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Capcom Co., Ltd.

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The corporate governance of Capcom (the “Company”) is described below.

## I. Basic Views on Corporate Governance, Capital Structure, Corporate Profile and Other Basic Information

### 1. Basic Views

The Company is aware that comprehensive corporate governance ranks among management's most important priorities. Therefore, the Company aims to improve its corporate value by enhancing the soundness and transparency of corporate management and by building a relationship of trust with stakeholders including shareholders, business partners, employees and the local community.

#### [Reasons for Non-compliance with the Principles of the Corporate Governance Code]

##### Supplementary Principle 4.2.1

The remuneration of the Company's directors (excluding external directors and directors who serve as members of the Audit and Supervisory Committee) consists of the fixed monthly remuneration and short-term performance-linked remuneration in the form of bonus payment in cash for a single fiscal year, which is determined by the Board of Directors after receiving advice from the Nomination and Remuneration Committee, a voluntary committee made up by a majority of independent external directors chaired by an independent external director. It should be noted that stock-based compensation plans using own shares such as those that are common overseas could give rise to the pursuit of short-term profit and excessive risk-taking. Therefore, the Company believes that the introduction of a stock-based compensation plan requires repeated discussions by the Board of Directors and the Nomination and Remuneration Committee, as well as thorough deliberation of the appropriateness of such a plan, and the Company has yet to introduce a stock-based compensation plan using its own shares.

##### Supplementary Principle 4.11.3

Each year, the Company works on improving the functions of the Board of Directors (such as making discussions active and reviewing matters to be discussed at the Board of Directors' meetings) in addition to the efforts to exchange opinions among executive directors and external directors as deemed required to discuss the role and the enhancement of the Board of Directors, and substantively takes action based on this Principle including making efforts to gain stakeholders' confidence through constructive dialogue with shareholders and institutional investors, etc. However, the Company has not conducted any analysis/evaluation in specific terms (e.g., questionnaire surveys, interviews) regarding the effectiveness of the Board of Directors as a whole, as the Company has not found to date that such analysis/evaluation would be particularly useful.

#### [Disclosure Based on the Principles of the Corporate Governance Code]

The “Corporate Governance Code Comply/Explain” of all 78 principles including General Principles,

Principles and Supplementary principles is attached to this report.
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## 2. Capital Structure

Foreign Shareholding Ratio	More than 30%
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### [Status of Major Shareholders]

Name / Company Name	Number of Shares Owned	Percentage (%)
Crossroad Co., Ltd.	10,682,600	10.01
The Master Trust Bank of Japan, Ltd. (Trust Account)	4,301,100	4.03
Japan Trustee Services Bank, Ltd. (Trust Account)	4,089,300	3.83
Yoshiyuki Tsujimoto	4,038,900	3.78
Kenzo Tsujimoto	4,019,280	3.77
JPMC Oppenheimer Jasdec Lending Account	3,488,000	3.27
Haruhiro Tsujimoto	3,099,000	2.90
Ryozo Tsujimoto	3,091,900	2.90
BNYM as AGT/Clients 10 percent	2,248,961	2.11
State Street Bank and Trust Company 505001	2,138,669	2.00

Controlling Shareholder (except for Parent Company)	—
Parent Company	None

### Supplementary Explanation

Please note that “Number of Shares Owned” in the table above is based as of March 31, 2019 and the Company excludes its treasury stock of 28,695,180 shares from the outstanding shares.
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## 3. Corporate Attributes

Listed Stock Market and Market Section	Tokyo Stock Exchange First Section
Fiscal Year-End	March
Type of Business	Information & Communication
Number of Employees (consolidated) as of the End of the Previous Fiscal Year	More than 1,000
Sales (consolidated) as of the End of the Previous Fiscal Year	From ¥100 billion to less than ¥1 trillion
Number of Consolidated Subsidiaries as of the End of the Previous Fiscal Year	From 10 to less than 50

## 4. Policy on Measures to Protect Minority Shareholders in Conducting Transactions with Controlling Shareholder

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## 5. Other Special Circumstances which may have Material Impact on Corporate Governance

Although the Company does not have a parent company or listed subsidiaries, it strives for the optimization of the Group as a whole, under strategic group management. Through efficient business allocation and information sharing by establishing an inter-company network, its business developments that unified domestic and overseas affiliates bring synergy effects and higher corporate value. As of today, the Company is not aware of any concerning matters that could significantly affect its business performance. Nonetheless, for the prevention of risks and ensuring swift and proper measures in case of an emergency, the Compliance Committee has been established. Should an unexpected situation occurred, an emergency task force will be established according to the Risk Management Rules. In addition to ensuring compliance through ongoing monitoring, the Company is improving the risk management system to be fully prepared for the unexpected.

## II. Business Management Organization and Other Corporate Governance Systems regarding Decision-making, Execution of Business, and Oversight in Management

### 1. Organizational Composition and Operation

Organization Form	Company with the Audit and Supervisory Committee
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#### [Directors]

Maximum Number of Directors Stipulated in Articles of Incorporation	15
Term of Office Stipulated in Articles of Incorporation	1
Chairperson of the Board	Company Chairperson (except when concurrently serving President)
Number of Directors	11
Number of Outside Directors	5
Number of Independent Directors	5

#### Outside Directors' Relationship with the Company (1)

Name	Attribute	Relationship with the Company*											
		a	b	c	d	e	f	g	h	i	j	k	
Masao Sato	Other												
Toru Muranaka	Lawyer								○				
Yutaka Mizukoshi	Other												
Yoshihiko Iwasaki	Other												
Makoto Matsuo	Lawyer								○				

\* Categories for "Relationship with the Company"

\* "○" when the director presently falls or has recently fallen under the category;

"△" when the director fell under the category in the past

- \* “●” when a close relative of the director presently falls or has recently fallen under the category;  
“▲” when a close relative of the director fell under the category in the past

- a. Executive of the Company or its subsidiaries
- b. Non-executive director or executive of a parent company of the Company
- c. Executive of a fellow subsidiary company of the Company
- d. A party whose major client or supplier is the Company or an executive thereof
- e. Major client or supplier of the listed company or an executive thereof
- f. Consultant, accountant or legal professional who receives a large amount of monetary consideration or other property from the Company besides compensation as a director/*kansayaku*
- g. Major shareholder of the Company (or an executive of the said major shareholder if the shareholder is a legal entity)
- h. Executive of a client or supplier company of the Company (which does not correspond to any of d, e, or f) (the director himself/herself only)
- i. Executive of a company, between which and the Company outside directors/*kansayaku* are mutually appointed (the director himself/herself only)
- j. Executive of a company or organization that receives a donation from the Company (the director himself/herself only)
- k. Others

Outside Directors' Relationship with the Company (2)

Name	Membership of the Audit and Supervisory Committee	Designation as Independent Director	Supplementary Explanation of the Relationship	Reasons of Appointment
Masao Sato	—	○	—	The Company appointed him as External Director given that, although he has never participated in the management of companies other than by serving as External Director and External Corporate Auditor, he had engaged in the administration of the National Police Agency for many years and has extensive expertise and a wealth of experience with respect to laws in general. He has been giving recommendations and counsel from an impartial and objective viewpoint, and is expected to contribute to the enhancement of audit and supervision of the Board of Directors from the viewpoint of managing risks and ensuring legitimacy, among others. He is clear on the independence checks defined by the Tokyo Stock Exchange. Accordingly, the Company

				determines that he is unlikely to have a conflict of interest with the general shareholders, and files him as an independent director to the Tokyo Stock Exchange.
Toru Muranaka	—	○	He is a member of Legal Professional Corporation (LPC) Dai-Ichi Houritujimusho with which the Company has entered into legal counsel agreement. Since the total amount involved in transactions between the two parties on an annual basis accounts for less than one (1) % of consolidated net sales of the Company and less than ¥10 million, the Company made judgment that such agreement does not affect the independence of External Director as he meets to the criteria laid down by the Company.	The Company appointed him as External Director given that, although he has never participated in the management of companies other than by serving as External Director and External Corporate Auditor, he is a lawyer specializing in such fields as the Companies Act and the Financial Instruments and Exchange Act with a high level of expertise as well as broad insight and knowledge, and he has been giving recommendations and counsel on such matters as legitimacy and validity from an expert's perspective, and is expected to contribute to the enhancement of audit and supervision of the Board of Directors from legal and other viewpoints. He is clear on the independence checks defined by the Tokyo Stock Exchange. Accordingly, the Company determines that he is unlikely to have a conflict of interest with the general shareholders, and files him as an independent director to the Tokyo Stock Exchange.
Yutaka Mizukoshi	—	○	—	The Company appointed him as External Director given that he has expertise in management analysis, formulation of management strategy, etc. stemming from many years of experience in and knowledge of the consultancy business and has proactively been giving his opinions and making proposals from an independent standpoint based on his deep insight into economic trends and his international sensibility, and is thus expected to contribute to the enhancement of audit and

				<p>supervision of the Board of Directors from an outsider's perspective. He is clear on the independence checks defined by the Tokyo Stock Exchange. Accordingly, the Company determines that he is unlikely to have a conflict of interest with the general shareholders, and files him as an independent director to the Tokyo Stock Exchange.</p>
Yoshihiko Iwasaki	○	○	—	<p>The Company appointed him as External Director and a member of the Audit and Supervisory Committee given that, although he has never participated in the management of companies other than by serving as External Director and External Corporate Auditor, he has financial and accounting knowledge in addition to expertise and a wealth of experience in tax administration, and is thus expected to contribute to the enhancement of audit and supervision of the Board of Directors in the light of his expertise with giving counsel, advice, etc. from an outsider's perspective.</p> <p>He is clear on the independence checks defined by the Tokyo Stock Exchange. Accordingly, the Company determines that he is unlikely to have a conflict of interest with the general shareholders, and files him as an independent director to the Tokyo Stock Exchange.</p>
Makoto Matsuo	○	○	<p>He is a partner lawyer of Momoo Matsuo &amp; Nanba with which the Company has entered into legal counsel agreement. Since the total amount involved in transactions between the two parties on an annual basis</p>	<p>Since he actively engages in the legal community based on a high level of professional knowledge and a wide range of insight and thought as a lawyer as well as is acquainted with the business world through abundant experience accumulated by a lot of career as external officer of numerous number of listed companies, he delivers guidance and advice from</p>

			accounts for less than one (1) % of consolidated net sales of the Company and less than ¥10 million, the Company made judgment that such agreement does not affect the independence of External Director as he meets to the criteria laid down by the Company.	legal and other viewpoints at the Board of Directors and the like. He is expected to reflect professional knowledge on management of the Company. Therefore, the Company appointed him as External Director and a member of the Audit and Supervisory Committee, although he has no direct management experiences for the private companies other than acting as External Directors and/or External Corporate Auditors. He is clear on the independence checks defined by the Tokyo Stock Exchange. Accordingly, the Company determines that he is unlikely to have a conflict of interest with the general shareholders, and files him as an independent director to the Tokyo Stock Exchange.
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**[The Audit and Supervisory Committee]**

Committee's Composition and Attributes of Chairperson

	All Committee Members	Full-time Members	Inside Directors	Outside Directors	Chairperson
The Audit and Supervisory Committee	3	2	1	2	External (Outside) Director

Appointment of Directors and/or Staff to Support the Audit and Supervisory Committee	Appointed
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Matters Related to the Independence of Such Directors and/or Staff from Executive Directors

The Audit and Supervisory Committee aims to ensure the effective functioning of internal control through the auditing of business execution by directors and employees in accordance with the audit policies, as well as by submitting audit findings and giving recommendations for correction and advice thereof as necessary. Accordingly, in order to enable the Audit and Supervisory Committee to perform its duties in a smooth and appropriate manner, the Audit and Supervisory Committee directly supervises the Internal Audit Division, etc., as organizations where sixteen dedicated staff members are in charge of performing tasks as assistants under the instructions of the Committee, and the Company ensures the consent from the Audit and Supervisory Committee is obtained regarding the personnel relocation of such staff members.

Cooperation among the Audit and Supervisory Committee, Accounting Auditors and Internal Audit Departments

The Audit and Supervisory Committee primarily serve to monitor management from the perspective of operational audit. Accounting auditors perform audits from an accounting standpoint. The Audit and Supervisory Committee and accounting auditors consult one another as necessary, and exchange opinions and information, to enhance and improve both audits through interaction and cooperation.

Furthermore, the Company has established the Internal Audit Division, etc., as the internal audit department supporting the Audit and Supervisory Committee which monitors all divisions regularly, perform information gathering and analysis regarding legality, validity, efficiency, etc., including group companies, and report audit results to the Audit and Supervisory Committee. Such audit results are reported to the Board of Directors by the Audit and Supervisory Committee. In addition, if an unforeseen event occurs, the relationship of cause and effect is quickly investigated and analyzed and reported to the Board of Directors by the Audit and Supervisory Committee in order to help the adequate managerial judgment and minimize losses.

On the other hand, based on the reports provided by the Audit and Supervisory Committee, the Board of Directors accurately identifies business risks or inefficient businesses within the Company Group and strives to prevent any crisis and to improve business operations.

#### [Voluntary Establishment of Nomination/Remuneration Committee]

Voluntary Establishment of Committee(s) Corresponding to Nomination Committee or Remuneration Committee	Established
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#### Committee's Name, Composition, and Attributes of Chairperson

	Committee Corresponding to Nomination Committee	Committee Corresponding to Remuneration Committee
Committee's Name	Nomination and Remuneration Committee	Nomination and Remuneration Committee
All Committee Members	5	5
Full-time Members	0	0
Internal Directors	2	2
External Directors	3	3
Outside Experts	0	0
Other	0	0
Chairperson	External (Outside) Director	External (Outside) Director

#### Supplementary Explanation

(i) The Nomination and Remuneration Committee (voluntary) consists of the following five directors (i.e., two internal directors and three external directors) including a majority of external directors. Each member of the Nomination and Remuneration Committee has been selected by the Board of Directors in consideration of his knowledge, insight, experience, etc.

Yoshihiko Iwasaki (Chairman of the Committee, Full-time Audit and Supervisory Committee Member, External Director)

Kenkichi Nomura (Internal Director)

Yutaka Mizukoshi (External Director)

Kazushi Hirao (Full-time Audit and Supervisory Committee Member, Internal Director)

Makoto Matsuo (Full-time Audit and Supervisory Committee Member, External Director)

(ii) The Nomination and Remuneration Committee held three meetings in the fiscal year ended March 31, 2019, in response to the Board of Directors' request for advice on the nomination or remuneration of directors, etc. The five members of the Nomination and Remuneration Committee attended all meetings of the Committee. No secretariat has been established for the Nomination and Remuneration Committee.



- (iii) The following are the principal matters considered when advice is sought.
- a. Nomination-related matters subject to consideration
    - (a) Policy for selecting candidates for directors to be proposed at the general meeting of shareholders
    - (b) Selection of candidates for directors to be proposed at the general meeting of shareholders
    - (c) Selection of corporate officers (Shikko Yakuin)
    - (d) Selection of corporate officers (Shikko Yakuin) with special titles
    - (e) Plan for successor, etc.
  - b. Remuneration-related matters subject to consideration
    - (a) Policy for directors' remuneration, etc.
    - (b) Fixed remuneration and performance-linked remuneration
    - (c) Performance evaluation related to individual remuneration
    - (d) Performance evaluation related to bonus, etc.

