvel vs. Capcom: Infinite* (for PlayStation 4, Xbox One and PC), which was launched in September 2017 targeting the US and European markets, tended to be soft.

In Mobile contents, amid business reforms, including alliance strategies carried out by the Company to bring about a breakthrough in the business, *Monster Hunter Explore* maintained steady popularity, as licensing revenue utilizing our intellectual property (IP) successfully contributed to increased profits.

The resulting net sales were 74,141 million yen (up 26.3 % from the previous fiscal year) and operating income was 19,103 million yen (up 72.2 % from the previous fiscal year).

② Arcade Operations business

In this business, the market was on a recovery trend owing to the growing number of new users, including women and inbound tourists. Under these circumstances, the Company employed various methods to secure repeat customers and acquire new customers, such as families with children. These included installing machines that meet diverse customer needs, holding events and conducting service-day campaigns, as well as reducing store-operating costs.

During the period under review, the Company opened two new stores and closed two, bringing the total number of stores to 36.

The resulting net sales were 10,231 million yen (up 7.4 % from the previous fiscal year), and operating income was 879 million yen (up 17.0 % from the previous fiscal year).

③ Amusement Equipments business

In the struggling Pachinko & Pachislo sub-segment, the Company was able to secure a certain amount of profit for *Resident Evil: Revelations* by lowering its cost of sales ratio. However, the effects of the recent changes in model-testing methods have forced the Company into a challenging situation.

In the Arcade Games Sales sub-segment, sales for *Monster Hunter Medal Hunting G*, a consistently popular medal game, remained solid. Nevertheless, sales for this business overall were soft, due to an undeniable lack of new products.

The resulting net sales were 7,803 million yen (down 53.7 % from the previous fiscal year). The Company recorded an operating loss of 764 million yen (compared with an operating income of 5,106 million yen in the previous fiscal year).

④ Other Businesses

The net sales from Other Businesses, mainly consisting of royalty income from the licensing and sale of character merchandise, were 2,338 million yen (up 12.2% from the previous fiscal year), and operating income was 1,126 million yen (up 16.2% from the previous fiscal year).

(2) Financial position overview for the fiscal year under review

(Assets)

Total assets as of the end of the fiscal year ended March 31, 2018 increased by 6,675 million yen from the end of the previous fiscal year to 125,573 million yen.

The primary increase was 22,001 million yen in cash on hand and in banks. The primary decreases were 7,244 million yen in notes and accounts receivable – trade, 4,514 million yen in work in progress for game software and 2,118 million yen in intangible assets.

(Liabilities)

Total liabilities as of the end of the fiscal year ended March 31, 2018 decreased by 970 million yen from the end of the previous fiscal year to 40,152 million yen.

The primary increases were 2,873 million yen in accrued income taxes and 1,526 million yen in long-term borrowings. The primary decreases were 7,849 million yen in short-term borrowings and 4,046 million yen in electronically recorded monetary obligations.

(Net assets)

Net assets as of the end of the fiscal year ended March 31, 2018 increased by 7,646 million yen from the end of the previous fiscal year to 85,421 million yen.

The primary increase was 10,937 million yen in net income attributable to owners of the parent. The primary decreases were 2,737 million yen in dividends from retained earnings and 601 million yen in cumulative translation adjustments which related to foreign exchange translation of the net assets of foreign consolidated subsidiaries.

(3) Cash flow overview for the fiscal year under review

Cash and cash equivalents as of the end of the fiscal year ended March 31, 2018 increased by 22,201 million yen from the end of the previous fiscal year to 46,539 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 34,721 million yen (3,200 million yen in the previous fiscal year).

A breakdown of cash flows is as follows: 15,149 million yen in net income before income taxes (12,489 million yen in the previous fiscal year), a 7,059 million yen decrease in accounts receivable - trade (10,393 million yen increase in the previous fiscal year), 4,706 million yen in depreciation and amortization (5,980 million yen in the previous fiscal year), a 4,069 million yen decrease in work in progress for game software (2,266 million yen increase in the previous fiscal year) and a 1,588 million yen decrease in inventories (158 million yen in the previous fiscal year).

