1. Operating Results

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

Under these circumstances, the Company’s flagship title *Monster Hunter: World* (for PlayStation 4 and Xbox One), which was released worldwide in January 2018, significantly contributed to the Company’s performance after garnering immense popularity for its near-flawless execution and shipping more than 7.9 million units worldwide, a landmark achievement that made it the bestselling game in the Company’s history. Of particular note is that the worldwide expansion of the user base due to the game’s tremendous success overseas—in addition to its established domestic popularity—has marked the start of a new era for the brand, and that this international recognition has served to energize the Company’s global operations. The Company has made strategic preparations for a full-scale entry into the esports business in Japan, which include the establishment of the Capcom Esports Club at the Plaza Capcom arcade in Kichijoji (Tokyo). Additionally, the Company strove to bolster its management structure, enhance its development team and improve its development environment, enabling it to focus on home video game software development, which is the source of its competitiveness. Further, in addition to one-time physical product sales, the Company concentrated its efforts on expanding its digital offerings, which promise recurring revenues.

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

2. Revenue and Profits

(1) Net sales

In this fiscal year, net sales were 94,515 million yen (up 8.4% from the previous fiscal year). This increase was driven primarily by our core Digital Contents and Amusement Equipments businesses. In Digital Contents, *Monster Hunter: World* was a record hit, while *Resident Evil 7 biohazard* and other catalog titles also contributed to increased net sales, especially in digital downloads.

In the Amusement Equipments business, sales of our pachislo machines were down 35,000 units year over year due to the impact of model testing methods and legal amendments of recent years. Overall, however, favorable growth of the Digital Contents business offset this, resulting in a 7,345 million yen increase in consolidated net sales over the previous fiscal year.

(2) Operating income

Cost of sales increased to 59,895 million yen (up 6.1% from the previous fiscal year) and the cost of sales ratio was 63.4%, down 1.3 percentage points from the previous fiscal year. The cost of sales ratio has decreased in conjunction with the increase in sales stemming mainly from the hit success of major titles.

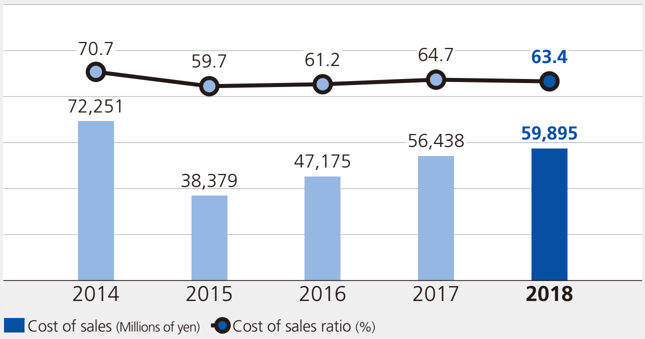
Selling, general and administrative (SG&A) expenses were 18,582 million yen (up 8.8% from the previous fiscal year) and SG&A as a percentage of sales was 19.7%, up 0.1 percentage points compared with the previous fiscal year. The cause of the increase in SG&A was increased variable costs associated with increased sales, and the SG&A expenses ratio overall was in-line with the 19.9% figure in the initial plan.

As a result, operating income was 16,037 million yen (up 17.5% from the previous fiscal year), the highest ever and the fifth consecutive year of income growth. The operating margin also increased to 17.0%, up 1.3 percentage points compared with the previous fiscal year.