**[Independent Directors]**

Number of Independent Directors	5
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Matters relating to Independent Directors

The Company's three external directors and two external directors of the Audit and Supervisory Committee all meet requirements of independence, and therefore, all of them are designated and filed as independent director.

**[Incentives]**

Incentive Policies for Directors	None
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Supplementary Explanation

The Company has introduced short-term performance-linked remuneration in the form of bonus payment in cash for a single fiscal year, which is calculated as follows by the Board of Directors based on advice in consideration of the following factors given by the Nomination and Remuneration Committee in response to the Board of Directors' request to the Committee for its advice.

- (i) Monthly remuneration (fixed remuneration)
- (ii) Degree of attainment of consolidated operating income
- (iii) Performance evaluation for each director

Recipients of Stock Options	—
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Supplementary Explanation

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**[Director Remuneration]**

Disclosure of Individual Directors' Remuneration	No Individual Disclosure
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Supplementary Explanation

The remuneration paid to directors of the Company for the fiscal year ended March 31, 2019 was as follows:

Remuneration paid to directors (excluding members of the Audit and Supervisory Committee)	386 million yen for 9 persons (301 million yen as basic remuneration and 85 million yen as bonus) including 29 million yen for 4 external directors (29 million yen as basic remuneration)
Remuneration paid to directors who serve as members of the Audit and Supervisory Committee	56 million yen for 4 persons (56 million yen as basic remuneration) including 35 million yen for 3 external directors (35 million yen basic remuneration)

(Note)

The above figures include remuneration for one external director who is not a member of the Audit and Supervisory Committee and one external director and member of the Audit and Supervisory Committee who both retired as at the end of the 39<sup>th</sup> Ordinary General Meeting of Shareholders held on June 11, 2018.

Policy on Determining Remuneration Amounts and Calculation Methods	Established
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#### Disclosure of Policy on Determining Remuneration Amounts and Calculation Methods

1. The remuneration of the directors other than directors who serve as members of the Audit and Supervisory Committee

The remuneration of the Company's directors (excluding directors who serve as members of the Audit and Supervisory Committee) is determined by the Board of Directors based on advice given by the Nomination and Remuneration Committee chaired by an external director about the amount deemed reasonable after taking into consideration each director's position, his/her job responsibilities, how long he/she has been in office, whether he/she is an executive director or non-executive director and other such factors and evaluating his/her performance as an individual, in response to the Board of Directors' request to the Committee for advice, for the purpose of ensuring its transparency and fairness.

(i) Monthly remuneration is fixed.

(ii) The amount of bonus is determined within the reasonable range based on the monthly remuneration and the Company's performance.

2. The remuneration of the directors who serve as members of the Audit and Supervisory Committee

The remuneration of the directors who serve as members of the Audit and Supervisory Committee is not linked to the Company's earnings, but is fixed in amount from the perspective of securing their independence and thus determined through discussions, taking full-time/part-time status and other such factors into account, among the directors who serve as members of the Audit and Supervisory Committee.

#### [Supporting System for Outside Directors]

The staff members of the Executive Secretariat Office provide assistance to external directors excluding directors who serve as members of the Audit and Supervisory Committee, as do the dedicated staff members of the Internal Audit Division, etc., to external directors who serve as members of the Audit and Supervisory Committee.

#### [Retired presidents/CEOs holding advisory positions (sodanyaku, komon, etc.)]

Information on retired presidents/CEOs holding advisory positions (sodanyaku, komon, etc.)

Name	Job title/ position	Responsibilities	Employment terms	Date when	Term
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			(Full/part time, with/without compensation, etc.)	former role as president/CEO ended	
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Number of retired presidents/CEOs holding advisory positions (sodanyaku, komon, etc.)	0
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Others
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The Company has open position for advisory functions. No ex-President and ex-Representative Director is assigned.
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## 2. Matters on Functions of Business Execution, Auditing, Oversight, Nomination and Remuneration Decisions (Overview of Current Corporate Governance System)

### (1) Measures, etc. to enhance business execution, audit function, etc.

(i) The Company was changed to a company with an audit and supervisory committee in June 2016, and members of its audit organization—i.e., the Audit and Supervisory Committee—has voting rights for resolutions at the Board of Directors' meetings.

(ii) In the audits of the Audit and Supervisory Committee, *audit of business validation* is added on top of *audit of legality*, enabling broad supervision of management in general and thus further enhancing the supervision function.

(iii) At the Company, which partially delegates the authority for making major operational decisions to the representative director(s), etc., productive deliberations have been sought and the frequency of the Board of Directors' meetings has been reduced by narrowing down the matters to be discussed at the Board of Directors' meetings to highly important agendas.

(iv) This has resulted in higher efficiency of business execution through prompt decision-making for execution of business and agile business development.

### (2) Status of activities in business execution and audit/supervision process

(i) The Company has adopted the “Shikko Yakuin” (corporate officer) system, and strives to improve its management efficiency by the clarification of the roles and responsibilities of directors who concentrate on supervision and monitoring of the Company and those of corporate officers who concentrate on business execution, combined with the prompt execution of business by corporate officers based on executive directors' instructions regarding important matters, etc. decided by the Board of Directors.

(ii) The status of principal activities is as follows:

#### a. Board of Directors

The Board of Directors is chaired by the Chairman and Representative Director and consists of 11 directors, of whom five (45%) are external directors. In the fiscal year ended March 31, 2019, the Board of Directors held 10 meetings; in addition to deliberating important matters prescribed by laws and regulations and the Board of Directors Rules, the Board of Directors strives to enhance the supervision function through external directors' suggestions, proposals, forthcoming comments, etc. The General Affairs Department serves as the secretariat for the Board of Directors, and three persons are in charge of its secretariat duties.

#### b. Audit and Supervisory Committee

(a) The Audit and Supervisory Committee is chaired by an external director and consists of three directors (including two full-time members of the Audit and Supervisory Committee), of whom two are external directors. In principle, the Audit and Supervisory Committee holds a meeting before the time at which the Board of Directors' meeting is convened, and held 10 meetings in the fiscal year ended March 31, 2019. The Audit and Supervisory Committee deliberates important matters, etc. prescribed by the Audit and Supervisory

Committee Rules, and makes efforts to enhance audit and supervision.

(b) Members of the Audit and Supervisory Committee selected by the Audit and Supervisory Committee conduct field audits in person, and in order to improve the effectiveness of audits, conduct organized audits in a flexible manner including giving instructions as appropriate to the Internal Audit Division, etc., which is under the direct control of the Audit and Supervisory Committee.

(c) The Internal Audit Division, etc. consist of 16 employees.

(d) The Internal Audit Division, etc. make a report to the Audit and Supervisory Committee on the status of audits, improvements and deficiencies/recommendations pointed out and make other such efforts for the effective functioning of audits.

#### c. Corporate Management Council

The Corporate Management Council is chaired by the Chairman and Representative Director and consists of six internal directors. In principle, the Corporate Management Council not only holds a meeting a number of days before the Board of Directors' meeting but also holds a meeting whenever necessary. In the fiscal year ended March 31, 2019, the Corporate Management Council held 18 meetings. Meetings are convened for the purpose of preliminary deliberation of matters to be discussed at the Board of Directors' meetings and discussion of cases regarding other matters, etc. The Corporate Planning Department serves as the secretariat for the Corporate Management Council, and three persons are in charge of its secretariat duties.

#### d. Board of Corporate Officers (Shikko Yakuin)

The Board of Corporate Officers consists of 21 corporate officers (of whom four concurrently serve as directors). At the Board of Corporate Officers' meetings, corporate officers report the status of business execution, share information with each other and exchange opinions on matters regarding cases, issues to be tackled, etc.

In principle, the Board of Corporate Officers is required to hold a meeting in the last ten days of each month; 13 meetings were held in the previous fiscal year. The Corporate Planning Department serves as the secretariat for the Board of Corporate Officers, and three persons are in charge of its secretariat duties.

#### e. Compliance Committee

The Compliance Committee consists of 10 directors, half (i.e., five) of whom are external directors, and is chaired by an external director who is qualified as a lawyer. In principle, the Compliance Committee holds quarterly meeting and held four meetings in the fiscal year ended March 31, 2019.

Its main activities are as follows;

(a) To amass the information from the Company and its group companies, evaluate any possible internal risks related to compliance and deliberate on the countermeasures thereto.

(b) To make report on probabilities, etc. of exposure of inherent risks to the Board of Directors.

(c) To take proactive actions to prevent possible illegal conducts and tort-claims at the earlier stage. The Internal Audit Division serves as the secretariat for the Compliance Committee, and four persons are in charge of its secretariat duties.

#### f. Internal Audit Division, etc.

The Company has established the Internal Audit Division, etc. to conduct effective audits. The Internal Audit Division, etc. consist of 16 employees and determine such matters as the audit policy, audit plan, audit method and division of duties after the conclusion of the general meeting of shareholders.

The Internal Audit Division, etc. perform verification, evaluation, etc. of the status of business execution and the effectiveness and operating status of the internal control system, make a report to the Audit and Supervisory Committee, and as necessary, conduct field audits of offices, domestic and overseas subsidiaries, etc. by accompanying the selected members of the Audit and Supervisory Committee.

### **(3) Policy and procedure for determining nomination of candidates for directors (excluding directors who serve as members of the Audit and Supervisory Committee) and directors who serve as members of the Audit and Supervisory Committee and remuneration of senior management and directors**

When determining the nomination of candidates for directors (excluding directors who serve as members of the Audit and Supervisory Committee) and directors who serve as members of the Audit and Supervisory Committee and the remuneration of such directors (excluding directors who serve as members of the Audit and Supervisory Committee), advice is sought from the Nomination and Remuneration Committee (voluntary) from the standpoint of objectivity, transparency and fairness, and the decision is made by the

Board of Directors based on the Committee's advice.

The Nomination and Remuneration Committee works out the basic plan for the amount of remuneration of directors (excluding directors who serve as members of the Audit and Supervisory Committee) on an individual basis within the limit of remuneration of directors approved by resolution of the general meeting of shareholders and advises the Board of Directors of such plan. It should be noted that the amount of remuneration of individual directors who serve as Audit and Supervisory Committee members is determined through discussions by the directors who serve as Audit and Supervisory Committee members.

#### **(4) Liability limitation agreement**

The Company has entered into a liability limitation agreement that limits the liability for damages referred to in Article 423, paragraph (1) of the Companies Act pursuant to the provision of Article 427, paragraph (1) of said Act with all three external directors who do not serve as members of the Audit and Supervisory Committee as well as all three directors who serve as members of the Audit and Supervisory Committee.

Under such agreement, the amount of liability for damages is limited to the minimum liability amount prescribed by laws and regulations.

#### **(5) Status of audits by members of the Audit and Supervisory Committee and internal audits**

(i) The Audit and Supervisory Committee consists of three directors, with two external directors comprising a majority, and is chaired by an external director. Two directors of the Committee hold professional knowledge on finance and accounting.

(ii) The Audit and Supervisory Committee performs its audit on the performance of executive directors as well as the effectiveness of the internal control system of the Company group.

(iii) The Audit and Supervisory Committee performs such tasks as formulating the audit policy and audit plan after the conclusion of the general meeting of shareholders, assigning duties to members of the Committee, selecting full time members of the Committee, appointing selected members of the Committee and selecting the chairperson of the Committee.

(iv) Selected members of the Audit and Supervisory Committee conduct field audits of operational divisions, offices and domestic and overseas subsidiaries, attend important meetings of the Corporate Management Council, etc., collect information and share information with other members of the Committee. The Audit and Supervisory Committee also gives the instructions about operational checks and reports and the effectiveness of the internal control system to the Internal Audit Division, etc., which is under direct control of the Committee and conducts organized audits.

(v) The Internal Audit Division, etc. consist of 16 employees and determine such matters as the audit policy, audit plan, audit method and division of duties after the conclusion of the general meeting of shareholders. Its main activities are to perform verification, evaluation, etc. of the status of business execution and the effectiveness and operating status of the internal control system, make a report to the Audit and Supervisory Committee, and as necessary, conduct field audits of offices, domestic and overseas subsidiaries, etc. by accompanying the selected members of the Audit and Supervisory Committee. (6) KPMG AZSA LLC performed financial audit for the fiscal year ended March 31, 2019. The names of certified public accountants (CPA) and the composition of the audit team are as follows.

The names of the CPAs who performed financial audit:

Designated limited liability partners: Yasuhito Kondo, Hiroshi Miura, Takuya Obata

The financial audit team was composed of 8 CPAs, candidates for CPA who passed the new CPA exam and associates in charge of system audit, etc. (total 16).

Continuous audit period by the auditing corporation: 7 years

### **3. Reasons for Adoption of Current Corporate Governance System**

The Company was changed to a company with an audit and supervisory committee from a company with a board of corporate auditors after the 37th ordinary general meeting of shareholders held on June 17, 2016, and pursues prompt decision-making and the more flexible execution of business, as well as the further enhancement of audit and supervisory functions.

### III. Implementation of Measures for Shareholders and Other Stakeholders

#### 1. Measures to Vitalize the General Shareholder Meetings and Smooth Exercise of Voting Rights

	Supplementary Explanations
Early Notification of General Shareholder Meeting	The Notices of Convocation to the ordinary general meeting of shareholders are sent out well in advance, approximately 3 weeks before the meeting date. For the fiscal year ended March 31, 2019, the ordinary general meeting of shareholders was held on June 17, 2019, and the convocation notice was mailed on May 24, 2019.
Scheduling AGMs Avoiding the Peak Day	As part of the effort to invigorate shareholders' meetings, the Company holds its ordinary general meeting of shareholders about 10 days before the concentration day which most Japanese companies hold their AGMs, in an attempt to encourage the attendance of as many shareholders as possible.
Allowing Electronic Exercise of Voting Rights	Shareholders can exercise their voting rights via the Internet by using PCs, smartphones and cell phones.
Participation in Electronic Voting Platform	The Company participates in the ICJ electronic voting platform via Proxy Edge® of Broadridge. Institutional investors are now ensured a sufficient amount of time to consider proposals starting on the mailing date of the Notice of the Convocation and it has been facilitating the exercise of voting rights.
Providing Convocation Notice in English	Notice of Convocation of the ordinary general meeting of shareholders (in Japanese and in English) are posted on the Company's website as well as on TD Net, a website of the Tokyo Stock Exchange, Inc., for the convenience of shareholders residing in Japan and overseas, to encourage the exercise of voting rights.
Other	From the perspective of the early release of information, the Company posts the Notice of Convocation of the ordinary general meeting of shareholders on its website and on TD Net ahead of the mailing date. For the fiscal year ended March 31, 2019, the Notice of Convocation was uploaded on May 16, 2019.