(Cash flows from investing activities)

Net cash used in investing activities was 2,847 million yen (3,628 million yen in the previous fiscal year).

The primary item used was 2,767 million yen in payment for acquisitions of tangible fixed assets (3,074 million yen in the previous fiscal year).

(Cash flows from financing activities)

Net cash used in financing activities was 9,577 million yen (3,130 million yen invested in the previous fiscal year).

A breakdown of the primary uses are as follows: a 5,000 million yen decrease in short-term borrowings (a 5,000 million yen increase in the previous fiscal year), 2,738 million yen in dividends paid by parent company (2,794 million yen in the previous fiscal year), and 1,323 million yen in repayments of long-term borrowings (1,497 million yen in the previous fiscal year).

(4) Outlook

In terms of future outlook, despite a slowdown in the domestic mobile content market, which has experienced continuous growth, the home video game market is expected to gain momentum from the revitalization of game software, owed in part to the massive success of *Monster Hunter: World*, and from the greater penetration of new hardware; additionally, the scale of VR (virtual reality) and AR (augmented reality) markets is expected to increase as well. What's more, in recent years AI (artificial intelligence) that can play "go" (an Asian strategy board game) and "shogi" (Japanese chess) against professional players and win has emerged; with such advancements, we expect the use of AI in games only to increase, and further, that rapid technological innovation will lead to drastic changes in the external environment while the balance of power within the industry undergoes rapid reversals, where "winners" and "losers" swap positions as swiftly as discs turn in a game of Othello. Meanwhile, it is believed that 2018 will mark "esports year one," the start of a new era, as Japan—which is trailing other markets—begins taking significant steps in promoting esports. These include the establishment of JeSU (Japan eSports Union) in January, which integrated three industry groups, and the announcement by the J League (Japan Professional Football League) in March of its entry into the esports sector.

Under these circumstances, the Company will work to increase its corporate value through flexible business development based on “selection and concentration;” it will allocate business resources to priority divisions and growth areas by restructuring strategies and operations in response to shifts in the business environment, while also conducting a review of unprofitable divisions and revising its business portfolio.

To this end, the Company will implement the following measures for the achievement of sustainable growth.

① Strategies for operating segments

A. Digital Contents business

- a. The Company will focus its efforts on the development and sales of software for home video games, which is not only its principal business and core competence but also a growth driver. To this end, by clarifying the development processes and managing revenue with precision, based on medium- to long-term strategic maps, as well as through strategic alliances, strengthening its development structure, enhancing the development team and improving the development environment, the Company will strive to expand the development pipeline and product lineup, working toward being able to produce multiple million-seller titles each fiscal year.
- b. In order to diversify its sales structure, the Company will focus its efforts on expanding digital offerings, which involve less inventory risk while promising sustained profitability that is comparatively higher than one-time physical product sales.
- c. Regarding mobile contents, the Company looks to make a breakthrough and capture new customers while further cultivating existing customers via efforts that include bolstering the development structure, carrying out optimal post-launch operations (e.g., identifying customer trends, incorporating data insights into games, etc.), and developing business alliances.

B. Arcade Operations business

Amidst an increasing number of entertainment options and more diversified consumption within consumer segments, the Company will open stores with the aim of being an accessible form of entertainment in large shopping malls, where a certain amount of foot traffic can be expected, and will install prize merchandiser games and medal games that offer experiences that cannot be found in home video games. Further, in order to secure stable profits each fiscal period, the Company will engage in a scrap and build policy to respond flexibly to changes in the market environment.

C. Amusement Equipment business

The adverse conditions faced in the Pachinko & Pachislo sub-segment are expected to continue for the foreseeable future, as uncertainties remain due to the player population trending downward and customers cutting back on spending. Accordingly, the Company will seek to overcome this impasse by adopting business strategies that are responsive to change and by carefully observing market trends.