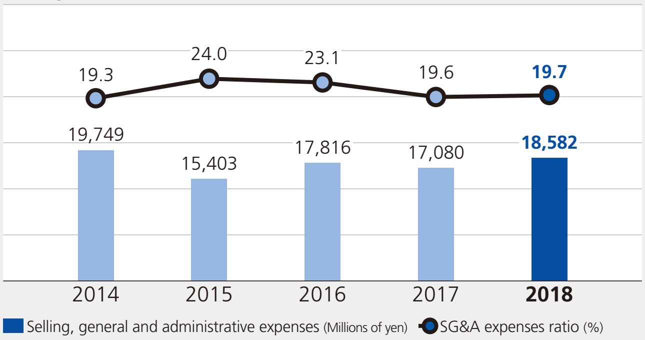
(3) Net income attributable to owners of the parent

Despite recording an exchange loss, net of 407 million yen this year under non-operating expenses, ordinary income increased to 15,254 million yen (up 21.2% from the previous fiscal year), following the increase in operating income.

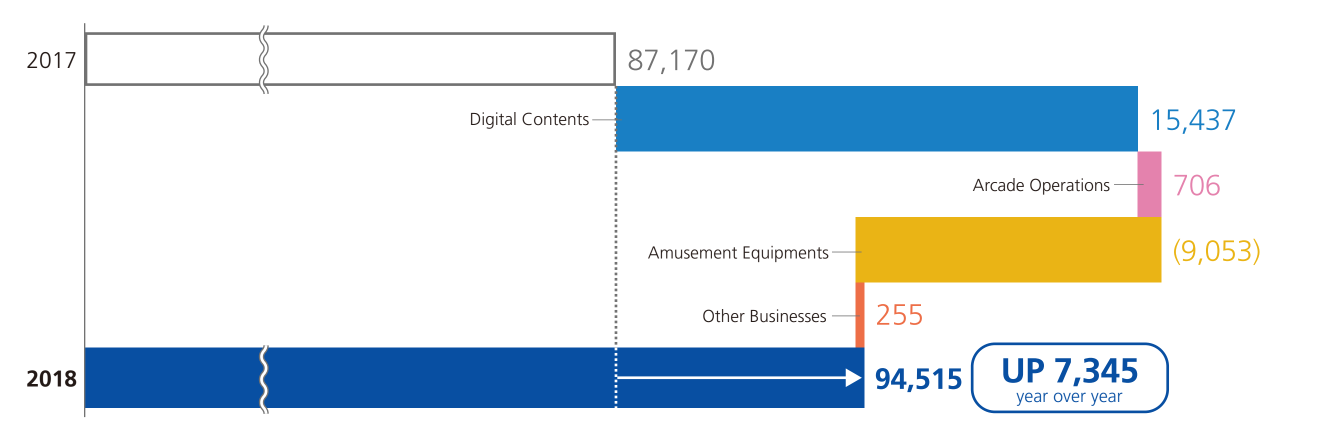
Cost of Sales / Cost of Sales Ratio



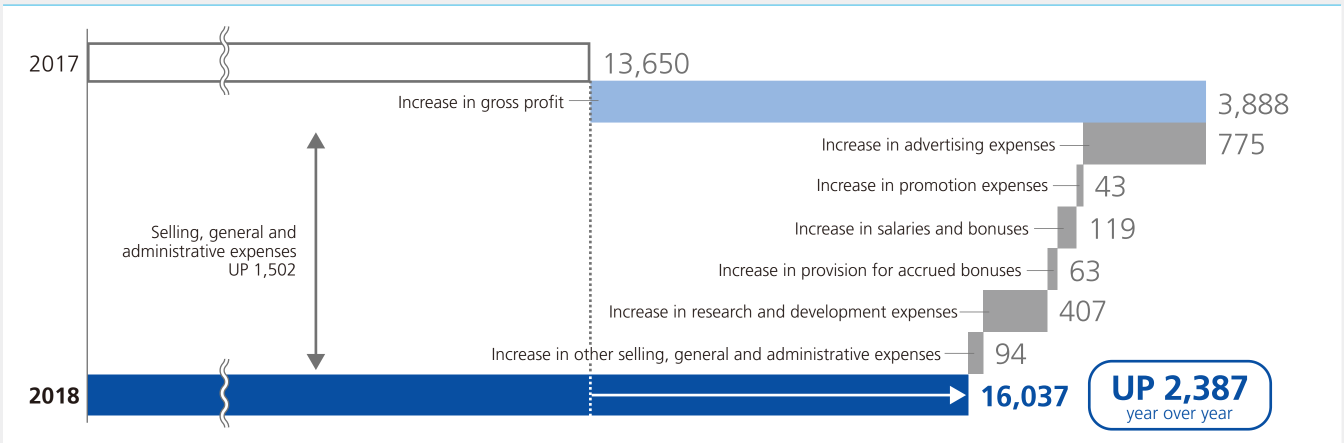
Selling, General and Administrative Expenses / SG&A Expenses Ratio