#### 2. IR Activities

	Supplementary Explanations
Preparation and Publication of Disclosure Policy	The Company believes that it is the responsibility of a listed company, as well as a necessity in terms of corporate governance, to disclose information to shareholders and investors in a timely and appropriate manner and fulfill its accountability adequately. As such, the Company will maintain high transparency in the management of its business by taking the following basic stance in promoting IR activities: (1) establishment of a responsible IR system, (2) satisfactory information disclosure, and (3) establishment of a system for timely disclosures.
Regular Investor Briefings for Individual (Retail) Investors	The Company holds explanation conference about outline of the Company once a year via internet in consideration of easy accesses regardless of location of the individual (retail) investors.
Regular Investor Briefings for Analysts and Institutional Investors	Financial results briefings are held twice a year (at annual and interim closings), where the Chairman and CEO, and the President and COO present management strategies and business performance. At the briefing, the Company also shows videos and stories to effect high-impact corporate communication.
Posting of IR Materials on Website	The following information is available on the Company's website (URL) <a href="http://www.capcom.co.jp/ir/">http://www.capcom.co.jp/ir/</a> Annual and quarterly securities reports ("Yukashoken Hokokusho"), annual and quarterly summary of financial results, outline of quarterly

	performance, integrated reports (annual reports), news summary, videos of financial results briefings (annual), presentation materials for financial results briefings (annual), quarterly briefing materials for conference calls, Corporate Governance Reports, game series sales, platinum titles, number of titles released, corporate information, stock and bond information and press releases, etc..
Establishment of Department and/or Manager in Charge of IR	The Public Relations and Investor Relations Section has been established with 3 full-time staff members.

### 3. Measures to Ensure Due Respect for Stakeholders

	Supplementary Explanations
Stipulation of Internal Rules for Respecting the Position of Stakeholders	Included in the “Capcom Code of Conduct” and “Personal Information Protection Rules.”
Development of Policies on Information Provision to Stakeholders	In order to deepen the trust relationship with Stakeholders of the Company, such as, clients, shareholders, investors, employees and local communities, the Company promotes communication through various means and the release of information. Grounded on the spirit of ”Sanpo-yoshi”, the spirit of the Japanese merchants in Edo era, to advocate benefits not only to the seller and to the buyer, but also to the local community, the Company hosts various events and investment seminars, and open ups its grounds to the local community, to name a few.
Other	<Diversity in Employment> The Company endeavors to employ people with diverse backgrounds from the perspective of diversity management and conducts personnel recruiting and evaluation without prejudice based on one’s gender, nationality, age, etc. As part of such efforts, the Company is pushing forward with the promotion of women to management positions. At the end of March 2019, the Company appoints 24 female employees in a management position including two corporate officers (9.5% of all the employees in a management position). The Company also employs 124 foreigners (4.9% of all the employees of the Company) through the recruiting efforts from the global perspective.

## IV. Matters Related to the Internal Control System

### 1. Basic Views on Internal Control System and the Progress of System Development

As part of directors’ due diligence, the Company developed the following internal control system based on the Companies Act of Japan and its enforcement regulations to ensure that all Company Group practices comply with regulations and are executed in an appropriate and efficient manner.

#### (1) Structure to Ensure that Directors Perform their Duties in Accordance with Laws and Regulations

To strengthen the management monitoring function and enhance corporate value, the Company strives to prevent illegal activities and ensure compliance through regular Compliance Committee checks etc., while attempting to invigorate and heighten the monitoring function of the Board of Directors in accordance with advice and recommendations from external directors.

#### (2) Information Management and Storage related to Directors’ Execution of Duties

The management and storage of documents and information related to directors’ execution of duties, such as the minutes of the meetings of the Board of Directors is conducted in accordance with the “Document Management Rules.”

#### (3) Risk Management Regulations and Other Systems

Efforts have been made so that the cross-sectional risk management system functions in accordance with the

“Risk Management Rules,” to proactively prevent crises and execute the appropriate actions if an emergency occurs.

(4) Structure to Ensure that Directors Perform their Duties Efficiently

The Company introduced a “Shikko Yakuin” (Corporate Officers) System under which the duties of the Board of Directors, who determine management policy, and the corporate officers, who carry out operations, are separated to enable smooth and flexible business operations and enhance efficient management.

(5) Structure to Ensure that Employees Perform their Duties in Accordance with Laws and Regulations

The “Capcom Code of Conduct” is the fundamental guidance to comply with laws and regulations. Preventive measures, including internal training and monitoring programs, are also in place.

(6) Structure to Ensure Compliance in Business Operations of the Company Group

The meetings of the Board of Directors of the Company’s subsidiaries are held monthly, and are participated in by the Company’s directors. In compliance with the “Management Regulations for Subsidiaries,” etc., the Company developed close communication and collaboration between the Company and its subsidiaries, requiring reports on important information, including sales updates and business forecasts. Also to comply with the “Risk Management Rules,” a group-wide compliance system is being promoted to ensure appropriate operations so that corporate governance functions effectively.

(7) Structure for the Audit and Supervisory Committee Assistants, Structure for their Independence of these assistants from Directors, and Structure to Assure the Effectiveness of Instruction given to them

For effective internal control, the Audit and Supervisory Committee strives to perform audits on the work of directors and employees based on the audit policy, report audit findings and make recommendations and advice as necessary. Accordingly, in order to enable the Audit and Supervisory Committee to perform its duties in a smooth and appropriate manner, the Internal Audit Division, etc., as organizations are directly supervised by the Audit and Supervisory Committee where sixteen dedicated staff members are in charge of performing tasks as assistants under the instructions of the Committee, and the Company ensures the consent from the Audit and Supervisory Committee is obtained regarding the personnel relocation of such staff members.

(8) Structure for Directors, the Audit and Supervisory Committee, Officers and Employees of the Company Group to Report to the Audit and Supervisory Committee, Structure to Report to the Audit and Supervisory Committee Other than the First Case, and Structure to Assure No Unfavorable Treatment will Result from the Reporting

Directors, the Audit and Supervisory Committee, Officers or employees of the Company Group, if asked for necessary information about the execution of their duties by the Audit and Supervisory Committee, respond quickly and appropriately to such requests, and properly report on required issues. Directors or employees who report to the Audit and Supervisory Committee will not be treated unfavorably because of such report.

(9) Structure to Ensure Effective Audit by the Audit and Supervisory Committee and Other Issues

Expenses incurred for executing the duties of the Audit and Supervisory Committee are budgeted. Directors who serve as members of the Audit and Supervisory Committee may request a cash advance on such expenses.

(10) Summary of operating status of system to ensure proper business execution

Summary of operating status of system to ensure proper business execution as of March 31,2018 are as follows:

(i) In addition to each system mentioned above, the Company held important meetings as below to make necessary resolutions and reports as deemed required by the laws and/or regulations.

•Board Meetings 10

•Corporate Management Council 18

•Board of Corporate Officers Meetings 13

Ten (10) meetings of the Audit and Supervisory Committee were also held to discuss its audit plan as well as any audit matters relating to the board meeting and various rules.

(ii) The Company holds the quarterly meeting of the Compliance Committee chaired by an external director and reports recognized inherent risks and the probability of such risks to be actualized to the Board of Directors, thereby aiming at the early detection and prevention of any violation of laws and regulations and wrongful acts.

(iii) Furthermore, the Company ensures that compliance is thoroughly understood by officers and employees, including the prevention of insider trading and information leakage and the ensuring of information security, by confirming effectiveness using e-learning and the periodic compliance check sheet in order to help officers and employees obtain sufficient knowledge on compliance.

(iv) With respect to affiliate companies, the Company also undertakes effective functioning of the group-wide



internal control system by continuously monitoring the status of subsidiaries' businesses through measures such as communicating the Company's management policies to the management of subsidiaries and gathering information from the Company's officers holding concurrent officer positions at subsidiaries and employees assigned from the Company.

(v) The Audit and Supervisory Committee performs stringent checks as to whether or not the internal control system is being implemented effectively through organizational audits including periodically receiving reports from the Internal Audit Division, etc. and giving instructions as necessary.

(vi) As one of the steps to change in the working environments, the Company is striving to manage working hours and make supervision more stringent to reduce prolonged works. Further, the Company holds training sessions for labor management as well as supporting sessions for novices by seniorities. In addition to formulating measures to promote changes in the mindset of officers and employees and encourage them to take paid holidays, the Company holds monthly Health and Safety Committee meetings and is making other such efforts to maintain and enhance the health of employees.

## 2. Basic Views on Eliminating Anti-Social Forces

The Company has a firm stand against antisocial forces that threaten social order and the safety of citizens, and strictly prohibits any association with such groups at the organizational, employee and individual levels. If we are contacted by such groups, in addition to swift organizational measures, we will cooperate with the police and other relevant authorities to firmly refuse unlawful demands.

While the Company attempts to remain aware of information related to these groups in order to avoid contact or involvement, if we discover that we have unknowingly become involved with them, we will immediately terminate the association with help from the police and other relevant authorities.

## V. Other

### 1. Adoption of Anti-Takeover Measures

Adoption of Anti-Takeover Measures	None(discontinued)
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Supplementary Explanation
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### 2. Other Matters Concerning to Corporate Governance System

(1) The Company fully acknowledges its social responsibility as a listed company, and seeks the establishment of an information management system to secure legal compliance, fairness and transparency.

(2) For that reason, the Company focuses on timely and appropriate information disclosure in compliance with the Securities and Exchange Law and other regulations, namely, the Timely Disclosure Rules set by the Stock Exchange, and aims for timely disclosures for the benefit of shareholders, etc., through the establishment of the internal control system, for corporate governance to function.

(3) When there is a material event or corporate issue requiring a timely disclosure, the person in charge of the related departments (directors, officers or departmental heads) shall report for the Board of Directors, as well as to the director in charge of information management regulating insider trading.

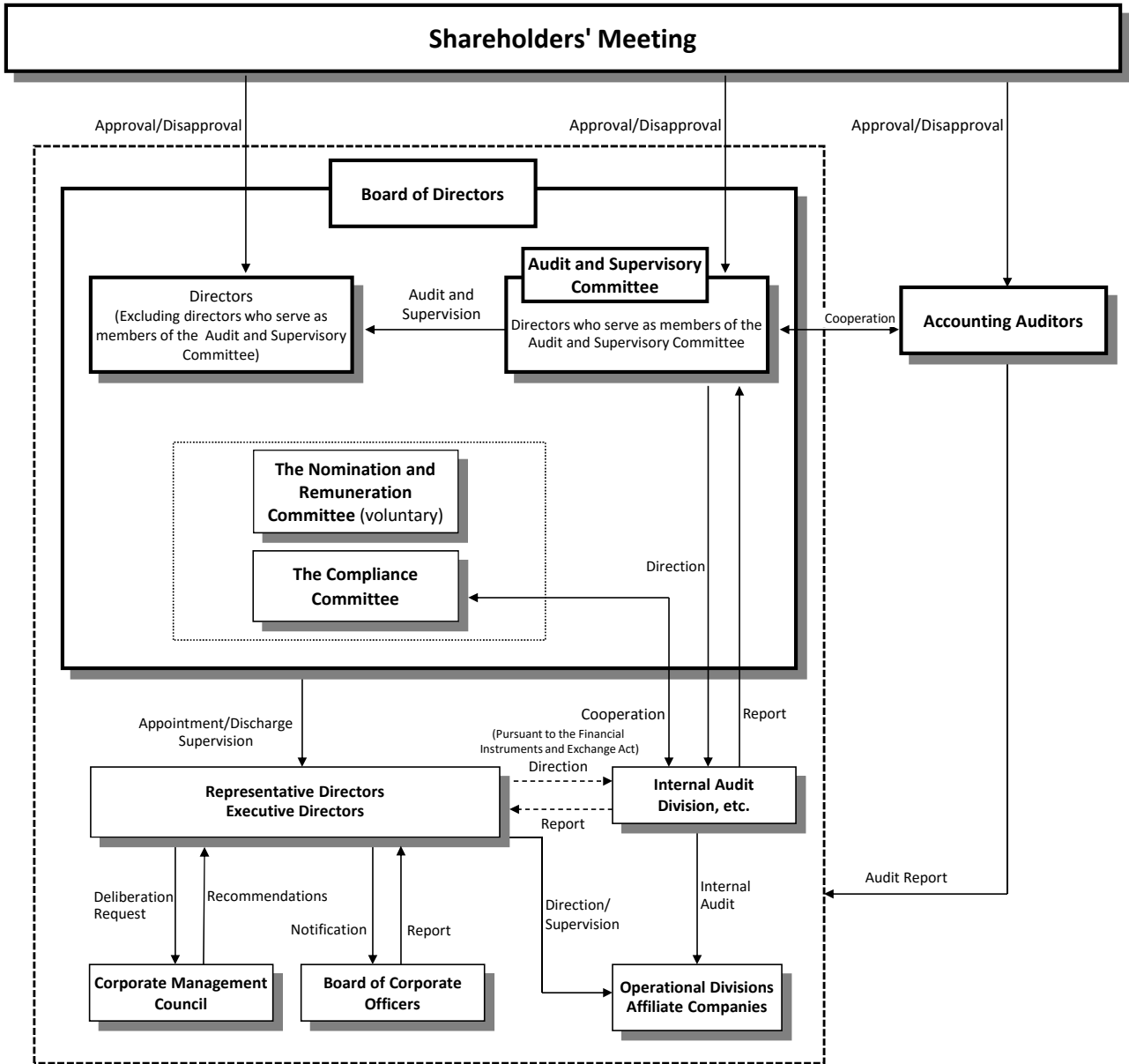
(4) When the material event or corporate issue is determined or likely to be subject to the insider trading regulation, the director in charge of information management shall instruct the General Affairs Department, which supervise the trading of the Company's shares, to restrict trading after the time the Board of Directors determines or reports the event until the time it is publicly announced.

(5) When a person subject to restriction tries to file an "application form for trading Company's and other shares" during this period, the General Affairs Department shall urge the person to keep the application on hold for a while.

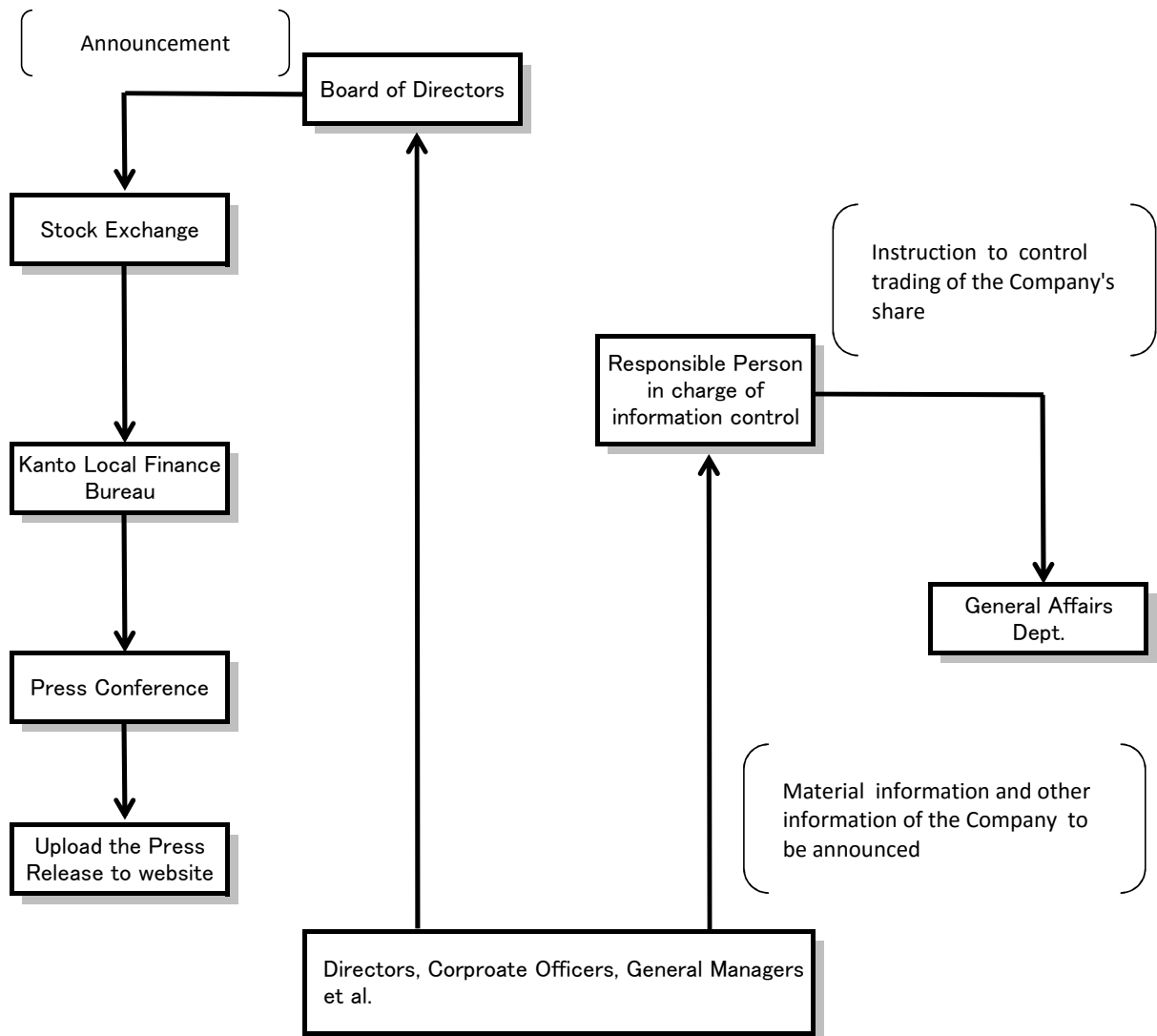
(6) When the material event or corporate issue is determined or reported at the Board of Directors' meeting, it shall be immediately reported to the Stock Exchange and the Kanto Regional Finance Bureau, and a press release shall follow.