② Esports business activities

Following the growth of the market overseas, esports have begun attracting attention in Japan as well. In addition to owning *Street Fighter*, the versus fighting game series that many consider to be the origin of esports, the Company has an abundance of experience and operational knowhow accumulated over the years by organizing the Capcom Pro Tour through its U.S. subsidiary. As such, recent trends provide extremely desirable new business opportunities to develop this new business. To this end, the Company aims to launch its esports business and to achieve profitability at an early date by leveraging *Street Fighter* and other popular contents to generate synergy. In addition, it will focus its business resources on the segment by allocating human resources, establishing a new, dedicated department and opening a facility specializing in esports.

③ Promotion of the Single Content Multiple Usage strategy

The Company holds a significant number of popular brands such as *Monster Hunter*, *Resident Evil* and *Street Fighter*, which have been major hits in Japan as well as other markets, and is leveraging them across various sectors and products, including movies, animation, stationery, toys, and food and beverages. The Company will aggressively pursue the licensing business utilizing these intellectual properties given that it promises stable profit and, furthermore, room for growth.

④ Expansion of overseas businesses

Development of the larger overseas markets is essential for the achievement of the Company's growth strategy as the domestic market matures and the population continues to age overall. The Company is one of the world's leading IP holders, with many titles and brands that are popular overseas, including *Monster Hunter: World*, which was a massive hit in the fiscal year under review, as well as *Resident Evil* and *Street Fighter*, both of which have been made into Hollywood movies. The Company will aggressively develop its global business by leveraging its well-known, in-house IP to promote the Capcom brand.

⑤ Securing and developing human resources

For a game software company like Capcom, employees are indeed human capital, and are recognized as important resources for the business. In order to pursue sustainable growth, it is essential to secure and train competent human resources. As such, the Company is enhancing its rank-based training programs, such as new employee training and manager candidate training, while also striving to boost morale and encourage discovery of potential abilities by adopting personnel systems that address changes in the environment and place the right person in the right position. Further, the Company endeavors to seek out progressive and creative human resources, and promotes diversity while carrying out hiring and evaluations without regard for gender, nationality or age in order to engage its diverse human resources.

⑥ Promotion of work style reform

As a part of an effort to promote work-life balance, the Company is endeavoring to improve and maintain employee health by encouraging employees to take paid leave in order to reduce instances of long hours of work and by holding a Safety and Health Committee meeting every month. The Company is also working to create an environment that will empower employees to pursue their career actively with child-rearing support and other initiatives, which include on-site childcare facilities. At the same time, it will seek to foster a corporate culture that provides job satisfaction in order to secure and utilize competent human resources.

⑦ Basic capital policies

A. Dividend policy

The basic policy on the consolidated dividend payout ratio, which is one of the key performance indicators, is to maintain a payout ratio of 30% while continuing to make stable dividend payouts.

B. Acquisition of treasury stock

Giving due consideration primarily to the changes in the business environment and financial condition, the Company will acquire treasury stock swiftly and flexibly when it is determined that it will contribute to increasing shareholder value.

C. Total payout ratio

The Company is also mindful of the total payout ratio [(dividend paid + treasury stock acquired) ÷ net income], which shows the level of return to shareholders, and will strive to achieve market confidence based on well-balanced capital strategies.

⑧ Basic policies on strategic holdings of publicly listed shares

A. In order to strengthen and tighten relationships with companies with which there are ongoing business dealings, while eliminating habitual cross-holding and personal favoritism, the Company holds shares deemed optimum for its purposes, comprehensively taking into consideration the relevant advantages and disadvantages from medium to long-term perspectives, including whether the shares contribute to future business relationship and sustainable enhancement of corporate value.

B. As regards said holdings, the Company verifies the relevant stock price fluctuation risk and economic rationality on the continuous holding of such shares.

C. When exercising voting rights, the Company decides on whether to vote for or against each proposal pursuant to internal procedures, comprehensively taking into account the business conditions, serious scandals, and other factors pertaining to the relevant business partner.

2. Basic policy regarding selection of accounting standards

With consideration for providing consolidated financial documents that can be compared over time and between companies, the Group's policy for the foreseeable future is to prepare consolidated financial documents according to Japanese standards.

We are currently considering the appropriate time to adopt International Financial Reporting Standards (IFRS), and in preparation of their introduction have begun acquiring knowledge of these standards, as well as started to carry out impact studies on their adoption and a gap analysis between these and Japanese standards.