Net Sales (Millions of yen)



Operating Income (Millions of yen)



As a result of these increases in income, net income attributable to owners of the parent amounted to 10,937 million yen (up 23.2% from the previous fiscal year) and the net margin came to 11.6% (up 1.4 percentage points from the previous fiscal year), making all income items the highest in company history.

3. Analysis of Assets, Liabilities and Net Assets

(1) Assets

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

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

(2) Liabilities

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

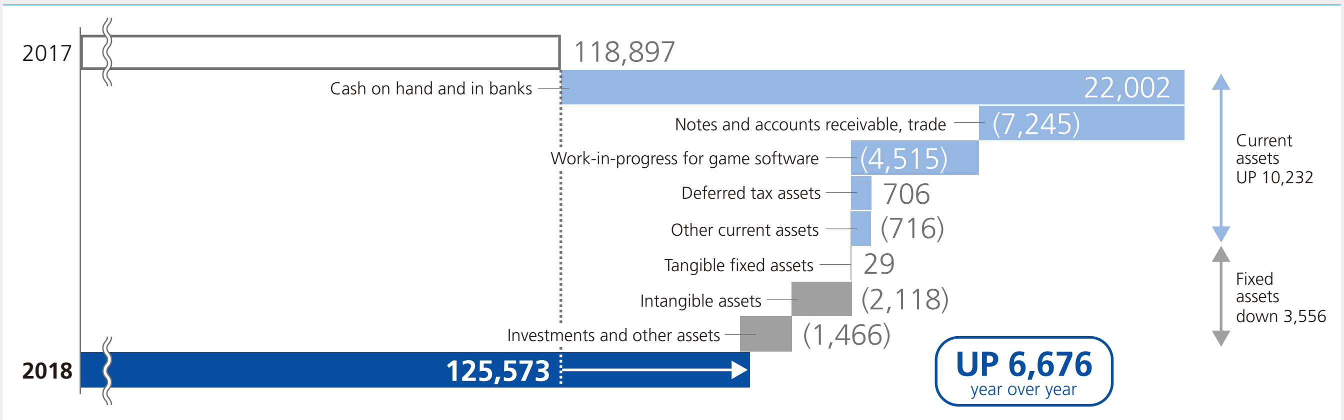
The primary increases were 2,873 million yen in accrued income taxes and 1,526 million yen in long-term borrowings. The primary decreases were 7,849 million yen in short-term borrowings and 4,046 million yen in electronically recorded monetary obligations.