(7) The Company endeavors to achieve proactive disclosure, including the posting of news releases on the Company's website.

# [Corporate Governance Structure]



【Chart】Timely disclosure process of the Company



*Translation: Please note that the following purports to be an accurate and complete translation of the original Japanese version. However, in the case of any discrepancy between the translation and the Japanese original, the latter shall prevail.*

June 17, 2019  
CAPCOM Co., Ltd.

## Capcom's basic policy for Japan's Corporate Governance Code

The Company strives to enhance its corporate value and grow continuously based on the principle that we are to be a creator of entertainment culture through the development of highly creative software contents that excite people and stimulate their senses.

In addition, the Company recognizes that it is one of management's top objectives to solidify corporate governance in order to attain effective management. Bearing such recognition in our minds the Company also strives to strengthen relationships among stakeholders such as shareholders, business partners, employees and surrounding communities. The Company does so to aim at higher corporate value through swift business decisions and its implementations under the structure of the Audit and Supervisory Committee, which allows us to respond to changes with its supervision and monitoring on legality and appropriateness in order to ensure sound and transparent management.

## Section 1: Securing the Rights and Equal Treatment of Shareholders

### General Principle 1

Companies should take appropriate measures to fully secure shareholder rights and develop an environment in which shareholders can exercise their rights appropriately and effectively.

In addition, companies should secure effective equal treatment of shareholders.

Given their particular sensitivities, adequate consideration should be given to the issues and concerns of minority shareholders and foreign shareholders for the effective exercise of shareholder rights and effective equal treatment of shareholders.

- (1) The Company treats its shareholders, including minority shareholders, holders of one or more share units, and holders of shares less than one share unit number, equally in accordance with the nature of their shareholding and the number of shares held. Therefore, no restriction is imposed on the rights of holders of shares less than one share unit number by the articles of incorporation other than the restrictions prescribed by the Companies Act.
- (2) From the perspective of ensuring the equal and fair treatment of shareholders, the Company does not provide any shareholder perks or benefits to shareholders including novelties/small gifts at the ordinary general meeting of shareholders, which do not reflect number of shares held by each registered shareholders.
- (3) To fulfill its accountability, the Company is promoting understanding and the sharing of perspectives through active dialogue/engagement with domestic and foreign institutional investors, other investors, shareholders, analysts and other relative parties.
- (4) The Company strives to provide various information, including the latest news and the management strategies of the Company, promptly, fairly, and accurately through timely disclosure and the publication on the website and also in English in consideration of the shareholders and investors such as foreign institutional investors.

### Principle 1.1 Securing the Rights of Shareholders

Companies should take appropriate measures to fully secure shareholder rights, including voting rights at the general shareholder meeting.

- (1) The Company has ensured that the shareholders can exercise their voting rights at the shareholders meeting in various manners such as (i) exercise by attending the shareholders meeting in person, (ii) exercise in writing, (iii) exercise via the Internet, (iv) exercise through the voting by the proxy in accordance with the power of attorney.

- (2) The Company strives to ensure that the both shareholders' rights for personal interest and the rights for common interest are adequately secured.

#### **Supplementary Principle 1.1.1**

When the board recognizes that a considerable number of votes have been cast against a proposal by the company and the proposal was approved, it should analyze the reasons behind opposing votes and why many shareholders opposed, and should consider the need for shareholder dialogue and other measures.

The Company actively pursues opportunities for dialogues with proxy advisory service companies as well as institutional investors to facilitate their understanding of the Company and obtain their approvals for the Company's proposals at the shareholder's meeting after verifying their proxy voting guidelines. The Company may pay direct visit to the shareholders when deemed required.

The Company also analyzes voting results and makes subsequent amendments wherever deemed required to improve understanding of our proposals at the next shareholder's meeting in case there is more than 10% non-approval thereof.

#### **Supplementary Principle 1.1.2**

When proposing to shareholders that certain powers of the general shareholder meeting be delegated to the board, companies should consider whether the board is adequately constituted to fulfill its corporate governance roles and responsibilities. If a company determines that the board is indeed adequately constituted, then it should recognize that such delegation may be desirable from the perspectives of agile decision-making and expertise in business judgment.

- (1) The Board of Directors of the Company has been delegated the power to decide the details of Share Repurchase program in accordance with Article 165(2) of the Companies Act of Japan to enable the Company to pursue prompt decision-making and more flexible execution of business.

In addition, the Company complied measures, such as the evolvement of internal regulations as appropriate, to reduce the number of agenda discussed by the Board of Directors that are not required by laws and regulations or the articles of incorporation.

- (2) The Company works to ensure the transparency and fairness of the Board of Directors by having five external directors who have expertise in legal affairs or excellent insight.

- (3) The Company focuses on efforts to ensure appropriate management decisions by strengthening the supervisory function and otherwise maintaining effective monitoring to secure reliable corporate governance.

### **Supplementary Principle 1.1.3**

Given the importance of shareholder rights, companies should ensure that the exercise of shareholder rights is not impeded. In particular, adequate consideration should be given to the special rights that are recognized for minority shareholders with respect to companies and their officers, including the right to seek an injunction against illegal activities or the right to file a shareholder lawsuit, since the exercise of these rights tend to be prone to issues and concerns.

- (1) The Company takes appropriate measures to ensure that shareholders can exercise their diverse rights including rights for personal interest, such as the right to receive dividend, and rights for common interest, such as rights to vote at the shareholders meeting, smoothly in accordance with the class of shares and the number of shares held.
- (2) The Company endeavors to make it sure that shareholders are treated equally and that no particular exercise of minority shareholder rights, is obstructed or delayed by means of, for example, proxy fight or submission of the shareholder proposals.

### **Principle 1.2 Exercise of Shareholder Rights at General Shareholder Meetings**

Companies should recognize that general shareholder meetings are an opportunity for constructive dialogue with shareholders, and should therefore take appropriate measures to ensure the exercise of shareholder rights at such meetings.

- (1) The Company receives all questions and comments from the shareholders attended at a Q&A session of General Shareholder Meetings, not on proposal by proposal basis.
- (2) In the case where a shareholder on a wheelchair or a physically disabled shareholder desires to be accompanied by a career to attend the shareholders meeting, the Company, as a general rule, permits such a career also to be present at the shareholders meeting to accompany the shareholder.
- (3) In addition to choosing a convenient location for the venue in a hotel that is connected directly to a station, which is an intersection between a subway line and a private railway line, to facilitate the attendance of as many shareholders as possible.



**Supplementary Principle 1.2.1**

Companies should provide accurate information to shareholders as necessary in order to facilitate appropriate decision-making at general shareholder meetings.

The Company discloses information on the website to help shareholders navigate through the latest and historical information about the Company and make appropriate decisions at the shareholders meeting, including the notices of shareholders meeting, annual securities reports, financial summaries, integrated reports (annual reports), news summaries, etc., for the past several years.

**Supplementary Principle 1.2.2**

While ensuring the accuracy of content, companies should strive to send convening notices for general shareholder meetings early enough to give shareholders sufficient time to consider the agenda. During the period between the board approval of convening the general shareholder meeting and sending the convening notice, information included in the convening notice should be disclosed by electronic means such as through TDnet or on the company's website.

- (1) The Company held the latest ordinary general meeting of shareholders on June 17, 2019, which is among the earliest dates of such meetings held by companies in Japan whose fiscal year ended in March.
- (2) The Company endeavors to allow sufficient time for shareholders to review proposals by mailing the notice of convocation three weeks or earlier before the date of the ordinary general meetings of shareholders, which is set to avoid the concentration day on which the ordinary general meetings of shareholders of many other companies are expected to concentrate.
- (3) The Company discloses the notice of convocation of ordinary general meetings of shareholders on the company's website and the Timely Disclosure Network provided by the Tokyo Stock Exchange six days before the official distribution date.

**Supplementary Principle 1.2.3**

The determination of the date of the general shareholder meeting and any associated dates should be made in consideration of facilitating sufficient constructive dialogue with shareholders and ensuring the accuracy of information necessary for such dialogue.

To encourage dialogue/engagement with shareholders, the Company holds the ordinary general meeting of shareholders about 10 days before the day on which shareholder meetings of many other companies are expected to fall.

For 2019, the Company held its ordinary general meeting of shareholders, on June 17, which is ten (10) days before the concentration date.

**Supplementary Principle 1.2.4**

Bearing in mind the number of institutional and foreign shareholders, companies should take steps for the creation of an infrastructure allowing electronic voting, including the use of the Electronic Voting Platform, and the provision of English translations of the convening notices of general shareholder meeting.

The Company has taken the following measures for the convenience of both domestic and foreign shareholders:

(1) The Company has participated in the ICJ(TSE) electronic voting platform for institutional shareholders and accommodated the exercise of voting rights via the Internet for retail shareholders in Japan.

(2) The Company distributes the notice of convocation three weeks before the date of the ordinary meeting of shareholders. The Company is also disclosing the Convocation, together with its English translation, on the website of the Company as well as the website of the Tokyo Stock Exchange, six days prior to the dispatch of the document.

### **Supplementary Principle 1.2.5**

In order to prepare for cases where institutional investors who hold shares in street name express an interest in advance of the general shareholder meeting in attending the general shareholder meeting or exercising voting rights, companies should work with the trust bank (*shintaku ginko*) and/or custodial institutions to consider such possibility.

- (1) The record date to determine whose voting rights are exercisable at ordinary general meetings of shareholders of the Company is March 31st each year. If we have received a request of such an institutional investor indicating its intention to physically attend an ordinary general meeting of shareholders by the business day immediately preceding the date of the meeting and we have received confirmation that the institutional investor is the beneficial shareholder based on, for example, the consultation with the custodian registered or the materials submitted by the institutional investor, we permit such an investor to attend the meeting as an observer.
- (2) If such an institutional investor suddenly shows up at the venue on the day of the meeting, we do not, as a rule, permit it to attend the meeting as it is impossible to confirm that it is the true beneficial shareholder on that day.

### **Principle 1.3 Basic Strategy for Capital Policy**

Because capital policy may have a significant effect on shareholder returns, companies should explain their basic strategy with respect to their capital policy.

- (1) In order to enhance its corporate value, the Company focuses its full efforts on the enhancement of ROE through the implementation of a balanced capital policy in consideration of the balance sheet, the income statement and cash-flow statement, to achieve growth and the repurchase of own shares and increase in dividend payout to enhance total shareholder return in addition to securing stable annual profits and cash generation.
- (2) The Company acquired its own shares in the fiscal year ended March 2019 for the purpose of enabling the capital policy to be implemented in a flexible manner in response to changes in the business environment and improving its capital efficiency.

### **Principle 1.4 Cross-Shareholdings**

When companies hold shares of other listed companies as cross-shareholdings, they should disclose their policy with respect to doing so, including their policies regarding the reduction of cross-shareholdings. In addition, the board should annually assess whether or not to hold each individual cross-shareholding, specifically examining whether the purpose is appropriate and whether the benefits and risks from each holding cover the company's cost of capital. The results of this assessment should be disclosed.

Companies should establish and disclose specific standards with respect to the voting rights as to their cross-shareholdings, and vote in accordance with the standards.

- (1) The Company holds shares of other companies for strategic purposes in a manner that is appropriate for each issue based on a comprehensive comparison of the advantages and disadvantages of such shareholdings from the medium- to long-term perspective after evaluating whether they will contribute to future business relationships and sustainable growth of the corporate value of the Company, aiming to eliminate customary cross-shareholdings or personal factors based on human relationship, while also aiming to strengthen and deepening the relationship with companies with which we have an ongoing business relationship.
- (2) The Board of Directors of the Company evaluates these shareholdings in consideration of their business advantages such as maintaining and developing business relationships and their strategic significance based on the nature of the transaction, transaction amount, etc. while also carefully examines and verifies periodically in terms of risk and return commensurate with capital costs from a medium- to long-term perspective, including their future outlooks. If as a result, continued holding of these shares is deemed to have little economic rationale, such as when the book value has fallen more than 50% or the corporate value of the investee has been significantly impaired, the number of such shares held will be reduced or disposed at an appropriate time, through holding a dialogue with the investee by taking into account the economic situation and the gains or losses on sales.
- (3) The Company exercises the voting rights with respect to these shareholdings for each proposal after following the required internal due process upon considering the following matters.
  - (i) Financial performance, (ii) Capital policies, (iii) Development status of corporate governance, (iv) Significant scandals, (v) Adequacy of the officers and (vi) Whether there has been improvement in its corporate value.

#### **Supplementary Principle 1.4.1**

When cross-shareholders (i.e., shareholders who hold a company's shares for the purpose of cross-shareholding) indicate their intention to sell their shares, companies should not hinder the sale of the cross-held shares by, for instance, implying a possible reduction of business transactions.

In the event that the strategic holders of the Company's share(including cross-shareholdings) proposes to sell the Company's shares, the Company has neither hindered the sale, for instance, by implying a possible reduction of business transactions or acting reluctantly nor shall act similarly in the future.

#### **Supplementary Principle 1.4.2**

Companies should not engage in transactions with cross-shareholders which may harm the interests of the companies or the common interests of their shareholders by, for instance, continuing the transactions without carefully examining the underlying economic rationale.

When engaging in transactions with strategic holders of the Company's share(including cross-shareholdings), the Company periodically evaluates the risks and returns of such transactions by considering their qualitative advantages and similar transactions rather than idly engaging in such transaction. If, as a result, the transactions are found to be lacking in economic rationale from the standpoint of legitimacy and fairness, the Company, upon holding a dialogue with the said shareholder, shall reduce its transactions with the shareholder by comprehensively considering such factors as past business transactions and the future outlooks.

#### **Principle 1.5 Anti-Takeover Measures**

Anti-takeover measures must not have any objective associated with entrenchment of the management or the board. With respect to the adoption or implementation of anti-takeover measures, the board and *kansayaku* should carefully examine their necessity and rationale in light of their fiduciary responsibility to shareholders, ensure appropriate procedures, and provide sufficient explanation to shareholders.

- (1) Although the Company has decided to discontinue its takeover defense measures as of June 9, 2017, it continues to put in place a certain internal mechanism to prepare for any hostile takeover including the development of contingency plan of its own.

- (2) If a hostile large-scale purchase of shares of the Company should be proposed, the Company would strive to collect information and secure time that are necessary for our shareholders to make an informed decision on such a proposal, in addition to disclosure of opinions about it from the Board of Directors including Audit and Supervisory Committees and other bodies, while taking other necessary measures within the limit permitted by laws and regulations, including the Financial Instruments and Exchange Act and the Companies Act.

#### **Supplementary Principle 1.5.1**

In case of a tender offer, companies should clearly explain the position of the board, including any counteroffers, and should not take measures that would frustrate shareholder rights to sell their shares in response to the tender offer.

- (1) The Company has developed a due procedure to explain the position of the board and make other appropriate responses in the case of a tender offer for the shares of the Company in order to help the shareholders promptly and appropriately decide whether to continue to hold the shares of the Company or respond to the tender offer.
- (2) The Company shall submit a position statement to the tender offeror and ask the tender offeror about, among others, its purpose and management strategy.
- (3) The Company shall announce whether it is for or against the tender offer, its view on the tender offer, the reason, etc.

#### **Principle 1.6 Capital Policy that May Harm Shareholder Interests**

With respect to a company's capital policy that results in the change of control or in significant dilution, including share offerings and management buyouts, the board and *kansayaku* should, in order not to unfairly harm the existing shareholders' interests, carefully examine the necessity and rationale from the perspective of their fiduciary responsibility to shareholders, should ensure appropriate procedures, and provide sufficient explanation to shareholders.

- (1) The Company believes that financing to support capital investment and M&A activities is prerequisite to a certain extent in order to realize sustainable growth.
- (2) The Company carefully examine measures such as third party allotments or public offerings which may cause dilution and may harm its existing shareholders.  
In any case that the Company may implement such measures, the Company decides the measure taking growth strategy and capital structure into full consideration.

- (3) If conflicts of interest between the management and shareholders are anticipated in the deliberation of such a policy by the Board of Directors, external directors are responsible for providing necessary opinions and advice from the independent and neutral perspective to secure trust of the shareholders.
- (4) If the Company decides to undertake such a measure, it will make timely disclosure of the measure and publish the details of it on the website of the Company.

#### **Principle 1.7 Related Party Transactions**

When a company engages in transactions with its directors or major shareholders (i.e., related party transactions), in order to ensure that such transactions do not harm the interests of the company or the common interests of its shareholders and prevent any concerns with respect to such harm, the board should establish appropriate procedures beforehand in proportion to the importance and characteristics of the transaction. In addition to their use by the board in approving and monitoring such transactions, these procedures should be disclosed.

- (1) Any transaction with related party for example, a major shareholder substantially controlled by a board member of the Company or his/her relatives which may cause conflict of interest is subject to the prior approval of the board and is also required to be reported after it is carried out.
- (2) Such related party transactions are also subject to strict audits of directors who serve as members of the Audit and Supervisory Committee and the accounting auditor for their appropriateness and reasonability.
- (3) The Company operates its management system strictly and fairly through the appropriate processes outlined in the preceding paragraphs in order to prevent any disadvantages to the Company arising from related party transactions.

## Section 2: Appropriate Cooperation with Stakeholders Other Than Shareholders

### General Principle 2

Companies should fully recognize that their sustainable growth and the creation of mid- to long-term corporate value are brought about as a result of the provision of resources and contributions made by a range of stakeholders, including employees, customers, business partners, creditors and local communities. As such, companies should endeavor to appropriately cooperate with these stakeholders.

The board and the management should exercise their leadership in establishing a corporate culture where the rights and positions of stakeholders are respected and sound business ethics are ensured.

- (1) In view of the mechanism of companies as governed by the Companies Act and other laws and regulations, the Company acknowledges that shareholders, being the provider of equity capital, should naturally be respected highly.
- (2) In addition, in order to achieve sustainable growth and increase the corporate value of the Company from the medium- to long-term perspective, the Company cannot ignore its diverse stakeholders other than shareholders, including employees, customers, and creditors. Accordingly, the Company strives to create a relationship of trust with all these stakeholders based on “Sanpo-yoshi”, the spirit of the Japanese merchants in Edo era, to advocate benefits not only to the seller and to the buyer, but also to the local community.
- (3) It is essential to maintain a cooperative relationship with a variety of stakeholders such as appropriate business relationships and other good relationships and Company aims to create a synergy effect through collaboration with them.

### Principle 2.1 Business Principles as the Foundation of Corporate Value Creation Over the Mid- to Long-Term

Guided by their position concerning social responsibility, companies should undertake their businesses in order to create value for all stakeholders while increasing corporate value over the mid- to long-term. To this end, companies should draft and maintain business principles that will become the basis for such activities.

- (1) Our corporate philosophy is to be a “creator of entertainment culture that stimulates your senses” through the entertainment in the form of games that move and excite people.
- (2) The Company works to improve the satisfaction of and create a relationship of trust with shareholders, employees, customers, and other stakeholders, while striving to increase its corporate value.



## **Principle 2.2 Code of Conduct**

Companies should draft and implement a code of conduct for employees in order to express their values with respect to appropriate cooperation with and serving the interests of stakeholders and carrying out sound and ethical business activities. The board should be responsible for drafting and revising the code of conduct, and should ensure its compliance broadly across the organization, including the front line of domestic and global operations.

- (1) The Company has established the “Capcom Code of Conduct” to ensure that our business activities are conducted with integrity and fairness, under which we strives to realize the coexistence and co-prosperity with our stakeholders through shareholder return, the improvement of labor conditions, appropriate business relationships, etc.
- (2) Aiming to be a “good corporate citizen,” the Company holds “on-site classes” at elementary and junior high schools, etc., in addition to other efforts to create a relationship of trust with local communities through, for example, activities for social contributions and making the Company’s playground available for use by the public.

### **Supplementary Principle 2.2.1**

The board should review regularly (or where appropriate) whether or not the code of conduct is being widely implemented. The review should focus on the substantive assessment of whether the company’s corporate culture truly embraces the intent and spirit of the code of conduct, and not solely on the form of implementation and compliance.

- (1) The Company has established the “Capcom Code of Conduct” in order to fulfill responsibilities to its stakeholders such as shareholders, employees and customers.
- (2) The Company posts a “Handbook on Capcom Code of Conduct” on its intranet, making it available for inspection to all employees of the Company, and conducts regularly training program on Compliance including e-learning to increase understanding and recognition of the Code.
- (3) For the purpose of detecting risks early and improving the compliance awareness of the organization, the Company has been in efforts to enforce the Code of Conduct and the status of embedding it are regularly monitored with a “compliance check sheet”. In addition, when a problem is pointed out or detected, the departments concerned are interviewed.

### **Principle 2.3 Sustainability Issues, Including Social and Environmental Matters**

Companies should take appropriate measures to address sustainability issues, including social and environmental matters.

The Company is actively engaging in CSR activities so as to be acknowledged by the society as a reliable “good corporate citizen.”

- (1) The Company is taking necessary measures in accordance with business surroundings as well as further environmental issues. Under these circumstances, the Company takes strategies to cope with the change in markets, as well as environmental issues. For example, the Company reduces CO2 emissions and packaging materials. The Company will tackle environmental and social issues as well as corporate governance issues.
- (2) To encourage social understanding of games, the Company actively supports educational activities and accepts visits of students particularly from elementary and junior high schools and conducts “on-site classes” in those schools.
- (3) The Company also conducts activities aimed to revitalize local economies, improve public safety and promote cultural and historical studies by making the most of our popular contents.

#### **Supplementary Principle 2.3.1**

With the recognition that dealing with sustainability issues is an important element of risk management, the board should take appropriate actions to this end. Given the increasing demand and interest with respect to sustainability issues in recent years, the board should consider addressing these matters positively and proactively.

- (1) The Board of Directors, recognizing the importance of corporate governance for the sustainable growth of an enterprise, strives to increase the management transparency and soundness and structure the Company in a manner that allow us to respond to the changes in the environment.
- (2) The Company establishes the Compliance Committee as part of risk management in order to review the probability of risk occurrence and to call attention and/or issue recommendation to relative officers and/or employees as necessary. In addition, the Company has been reviewing operational risks from the perspective of legality and validity to mitigate risks. With these measures, the Company establishes a risk control system to appropriately respond to the contingencies.

- (3) Moreover, the Company is pushing ahead with various growth strategies aimed to increase its corporate value in order to respond to the continuing rapid changes in the game market environment. The Company strives to achieve sustainable growth of the corporate value by analyzing and evaluating the actual results for each fiscal year toward the achievement of the goals and pushing forward with strategic business development by identifying issues to be resolved going forward.

#### **Principle 2.4 Ensuring Diversity, Including Active Participation of Women**

Companies should recognize that the existence of diverse perspectives and values reflecting a variety of experiences, skills and characteristics is a strength that supports their sustainable growth. As such, companies should promote diversity of personnel, including the active participation of women.

- (1) The Company endeavors to employ people with diverse backgrounds from the perspective of diversity management and conducts personnel recruiting and evaluation without prejudice based on one's gender, nationality, age, etc. As part of such efforts, the Company is pushing forward with the promotion of women to management positions. At the end of March 2019, the Company appoints 24 women in a management position including two corporate officers (9.5% of all the employees in a management position). The Company also employs 124 foreigners (4.9% of all the employees of the Company) through the recruiting efforts from the global perspective.
- (2) The Company is making efforts to create an environment in which employees can easily take a childcare leave. During the FY2018 ended in March 2019, 33 employees took a childcare leave, and 32 employees were reinstated (96.0% reinstatement rate). The Company also has a program for shorter working hours beyond the legal requirements (while law requires shorter working hours for the care of a child less than three years old, the Company permits such a treatment for the care of a child up to the third grade in elementary school). In recognition of our efforts to improve work-life balance including the measures described above, the Company received the "Kurumin Mark" certification from the Ministry of Health, Labour and Welfare as a general business operator satisfying the standards prescribed in the "Act on Advancement of Measures to Support Raising Next-Generation Children" in March 2014.
- (3) In addition, the Company aims at creating a work environment that is friendlier to employees through the provision of child raising support. For example, the Company opened an in-house day-care facility in April 2017 to help employees continue to work through the child raising period in line with the national policy.

### **Principle 2.5 Whistleblowing**

Companies should establish an appropriate framework for whistleblowing such that employees can report illegal or inappropriate behavior, disclosures, or any other serious concerns without fear of suffering from disadvantageous treatment. Also, the framework should allow for an objective assessment and appropriate response to the reported issues, and the board should be responsible for both establishing this framework, and ensuring and monitoring its enforcement.

- (1) The Company has established the Compliance Committee chaired by an external director who is qualified as a lawyer and consisting of directors and directors who serve as members of the Audit and Supervisory Committee to prevent any violation of laws and regulations. In addition, the Company is working to improve the effectiveness of compliance on a group-wide basis by measures to maintain the functionality of the department responsible for accepting the consultation requests and whistleblower reports such as announcing necessary matters through the Company's intranet.
- (2) Pursuant to the Whistleblower Protection Act of Japan, the Company has established "Corporate Ethics Hotline Rules" and has appointed a department responsible for accepting whistleblower reports and is making other efforts to create an environment in which whistleblower reports from employees are handled smoothly to prevent and correct any illegal and wrongful acts.

#### **Supplementary Principle 2.5.1**

As a part of establishing a framework for whistleblowing, companies should establish a point of contact that is independent of the management (for example, a panel consisting of outside directors and outside *kansayaku*). In addition, rules should be established to secure the confidentiality of the information provider and prohibit any disadvantageous treatment.

- (1) The Company has established a whistleblower system called "Corporate Ethics Hotline" and issues cautionary notices, recommendations, or advice to the persons concerned as necessary.
- (2) The Company has appointed external independent directors who are independent from the executive directors as the persons responsible for accepting whistleblower reports and has established the whistleblower protection rules to prohibit any disadvantageous treatment of whistleblowers, such as retaliation, termination of employment, and disciplinary punishment on the grounds that they have made such a report.

**Principle 2.6 Roles of Corporate Pension Funds as Asset Owners**

Because the management of corporate pension funds impacts stable asset formation for employees and companies' own financial standing, companies should take and disclose measures to improve human resources and operational practices, such as the recruitment or assignment of qualified persons, in order to increase the investment management expertise of corporate pension funds (including stewardship activities such as monitoring the asset managers of corporate pension funds), thus making sure that corporate pension funds perform their roles as asset owners. Companies should ensure that conflicts of interest which could arise between pension fund beneficiaries and companies are appropriately managed.

The Company manages its corporate pension fund by entrusting it to asset managers with professional expertise and abundant experience, while ensuring that conflicts of interest do not arise between pension fund beneficiaries and the Company by entrusting such matters as the exercise of voting rights to the same asset managers. Additionally, the soundness and the appropriateness of the assets and asset management are verified and evaluated through the "Monitoring Reports" issued by the said asset managers and other means, in addition to the responsible staff of Human Resources cooperating with appropriate divisions such as the Finance and Accounting and the General Affairs divisions, as necessary, to conduct monitoring, when appropriate.

Furthermore, such relevant staff are provided with opportunities to acquire the necessary knowledge of pension systems and operations, and upgrade their skills through education and training and attending seminars.

## Section 3: Ensuring Appropriate Information Disclosure and Transparency

### General Principle 3

Companies should appropriately make information disclosure in compliance with the relevant laws and regulations, but should also strive to actively provide information beyond that required by law. This includes both financial information, such as financial standing and operating results, and non-financial information, such as business strategies and business issues, risk and governance.

The board should recognize that disclosed information will serve as the basis for constructive dialogue with shareholders, and therefore ensure that such information, particularly non-financial information, is accurate, clear and useful.

- (1) The Company believes that it is the responsibility of a listed company, and also is essential from the corporate governance perspective, to disclose information appropriately and on a timely basis and sufficiently fulfill its accountability to shareholders and investors. Therefore, the Company realizes highly transparent management embracing (1) the establishment of the framework for responsible IR, (2) extensive information disclosure, and (3) the establishment of the framework for timely disclosure as its basic stance in promoting IR activities.
- (2) The details of the publication of IR materials on our website and other IR-related activities are described in “III-2. IR Activities” of the Corporate Governance Report.
- (3) The Company has received various awards from third-party assessment organizations, etc. for our IR activities and various IR tools in recognition of our past activities to actively promote timely and appropriate information disclosure. Specific awards that we have received in the past are published on the website of the Company.

### Principle 3.1 Full Disclosure

In addition to making information disclosure in compliance with relevant laws and regulations, companies should disclose and proactively provide the information listed below (along with the disclosures specified by the principles of the Code) in order to enhance transparency and fairness in decision-making and ensure effective corporate governance:

- i) Company objectives (e.g., business principles), business strategies and business plans;
- ii) Basic views and guidelines on corporate governance based on each of the principles of the Code;
- iii) Board policies and procedures in determining the remuneration of the senior management and directors;
- iv) Board policies and procedures in the appointment/dismissal of the senior management and the nomination of directors and *kansayaku* candidates; and
- v) Explanations with respect to the individual appointments/dismissals and nominations based on iv).

- (1) The business principles of the Company and other information are published on the website of the Company.
- (2) The Company's basic views on corporate governance are stated in "I-1. Basic Views" section of the Corporate Governance Report.
- (3) The remuneration of individual directors other than those who serve as members of the Audit and Supervisory Committee is determined by the Board of Directors based on advice from the Nomination and Remuneration Committee, a voluntary committee made up by a majority of independent external directors chaired by an independent external director to ensure its transparency and fairness. Furthermore, the remuneration for individual directors who serve as members of the Audit and Supervisory Committee is determined through discussions by the directors who serve as members of the Audit and Supervisory Committee.
- (4) The appointment and dismissal of senior management is determined by the Board of Directors based on advice from the Nomination and Remuneration Committee, a voluntary committee made up by a majority of independent external directors chaired by an independent external director to ensure its objectivity and transparency.
- (5) The nomination of candidates for the position of director (excluding directors who serve as members of the Audit and Supervisory Committee) and those for the position of a director who serves as members of the Audit and Supervisory Committee is determined by the Board of Directors based on advice from the Nomination and Remuneration Committee, a voluntary committee made up by a majority of independent external directors chaired by an independent external director.

The selection of candidates for the position of a director who serves as members of the

Audit and Supervisory Committee is also subject to the consent of the Audit and Supervisory Committee.

- (6) Information relevant for the decision on the election of individual directors and directors who serve as members of the Audit and Supervisory Committee, such as their career summary and the status of significant concurrent positions held, is included in the notice of convocation.

#### **Supplementary Principle 3.1.1**

These disclosures, including disclosures in compliance with relevant laws and regulations, should add value for investors, and the board should ensure that information is not boiler-plate or lacking in detail.

Regarding the disclosure of information, the Company strives to ensure that the description on the website of the Company and in the integrated reports (annual reports) is specific and plain so that information is accurately communicated and that high value added information is provided including non-financial information on corporate governance such as the status of deliberation by the Board of Directors.

#### **Supplementary Principle 3.1.2**

Bearing in mind the number of foreign shareholders, companies should, to the extent reasonable, take steps for providing English language disclosures.

In view of the percentage of our foreign shareholders, the Company provides various information in English including the English version of our website, notice of convocation, integrated reports (annual reports), and other disclosure materials.

#### **Principle 3.2 External Auditors**

External auditors and companies should recognize the responsibility that external auditors owe toward shareholders and investors, and take appropriate steps to secure the proper execution of audits.

The Company tries its best to ensure that an appropriate audit environment that enables the accounting auditor to perform his/her duties is in place by establishing an adequate audit schedule and providing adequate information to them through the coordination among the Audit and Supervisory Committee, Internal Audit Division and the accounting department to secure the proper execution of audits by the accounting auditor.



### **Supplementary Principle 3.2.1**

The *kansayaku* board should, at minimum, ensure the following:

- i) Establish standards for the appropriate selection of external auditor candidates and proper evaluation of external auditors; and
- ii) Verify whether external auditors possess necessary independence and expertise to fulfill their responsibilities.

- (1) The Audit and Supervisory Committee developed the evaluation standards for the selection of the accounting auditor in coordination with the departments such as the accounting department and Internal Audit Division.
- (2) Upon the nomination of the accounting auditor, the Audit and Supervisory Committee requests multiple candidates to submit proposals and selects the accounting auditor based on the evaluation standards set as above.
- (3) Upon the re-election of the accounting auditor, the Audit and Supervisory Committee considers the audit method of the accounting auditor and the appropriateness of the audit results and determines the eligibility through an interview and the exchange of opinions exchange with the accounting auditor.
- (4) The Audit and Supervisory Committee conducts interviews with the accounting auditor regarding the independence and expertise of the accounting auditor as appropriate including the existence of any conflict of interest based on the Certified Public Accountants Act.

### **Supplementary Principle 3.2.2**

The board and the *kansayaku* board should, at minimum, ensure the following:

- i) Give adequate time to ensure high quality audits;
- ii) Ensure that external auditors have access, such as via interviews, to the senior management including the CEO and the CFO;
- iii) Ensure adequate coordination between external auditors and each of the *kansayaku* (including attendance at the *kansayaku* board meetings), the internal audit department and outside directors; and
- iv) Ensure that the company is constituted in the way that it can adequately respond to any misconduct, inadequacies or concerns identified by the external auditors.

- (1) The Company tries to secure sufficient time for the accounting auditor to perform adequate audits through such measures as early preparation and prompt information provision of financial statements and other relevant materials.

- (2) The accounting auditor gathers information and exchanges opinions through interviews with the CEO, the COO and the CFO as appropriate.
- (3) The accounting auditor, the Audit and Supervisory Committee and the Internal Audit Division have consultation with each other as necessary and appropriate to exchange opinions and information on audit so that audits by both sides are enhanced and improved through such collaboration.
- (4) When the accounting auditor has detected a fraud, it reports it to the Board of Directors and the Audit and Supervisory Committee. Upon receipt of such a report, the Board of Directors, the Audit and Supervisory Committee, the Internal Audit Division and relevant divisions closely share the information and exchange opinions in order to respond it appropriately.

## Section 4: Responsibilities of the Board

### General Principle 4

Given its fiduciary responsibility and accountability to shareholders, in order to promote sustainable corporate growth and the increase of corporate value over the mid-to long-term and enhance earnings power and capital efficiency, the board should appropriately fulfill its roles and responsibilities, including:

- (1) Setting the broad direction of corporate strategy;
- (2) Establishing an environment where appropriate risk-taking by the senior management is supported; and
- (3) Carrying out effective oversight of directors and the management (including *shikkoyaku* and so-called *shikkoyakuin*) from an independent and objective standpoint.

Such roles and responsibilities should be equally and appropriately fulfilled regardless of the form of corporate organization – i.e., Company with *Kansayaku* Board (where a part of these roles and responsibilities are performed by *kansayaku* and the *kansayaku* board), Company with Three Committees (Nomination, Audit and Remuneration) or Company with Supervisory Committee.

- (1) The Board of Directors of the Company has adopted the “single content multiple usage strategy” as its basic strategy and regards the development of unique contents as the source of its corporate value. Based on this strategy, the Board has authorized the growth strategies to develop it into multiple businesses globally and in multiple directions.
- (2) The Company has appointed “Shikko Yakuin” (corporate officers) in order to clarify function of oversight of management and business execution. The executive directors as well as corporate officers will execute business based on what the Board of Directors resolved and the Board as a whole supervise their execution appropriately.
- (3) Under these clear roles of the board, which is responsible for making decisions on management policies, and those of executive directors and corporate officers, who are responsible for business execution, as well as the delegation of authorities regarding a certain important matters on business execution, including personnel relocation and reorganization, to the representative director, prompt and agile business development is attainable and management efficiency has been improved with respect to the execution of the medium to long-term growth strategies of the Company.
- (4) Furthermore, aiming to achieve sustainable growth, the Company will strive to ensure that both "offensive governance" based on risk taking and "defensive governance" as a brake function together as the two wheels of the Company.
- (5) The Board of Directors of the Company makes decisions in a rational manner through an adequate deliberation process taking into consideration forecasts, objectivity, transparency, fairness, etc.

#### **Principle 4.1 Roles and Responsibilities of the Board (1)**

The board should view the establishment of corporate goals (business principles, etc.) and the setting of strategic direction as one major aspect of its roles and responsibilities.

It should engage in constructive discussion with respect to specific business strategies and business plans, and ensure that major operational decisions are based on the company's strategic direction.

Aiming to achieve sustainable growth and medium/long-term enhancement of the corporate value of the Company, the Board discusses growth strategies based on the business principles of the Company and develops the basic management policy and management strategies.

In addition, the Board properly supervises major operational decisions in consideration of the risk control based on these strategies.

#### **Supplementary Principle 4.1.1**

The board should clearly specify its own decisions as well as both the scope and content of the matters delegated to the management, and disclose a brief summary thereof.

- (1) The Board of Directors makes decisions on the matters prescribed by laws and regulations, the articles of incorporation, and the Board of Directors Rules. The roles and responsibilities of directors are prescribed by, among others, resolutions of the Board of Directors and the Job Authority Regulations.
- (2) The Company has adopted the “Shikko Yakuin”(corporate officer) system and operational decisions made by the Board are promptly executed by executive directors and the corporate officers.
- (3) In addition, the Company delegates authorities regarding certain important matters on business execution, including personnel relocation and reorganization, to the representative director to ensure prompt, agile and efficient business development.

### **Supplementary Principle 4.1.2**

Recognizing that a mid-term business plan (*chuuki keiei keikaku*) is a commitment to shareholders, the board and the senior management should do their best to achieve the plan. Should the company fail to deliver on its mid-term business plan, the reasons underlying the failure of achievement as well as the company's actions should be fully analyzed, an appropriate explanation should be given to shareholders, and analytic findings should be reflected in a plan for the ensuing years.

- (1) The Company fully recognizes that the mid-term business plan is an important commitment to shareholders.
- (2) The Company not only explains the progress status of the mid-term business plan, but also analyzes the internal external factors thoroughly if the target is not met and explains these factors and issues to be resolved going forward in results briefings as appropriate, in addition to the publication on the website of the Company and in the integrated reports (annual reports).
- (3) The Company strives to respond to any management issues by, for example, promptly putting in place the necessary internal structure.

### **Supplementary Principle 4.1.3**

Based on the company objectives (business principles, etc.) and specific business strategies, the board should proactively engage in the establishment and implementation of a succession plan for the CEO and other top executives and appropriately oversee the systematic development of succession candidates, deploying sufficient time and resources.

- (1) Our corporate philosophy is to be a “creator of entertainment culture that stimulates your senses” through the entertainment in the form of games that move and excite people. Our top executives are appropriately appointed by the Board of Directors through sufficient deliberation including the evaluation and consideration of their foresight, future potential, and appropriateness based on their knowledge, decision-making capabilities and track record. The Board of Directors of the Company also pays attention to raise potential candidates for the CEO and other top executives.
- (2) Furthermore, in order to assess their competence as candidates for the CEO and other top executives, the Board of Directors, based on advice from the Nomination and Remuneration Committee, a voluntary committee made up by a majority of independent external directors chaired by an independent external director, evaluates and checks whether the candidates have acquired the insight, decision-making capabilities and the

capabilities for the execution of duties necessary as a top executive, in addition to their track records and accomplishments.

- (3) As part of the succession plan, the Company prepares for contingencies through the determination of an order of preference of persons to take the place of the convener and the chair person of the General Meeting of Shareholders and the Board of Directors, in the event that the convener and the chair person cannot so act. By determining this order of preference each year at the Board of Directors, the Company raises the awareness of each person as candidate for CEO and other top executives, as well as oversees the candidate's competence including his or her qualifications and management capabilities.

#### **Principle 4.2 Roles and Responsibilities of the Board (2)**

The board should view the establishment of an environment that supports appropriate risk-taking by the senior management as a major aspect of its roles and responsibilities. It should welcome proposals from the management based on healthy entrepreneurship, fully examine such proposals from an independent and objective standpoint with the aim of securing accountability, and support timely and decisive decision-making by the senior management when approved plans are implemented.

Also, the remuneration of the management should include incentives such that it reflects mid- to long-term business results and potential risks, as well as promotes healthy entrepreneurship.

- (1) For any proposals submitted to the Board, their reason and content are duly analyzed and discussed. Independent external directors state their opinions from the neutral and independent perspective through a free and open-minded discussion to secure the objectivity and enhance the supervisory function. Based on the above, the Board makes decisions in a rational manner through an adequate deliberation process to realize sustainable growth and secure transparency and fairness, while all directors present comply with their duties including the duty of due care of prudent manager.
- (2) The remuneration of individual directors (excluding directors who serve as members of the Audit and Supervisory Committee) is determined by the Board of directors based on advice from the Nomination and Remuneration Committee chaired by an external director to ensure its transparency and fairness.
- (3) The remuneration of the Company's directors (excluding external directors and directors who serve as members of the Audit and Supervisory Committee) consists of the fixed monthly remuneration and bonus for a single fiscal year but a medium- to long-term incentive plan has not yet been introduced.

#### **Supplementary Principle 4.2.1**

The board should design management remuneration systems such that they operate as a healthy incentive to generate sustainable growth, and determine actual remuneration amounts appropriately through objective and transparent procedures. The proportion of management remuneration linked to mid- to long-term results and the balance of cash and stock should be set appropriately.

The remuneration of the Company's directors (excluding external directors and directors who serve as members of the Audit and Supervisory Committee) consists of the fixed monthly remuneration and short-term performance-linked remuneration in the form of bonus payment in cash for a single fiscal year, which is determined by the Board of Directors after receiving advice from the Nomination and Remuneration Committee, a voluntary committee made up by a majority of independent external directors chaired by an independent external director. It should be noted that stock-based compensation plans using own shares such as those that are common overseas could give rise to the pursuit of short-term profit and excessive risk-taking. Therefore, the Company believes that the introduction of a stock-based compensation plan requires repeated discussions by the Board of Directors and the Nomination and Remuneration Committee, as well as thorough deliberation of the appropriateness of such a plan, and the Company has yet to introduce a stock-based compensation plan using its own shares.

#### **Principle 4.3 Roles and Responsibilities of the Board (3)**

The board should view the effective oversight of the management and directors from an independent and objective standpoint as a major aspect of its roles and responsibilities. It should appropriately evaluate company performance and reflect the evaluation in its assessment of the senior management.

In addition, the board should engage in oversight activities in order to ensure timely and accurate information disclosure, and should establish appropriate internal control and risk management systems.

Also, the board should appropriately deal with any conflict of interests that may arise between the company and its related parties, including the management and controlling shareholders.

- (1) The CEO, the COO and the CFO, who are responsible for the financial results of the Company, are appropriately appointed by the Board of Directors in consideration not only of the latest performance evaluation, but also of their qualitative evaluation including leadership, judgment, ability to make decisions, and foresight.
- (2) The Company ensures timely and accurate disclosure of information such as financial results for each period and other material information that are relevant to investment decisions, while striving to improve and operate the timely disclosure system to ensure

appropriate internal control and risk management.

- (3) Any conflict of interest transaction with a related party is subject to the prior resolution of the Board of Directors and the status of the transaction is also reported after it is carried out.

#### **Supplementary Principle 4.3.1**

The board should ensure that the appointment and dismissal of the senior management are based on highly transparent and fair procedures and reflect the results of company performance.

- (1) The Board of Directors appoints the senior management in comprehensive consideration of work experience, insight, expertise, the degree of contribution to the financial results of the Company, etc.
- (2) Any dismissal of the senior management is determined appropriate by the Board of Directors in consideration of the management's responsibility for the financial results of the Company.
- (3) The Company works to introduce a more rigorous process for the appointment and dismissal of the senior management with respect to, for example, the selection of the appropriate person.

#### **Supplementary Principle 4.3.2**

Because the appointment/dismissal of the CEO is the most important strategic decision for a company, the board should appoint a qualified CEO through objective, timely, and transparent procedures, deploying sufficient time and resources.

The appointment/dismissal of the CEO is determined by the Board of Directors based on advice from the Nomination and Remuneration Committee, a voluntary committee made up by a majority of independent external directors chaired by an independent external director, regarding the candidate's qualifications, capabilities for the execution of duties, track record and management skills, among others, to secure the trust of the stakeholders, as well as to ensure transparency and fairness of the appointment process.



**Supplementary Principle 4.3.3**

The board should establish objective, timely, and transparent procedures such that a CEO is dismissed when it is determined, via an appropriate evaluation of the company's business results, that the CEO is not adequately fulfilling the CEO's responsibilities.

In the dismissal of the CEO, the Board of Directors comprehensively takes into account such factors as the CEO's qualifications, management capabilities and whether there has been a significant scandal, and if it is determined that there has been a problem with the CEO's execution of duties, the Board of Directors, based on advice from the Nomination and Remuneration Committee, a voluntary committee made up by a majority of independent external directors chaired by an independent external director, to ensure objectivity and transparency, determines his or her dismissal.

**Supplementary Principle 4.3.4**

The establishment of effective internal control and proactive risk management systems for compliance and financial reporting has the potential of supporting sound risk-taking. The board should place priority on the appropriate establishment of such systems and the oversight of whether they effectively operate, and should not limit itself to the examination of compliance with respect to specific business operations.

- (1) Regarding the risk management system, the status of risk management is inspected by the Compliance Committee, which is chaired by an external director who is a lawyer, using the "Periodic Compliance Check Sheet" and other methods and the results are reported to the Board as necessary.
- (2) Internal controls over financial reporting process are reviewed by the Internal Audit Division and also audited by the accounting auditor. The results of these reviews and audits are then reported to the Board of Directors.

#### **Principle 4.4 Roles and Responsibilities of *Kansayaku* and the *Kansayaku* Board**

*Kansayaku* and the *kansayaku* board should bear in mind their fiduciary responsibilities to shareholders and make decisions from an independent and objective standpoint when executing their roles and responsibilities including the audit of the performance of directors' duties, appointment and dismissal of external auditors and the determination of auditor remuneration.

Although so-called "defensive functions," such as business and accounting audits, are part of the roles and responsibilities expected of *kansayaku* and the *kansayaku* board, in order to fully perform their duties, it would not be appropriate for *kansayaku* and the *kansayaku* board to interpret the scope of their function too narrowly, and they should positively and proactively exercise their rights and express their views at board meetings and to the management.

- (1) The Audit and Supervisory Committee of the Company consists of three members including two external directors. The Committee includes two full-time members of the Audit and Supervisory Committee and is chaired by an external director.
- (2) The Audit and Supervisory Committee develops the audit policy and discusses audit results. It also submits to the representative director any deficiencies and recommendations pointed out by the Committee as well as the accounting auditor and exchanges opinions and information with the accounting auditor as appropriate.
- (3) The Audit and Supervisory Committee members also attend the Board of Directors' meetings and other important meetings to check the execution of duties by the directors to ensure its legal compliance and appropriateness by, for example, stating objective and fair opinions.
- (4) The Audit and Supervisory Committee supervises the staff members of the Internal Audit Division, etc., directly under it in order to conduct organized audits utilizing the internal control system, and the Audit and Supervisory Committee members designated by the Audit and Supervisory Committee conduct field audits as necessary.

#### **Supplementary Principle 4.4.1**

Given that not less than half of the *kansayaku* board must be composed of outside *kansayaku* and that at least one full-time *kansayaku* must be appointed in accordance with the Companies Act, the *kansayaku* board should, from the perspective of fully executing its roles and responsibilities, increase its effectiveness through an organizational combination of the independence of the former and the information gathering power of the latter. In addition, *kansayaku* or the *kansayaku* board should secure cooperation with outside directors so that such directors can strengthen their capacity to collect information without having their independence jeopardized.

- (1) To inspect any execution of duties by the directors involving a violation of laws and regulations or the articles of incorporation or extremely unjust acts, the Audit and Supervisory Committee and the audit and supervisory committee members designated by said committee attend the meetings of the Board of Directors and other important meetings, conduct on-site audits, solicit reports from directors, corporate officers and employees and investigate business properties. Furthermore, they also understand the status of management and operation through operational audits, inspect important approval documents, conduct on-site inspection of individual offices and subsidiaries, and otherwise communicate with various departments.
- (2) In addition, the Audit and Supervisory Committee gives instructions to the Internal Audit Division, etc., as appropriate to perform duties and conducts effective audits through close coordination with the accounting auditor.

#### **Principle 4.5 Fiduciary Responsibilities of Directors and *Kansayaku***

With due attention to their fiduciary responsibilities to shareholders, the directors, *kansayaku* and the management of companies should secure the appropriate cooperation with stakeholders and act in the interest of the company and the common interests of its shareholders.

- (1) The Company regards the improvement of corporate governance as one of the important management issues.
- (2) Accordingly, the Company strives to increase management transparency and soundness and to put in place a system that allows us to respond to the changes in the environment, thereby working to increase the satisfaction of shareholders, customers, employees, and other stakeholders.

**Principle 4.6 Business Execution and Oversight of the Management**

In order to ensure effective, independent and objective oversight of the management by the board, companies should consider utilizing directors who are neither involved in business execution nor have close ties with the management.

The Company has appointed three external directors out of eight directors (excluding those who serve as members of the Audit and Supervisory Committee) and, including three directors who serve as members of the Audit and Supervisory Committee (two of which are external directors), five external directors, as well as six non-executive directors, or majority of the board are included in the eleven board members in total. Non-executive directors audit and supervise the legality and validity of business execution properly through information gathering and the opinion exchange of opinions as appropriate.

**Principle 4.7 Roles and Responsibilities of Independent Directors**

Companies should make effective use of independent directors, taking into consideration the expectations listed below with respect to their roles and responsibilities:

- i) Provision of advice on business policies and business improvement based on their knowledge and experience with the aim to promote sustainable corporate growth and increase corporate value over the mid- to long-term;
- ii) Monitoring of the management through important decision-making at the board including the appointment and dismissal of the senior management;
- iii) Monitoring of conflicts of interest between the company and the management or controlling shareholders; and
- iv) Appropriately representing the views of minority shareholders and other stakeholders in the boardroom from a standpoint independent of the management and controlling shareholders.

- (1) The Company believes that proper risk control by the Board of Directors will play an important role in the implementation of its growth strategies such as the mid-term business plan.
- (2) The Company believes that an essential role is played by independent external directors who have no economic or psychological dependence on the Company or its senior management, while having the “spirit of acting according to one's own beliefs” and being willing to speak frankly.

- (3) The current independent external directors of the Company have been selected from those in legal community, business community and civil service background who have a wide variety of knowledge experience. In addition, the total number of current independent external directors is five, consisting of three independent external directors who are not members of the Audit and Supervisory Committee and two independent external directors who serve as members of the Audit and Supervisory Committee. As a result, the three independent external directors each conducts appropriate supervision by offering opinions and advice as appropriate either at the board meetings or at the Audit and Supervisory Committee based on their outstanding insight and extensive experience.

#### **Principle 4.8 Effective Use of Independent Directors**

Independent directors should fulfill their roles and responsibilities with the aim of contributing to sustainable growth of companies and increasing corporate value over the mid- to long-term. Companies should therefore appoint at least two independent directors that sufficiently have such qualities.

Irrespective of the above, if a company believes it needs to appoint at least one-third of directors as independent directors based on a broad consideration of factors such as the industry, company size, business characteristics, organizational structure and circumstances surrounding the company, it should appoint a sufficient number of independent directors.

- (1) The Company is working to strengthen the supervisory function of the Board of Directors by appointing more than one independent external directors and make the most of them in order to increase management transparency from the external perspective.
- (2) The Company ensures that independent external directors are selected from experts in such fields as corporate management, risk management, legal, accounting/tax, and administration, in consideration of their independence and objectivity.
- (3) The Company also strives to increase the effectiveness of the Board and improve profitability by appointing highly independent external directors so that, in principle, more than one-third of directors of the Company are external directors.  
Currently, five (over one-third) out of the eleven directors of the Company are external directors, each of whom has outstanding insight and expertise.

#### **Supplementary Principle 4.8.1**

In order to actively contribute to discussions at the board, independent directors should endeavor to exchange information and develop a shared awareness among themselves from an independent and objective standpoint. Regular meetings consisting solely of independent directors (executive sessions) would be one way of achieving this.

- (1) Independent external directors excluding those who serve as members of the Audit and Supervisory Committee (three persons), independent external directors who serve as members of the Audit and Supervisory Committee (two persons) and a non-executive directors who serve as members of the Audit and Supervisory Committee review the business execution of directors together through information gathering and the sharing of perspectives in order to perform their duties appropriately.
- (2) The Company does not hold regular meetings consisting solely of independent external directors, since the Company has established the Nomination and Remuneration Committee and the Compliance Committee as voluntary committees, and shares understanding through the activities of such committees.
- (3) In order to execute their duties properly, independent external directors, with their independent points of views, conduct information gathering and exchange of opinions with persons in charge of business execution such as executive directors, corporate officers, and employees, as necessary.

#### **Supplementary Principle 4.8.2**

Independent directors should endeavor to establish a framework for communicating with the management and for cooperating with *kansayaku* or the *kansayaku* board by, for example, appointing the lead independent director from among themselves.

Independent external directors excluding those who serve as members of the Audit and Supervisory Committee (three persons) and independent external directors (two persons) and a non-executive directors who serve as members of the Audit and Supervisory Committee make efforts to ensure the appropriate functioning of audits and supervision by establishing opportunities to exchange opinions and share understanding, as well as conducting meetings with top management as appropriate.

#### **Principle 4.9 Independence Standards and Qualification for Independent Directors**

Boards should establish and disclose independence standards aimed at securing effective independence of independent directors, taking into consideration the independence criteria set by securities exchanges. The board should endeavor to select independent director candidates who are expected to contribute to frank, active and constructive discussions at board meetings.

- (1) The Company established judgment criteria of independence of External Director by which the Company makes judgment that he/she should be independent External Director if he/she does not fall under any of the following events:
  - (i) A business executer of the Company group (“the Company and its consolidated subsidiaries” and the same applicable hereinafter) currently or in the past ten (10) years;
  - (ii) A main business partner or a business executer of such business partner (enterprise and the like), “main” meaning that an amount involved in transactions between the Company group and the business partner accounts for not less than one (1) % of the Company group or the business partner (as the case may be) on an annual basis;
  - (iii) A person or enterprise having main business relationship with the Company group or a business executer of such enterprise, “main” meaning that an amount involved in transactions between the Company group and such enterprise accounts for not less than one (1) % of the Company group or such enterprise (as the case may be) on an annual basis;
  - (iv) The principle shareholders of the Company (holding 10% or more of the total voting rights) or a business executer of such shareholder or corporation of which the Company group is principle shareholder;
  - (v) A business executer of organization or corporation to which the Company group donated, financed or guaranteed in a large amount;
  - (vi) A business executer of corporation with which the Company group has cross Directorship;
  - (vii) Lawyer, certified public accountant, consultant and the like who received ¥10 million or more in cash or assets per annum (in case of corporation or association who receives such assets, person belonging to such corporation or association that an amount involved in transactions between the Company group accounts for not less than one (1) % of the consolidated net sales or trading value of the Company group (as the case may be) on an annual basis) and ¥10 million or more.
  - (viii) In case of (ii) to (vii) above, person falling under any of business year in the past five (5) years; and
  - (ix) Spouse or relative within the second degree of kinship of the person falling under any of (i) to (viii) above.

- (2) The nomination of candidates for an independent external director position of the Company is determined by the Board based on advice from the Nomination and Remuneration Committee.
- (3) None of the five current external directors of the Company has been a person in charge of business execution at the Company or its affiliates. In addition, the amount of transactions between the Company and major business partners, major shareholders and the law firm to which the director belongs is less than 1% of the consolidated net sales or the total transaction amount of either side and less than 10 million yen excluding the director remuneration.

#### **Principle 4.10 Use of Optional Approach**

In adopting the most appropriate organizational structure (as stipulated by the Companies Act) that is suitable for a company's specific characteristics, companies should employ optional approaches, as necessary, to further enhance governance functions.

- (1) The Company has adopted the Audit and Supervisory Committee with an aim to further strengthen corporate governance.
- (2) The Company has also adopted the "Shikko Yakuin"(corporate officer) system. Under the clear separation of the roles of the Board of Directors, which is responsible for making decisions on management policies, and those of corporate officers, who are responsible for business execution, smooth and agile business development is attainable and the management efficiency has been improved.
- (3) The Company has established the Nomination and Remuneration Committee and the Compliance Committee as voluntary advisory organizations for the Board of Directors in order to support the appropriate functioning of corporate governance. Furthermore, each of these committees is made up of by a majority of external directors and chaired by an external director.



#### **Supplementary Principle 4.10.1**

If the organizational structure of a company is either Company with *Kansayaku* Board or Company with Supervisory Committee and independent directors do not compose a majority of the board, in order to strengthen the independence, objectivity and accountability of board functions on the matters of nomination and remuneration of the senior management and directors, the company should seek appropriate involvement and advice from independent directors in the examination of such important matters as nominations and remuneration by establishing independent advisory committees under the board, such as an optional nomination committee and an optional remuneration committee, to which independent directors make significant contributions.

- (1) The Company has appointed independent external directors excluding those who serve as members of the Audit and Supervisory Committee (three persons) and independent external directors (two persons) and one non-executive directors who serve as members of the Audit and Supervisory Committee and thereby aims to enhance the audits and supervision of the Company through a lineup of this variety of talented persons. The Company is working to strengthen the supervision of the management by receiving opinions, advice, checks, etc., from these external directors to increase the transparency and reliability as well as the effectiveness of the Board.
- (2) In addition, in order to make the further functioning of corporate governance, the Company has established three committees which consist of the mandatory Audit and Supervisory Committee, as well as the Nomination and Remuneration Committee, and the Compliance Committee as voluntary advisory organizations for the Board of Directors.  
Both the Audit and Supervisory Committee and the Nomination and Remuneration Committee are made up of a majority of independent external directors and chaired by an independent external director.  
The Compliance Committee consist of equal independent external directors and internal directors, chaired by an independent director.
- (3) The nomination of candidates for the position of director of the Company is determined by the Board based on advice from the Nomination and Remuneration Committee as a voluntary committee. Furthermore, the remuneration of individual directors (excluding those who serve as Audit and Supervisory Committee members), the total amount of which is approved by the general meeting of shareholders, is determined by the Board based on advice from the Nomination and Remuneration Committee as a voluntary committee. It should be noted that the remuneration of individual directors who serve as Audit and Supervisory Committee members is determined through discussions by the directors who serve as Audit and Supervisory Committee members.

#### **Principle 4.11 Preconditions for Board and *Kansayaku* Board Effectiveness**

The board should be well balanced in knowledge, experience and skills in order to fulfill its roles and responsibilities, and it should be constituted in a manner to achieve both diversity, including gender and international experience, and appropriate size. In addition, persons with appropriate experience and skills as well as necessary knowledge on finance, accounting, and the law should be appointed as *kansayaku*. In particular, at least one person who has sufficient expertise on finance and accounting should be appointed as *kansayaku*.

The board should endeavor to improve its function by analyzing and evaluating effectiveness of the board as a whole.

- (1) The Company appoints independent external directors in comprehensive consideration of their personal characteristics, insight, important positions held, legal expertise, management skills demonstrated at other companies, work experience, performance, personal connections in business community, etc. In terms of diversity, while a certain percentage of the Company's corporate officers and employees consist of women and foreign nationals (Female managers account for 9.5% of the total number of managers, while foreign national employees account for 4.9% of the total number of employees), the Company does not have any female or foreign national directors. Five (over one-third) out of the eleven directors of the Company are currently independent external directors. The Company is working to strengthen the supervision of the management by receiving opinions, advice, etc., from these external directors to increase the transparency and reliability as well as the effectiveness of the Board.
- (2) In addition, the Audit and Supervisory Committee consists of two former corporate auditors and one external director, two of whom has knowledge of finance and accounting, all of whom conduct audits and supervision from a diversified perspective based on their excellent insight, expertise and extensive experience in their respective fields.

#### **Supplementary Principle 4.11.1**

The board should have a view on the appropriate balance between knowledge, experience and skills of the board as a whole, and also on diversity and appropriate board size. Consistent with its view, the board should establish policies and procedures for nominating directors and disclose them along with its view.

- (1) The nomination of candidates for the position of director of the Company is determined by the Board based on advice from the Nomination and Remuneration Committee as a voluntary committee.
- (2) Each of executive directors, external directors, and directors who serve as members of the Audit and Supervisory Committee each fulfills his/her own roles and responsibilities by, for example, making necessary statements as appropriate based on their extensive experience, expertise, and insight in such broad fields as corporate management, risk management, legal, accounting/tax, and civil service administration, thereby striving to optimize the Board of Directors as a whole.

#### **Supplementary Principle 4.11.2**

Outside directors, outside *kansayaku*, and other directors and *kansayaku* should devote sufficient time and effort required to appropriately fulfill their respective roles and responsibilities. Therefore, where directors and *kansayaku* also serve as directors, *kansayaku* or the management at other companies, such positions should be limited to a reasonable number and disclosed each year.

The status of concurrent positions held by directors is disclosed annually in the notice of convocation of the ordinary general meeting of shareholders, and in "Yuka Shoken Hokokusho" (annual securities reports), etc. As the concurrent positions held by directors fall within the reasonable range including positions at the Company's subsidiaries, directors are executing their duties as directors of the Company appropriately.

**Supplementary Principle 4.11.3**

Each year the board should analyze and evaluate its effectiveness as a whole, taking into consideration the relevant matters, including the self-evaluations of each director. A summary of the results should be disclosed.

Each year, the Company works on improving the functions of the Board of Directors (such as making discussions active and reviewing matters to be discussed at the Board of Directors' meetings) in addition to the efforts to exchange opinions among executive directors and external directors as deemed required to make improvement on performance of the Board of Directors, and substantively takes action based on this Principle including making efforts to gain stakeholders' confidence through constructive dialogue with shareholders and institutional investors, etc. However, the Company has not conducted any analysis/evaluation in specific terms (e.g., questionnaire surveys, interviews) regarding the effectiveness of the Board of Directors as a whole, as the Company has not found that such analysis/evaluation would be particularly useful to date.

#### **Principle 4.12 Active Board Deliberations**

The board should endeavor to foster a climate where free, open and constructive discussions and exchanges of views take place, including the raising of concerns by outside directors.

Five (over one-third) out of the eleven directors of the Company are currently independent external directors. The Board is chaired by the Chairman and Representative Director, who ensures that external directors consisting of diverse and talented members with different expertise can express their opinions.

#### **Supplementary Principle 4.12.1**

The board should ensure the following in relation to the operation of board meetings and should attempt to make deliberations active:

- i) Materials for board meetings are distributed sufficiently in advance of the meeting date;
- ii) In addition to board materials and as necessary, sufficient information is provided to directors by the company (where appropriate, the information should be organized and/or analyzed to promote easy understanding);
- iii) The schedule of board meetings for the current year and anticipated agenda items are determined in advance;
- iv) The number of agenda items and the frequency of board meetings are set appropriately; and
- v) Sufficient time for deliberations.

- (1) The Company prepares the annual schedule of the meeting of Board of Directors. The meetings are held from time to time. The Board also holds meetings on an ad hoc basis as necessary.
- (2) The Company makes efforts to enable productive deliberations and streamline the Board of Directors through the delegation of authorities regarding certain important matters on business execution, including personnel relocation and reorganization, to the representative director, aiming at reducing the matters to be discussed at the Board of Directors' meetings.
- (3) The Company strives to prepare materials for board meetings in a manner to allow the directors to easily understand their outline.

#### **Principle 4.13 Information Gathering and Support Structure**

In order to fulfill their roles and responsibilities, directors and *kansayaku* should proactively collect information, and as necessary, request the company to provide them with additional information.

Also, companies should establish a support structure for directors and *kansayaku*, including providing sufficient staff.

The board and the *kansayaku* board should verify whether information requested by directors and *kansayaku* is provided smoothly.

- (1) Directors and directors who serve as members of the Audit and Supervisory Committee request the departments concerned to submit relevant materials for any information that is necessary for their execution of duties. The departments concerned respond to such a request promptly and appropriately to satisfy their needs.
- (2) In addition, the staff of the Executive Secretariat Office and the Internal Audit Division provide assistance to external directors excluding directors who serve as members of the Audit and Supervisory Committee and external directors and non-executive directors who serve as members of the Audit and Supervisory Committee to enable those directors to perform their duties in a smooth manner.

#### **Supplementary Principle 4.13.1**

Directors, including outside directors, should request the company to provide them with additional information, where deemed necessary from the perspective of contributing to transparent, fair, timely and decisive decision-making. In addition, *kansayaku*, including outside *kansayaku*, should collect information appropriately, including the use of their statutory investigation power.

- (1) If the information at hand is insufficient, directors shall request the department that submitted the proposal to provide necessary information and materials to make appropriate decisions. Corporate officers in charge attend the board meetings as appropriate to provide the explanation of the agenda and to answer any questions so that external directors can make timely and appropriate decisions on the agenda.
- (2) The Audit and Supervisory Committee directly supervises the Internal Audit Division, etc., with which said committee exchanges opinions and information to enhance the effectiveness and efficiency of the audit function. In addition, sixteen dedicated staff support directors who serve as members of the Audit and Supervisory Committee to enable those directors to perform their duties in a smooth and appropriate manner.

### **Supplementary Principle 4.13.2**

Directors and *kansayaku* should consider consulting with external specialists at company expense, where they deem it necessary.

- (1) Our directors consist of a variety of talented persons including two legal specialists qualified as lawyers, as well as one who has insight into finance and accounting, one who was engaged in police administration and one who has been engaged in business execution for a long time.
- (2) In addition, there are a number of officers who have broad personal relationships in the gaming industry and the business community, as well as directors who have actual management experience at other companies, and they share information and exchange opinions as appropriate.
- (3) The Company has also established a necessary support system including the necessary budget to prepare for cases where services of external experts such as consultants are necessary to ensure that directors and directors who serve as members of the Audit and Supervisory Committee can execute their duties smoothly and appropriately.

### **Supplementary Principle 4.13.3**

Companies should ensure coordination between the internal audit department, directors and *kansayaku*. In addition, companies should take measures to adequately provide necessary information to outside directors and outside *kansayaku*. One example would be the appointment of an individual who is responsible for communicating and handling requests within the company such that the requests for information about the company by outside directors and outside *kansayaku* are appropriately processed.

- (1) The Company has established Internal Audit Division, etc., which is independent from business execution departments, as internal audit organizations.
- (2) Furthermore, the Audit and Supervisory Committee supervises, gives instructions to, and exchanges information with the Internal Audit Division, etc., in order to enhance the effectiveness and efficiency of the audit function as appropriate.

**Principle 4.14 Director and *Kansayaku* Training**

New and incumbent directors and *kansayaku* should deepen their understanding of their roles and responsibilities as a critical governance body at a company, and should endeavor to acquire and update necessary knowledge and skills. Accordingly, companies should provide and arrange training opportunities suitable to each director and *kansayaku* along with financial support for associated expenses. The board should verify whether such opportunities and support are appropriately provided.

The Company believes that it is providing sufficient information to directors to help them obtain sufficient knowledge and endeavor to improve their knowledge and skills so that all directors can fulfill their expected roles and responsibilities. The Company also responds sufficiently to any request of individual directors and directors for such support as the reimbursement of the cost for attending seminars or conducting exchanges of information, as necessary and appropriate.

**Supplementary Principle 4.14.1**

Directors and *kansayaku*, including outside directors and outside *kansayaku*, should be given the opportunity when assuming their position to acquire necessary knowledge on the company's business, finances, organization and other matters, and fully understand the roles and responsibilities, including legal liabilities, expected of them. Incumbent directors should also be given a continuing opportunity to renew and update such knowledge as necessary.

The Company ensures that new directors receive the explanation of the Company's business, financial position, organization, from the senior management when they assume their position. They are also provided with an opportunity to visit individual offices of the Company and the Company furnishes them with the information about the business environment.

The Company also intends to respond sufficiently to any request of individual directors for such opportunities, as necessary and appropriate.



#### Supplementary Principle 4.14.2

Companies should disclose their training policy for directors and *kansayaku*.

- (1) As stated in Principle 4.14.1, the Company ensures that all necessary information about the business and its operations are timely provided to the Directors including physical site verification.
- (2) There are legal and accounting/tax professionals among the members of the Board of Directors and those members have been giving tips at board meetings regarding legal and other relative issues.
- (3) In addition, as part of the efforts to execute the audit function appropriately, directors who serve as members of the Audit and Supervisory Committee are taking necessary seminars to improve their audit skills, such as the ones provided by the Japan Audit & Supervisory Board Members Association.

## Section 5: Dialogue with Shareholders

### **General Principle 5**

In order to contribute to sustainable growth and the increase of corporate value over the mid-to long-term, companies should engage in constructive dialogue with shareholders even outside the general shareholder meeting.

During such dialogue, senior management and directors, including outside directors, should listen to the views of shareholders and pay due attention to their interests and concerns, clearly explain business policies to shareholders in an understandable manner so as to gain their support, and work for developing a balanced understanding of the positions of shareholders and other stakeholders and acting accordingly.

- (1) The Company strives to promote the understanding and support of shareholders for our management policies and growth strategies through the active and constructive dialogue with those parties. The Company also believes that properly reflecting the voices of shareholders and investors in the management will lead to a medium- to long-term increase in the corporate value of the Company.
- (2) The Company believes that by achieving sustainable growth, we will be able to fulfill the expectations of our stakeholders those who are shareholders, institutional investors, business partners and our employees.

### **Principle 5.1 Policy for Constructive Dialogue with Shareholders**

Companies should, positively and to the extent reasonable, respond to the requests from shareholders to engage in dialogue (management meetings) so as to support sustainable growth and increase corporate value over the mid- to long-term. The board should establish, approve and disclose policies concerning the measures and organizational structures aimed at promoting constructive dialogue with shareholders.

- (1) The Company has long emphasized the dialogue with shareholders to create a relationship of trust with them. Persons in charge such as the Director and Executive Corporate Officer (CFO), as well as the Senior Manager of Public Relations & Investor Relations Section, are conducting dialogue/meetings with shareholders.
- (2) They explain the management policy, financial strategy, etc., through face-to-face interviews with shareholders/investors to promote deeper understanding of the Company. Increasing “Capcom fans” in this manner will lead to the acquisition of long-term shareholders and a desirable shareholder composition.

- (3) The Company establishes the basic SR (Shareholder Relations) policy and SR activity programs as appropriate and makes efficient and timely responses based on detailed scheduling.

**Supplementary Principle 5.1.1**

Taking the requests and interests of shareholders into consideration, to the extent reasonable, the senior management and directors, including outside directors, should have a basic position to engage in dialogue (management meetings) with shareholders.

- (1) The Company is constituted to be able to conduct interviews with shareholders appropriately. Officers and managers in charge such as the Director and Executive Corporate Officer (CFO), General Manager of General Affairs Department, and Senior Manager of Public Relations & Investor Relations Section contact shareholders through visits and the acceptance of visits to the extent reasonable to respond to the needs of the shareholders.
- (2) The Company recognizes that explaining the status of the management, business plans, etc., through dialogue and promoting mutual understanding and the relationship of trust to enhance the trust in the Company and improve its corporate image will contribute to the proper price formation of the shares of the Company.

### **Supplementary Principle 5.1.2**

At minimum, policies for promoting constructive dialogue with shareholders should include the following:

- i) Appointing a member of the management or a director who is responsible for overseeing and ensuring that constructive dialogue takes place, including the matters stated in items ii) to v) below;
- ii) Measures to ensure positive cooperation between internal departments such as investor relations, corporate planning, general affairs, corporate finance, accounting and legal affairs with the aim of supporting dialogue;
- iii) Measures to promote opportunities for dialogue aside from individual meetings (e.g., general investor meetings and other IR activities);
- iv) Measures to appropriately and effectively relay shareholder views and concerns learned through dialogue to the senior management and the board; and
- v) Measures to control insider information when engaging in dialogue.

- (1) The Director and Executive Corporate Officer (CFO) who are in charge of IR and SR are actively visiting domestic and foreign shareholders and institutional investors. The Company also conducts solid communications with shareholders through small group meetings and results briefings.
- (2) The Public Relations & Investor Relations Section, which is in charge of IR, and the team in the General Affairs Department, which is in charge of SR, coordinate with each other. They also share information with other departments concerned such as the Corporate Planning Department and Finance and Accounting Department on a company-wide basis.
- (3) The outline of our IR activities is described in “III-2. Status of IR-Related Activities” of the Corporate Governance report.
- (4) Necessary information obtained through dialogue is reported to the top executives and other parties concerned by interview reports and other means. The Company also strives to build a relationship of trust with shareholders by reflecting their demands and opinions in the management.
- (5) In promoting such dialogue, the Company pays sufficient attention to the current status and management strategies of the Company to prevent any violation of insider information requirements such as information leakage.

**Supplementary Principle 5.1.3**

Companies should endeavor to identify their shareholder ownership structure as necessary, and it is desirable for shareholders to cooperate as much as possible in this process.

In principle, the Company confirms the shareholders registered in the shareholder registry and conducts a shareholder identification research twice a year to identify beneficial owners/asset managers who materially hold the shares of the Company.

**Principle 5.2 Establishing and Disclosing Business Strategies and Business Plan**

When establishing and disclosing business strategies and business plans, companies should articulate their earnings plans and capital policies, and present targets for profitability and capital efficiency after accurately identifying the company's cost of capital. Also, companies should provide explanations that are clear and logical to shareholders with respect to the allocation of management resources, such as reviewing their business portfolio and investments in fixed assets, R&D, and human resources, and specific measures that will be taken in order to achieve their plans and targets.

In order to realize a medium/long-term enhancement of the corporate value, the Company has been implementing aggressive business expansion strategies aiming to achieve steady growth in operating income each fiscal year. To this end, the Company is striving to improve capital efficiency such as ROE and etc. through profitability improvement and the acquisition of own shares. The Company, taking into account capital costs, is engaged in flexible corporate management including the revision of management strategies and business portfolios in line with the changes to the business environment. Additionally, it is making priority investments of its management resources into increasing development personnel and improving the development environment, in order to focus on the development of home video games, the basis of its management and the driving force behind its growth. The Company will continue to provide adequate explanation of the results of these efforts at financial results briefings and ordinary general meetings of shareholders.