(3) Net assets

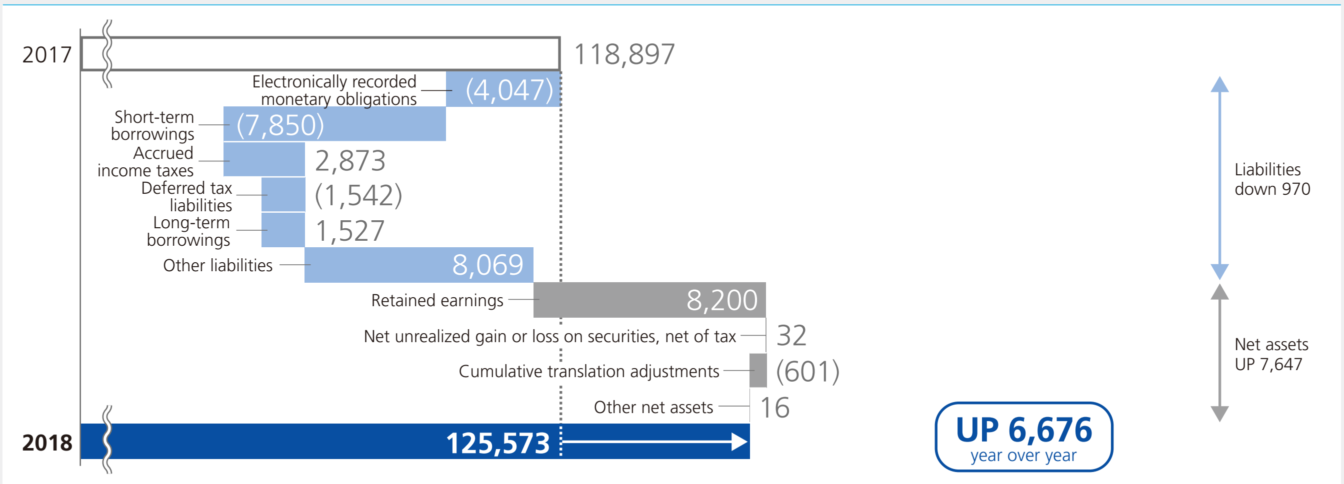
Net assets as of the end of the fiscal year ended March 31, 2018 increased by 7,646 million yen from the end of the previous fiscal year to 85,421 million yen.

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

Assets (Millions of yen)



Liabilities, Net Assets (Millions of yen)



4. Analysis of Cash Flow

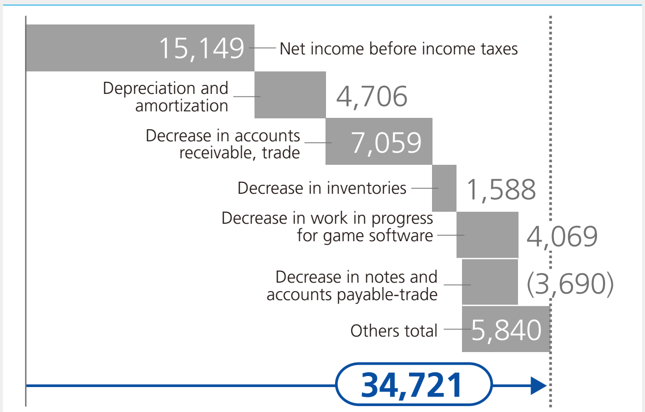
Cash and cash equivalents as of the end of the fiscal year ended March 31, 2018 increased by 22,201 million yen from the end of the previous fiscal year to 46,539 million yen. Cash flow positions of each activity and their factors are described below.

(1) Cash flows from operating activities

Net cash gained from operating activities was 34,721 million yen (3,200 million yen in the previous fiscal year).

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

Cash Flows from Operating Activities (Millions of yen)



(2) Cash flows from investing activities

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

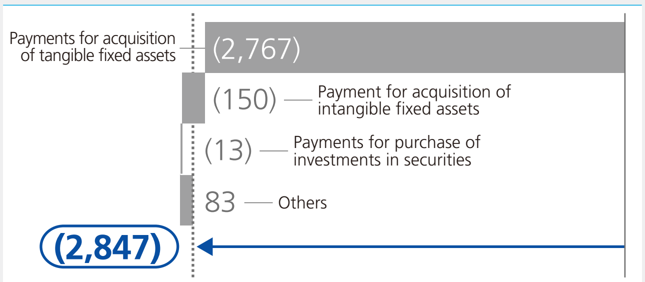
The primary item used was 2,767 million yen in payment for acquisitions of tangible fixed assets (3,074 million yen in the previous fiscal year).

(3) Cash flows from financing activities

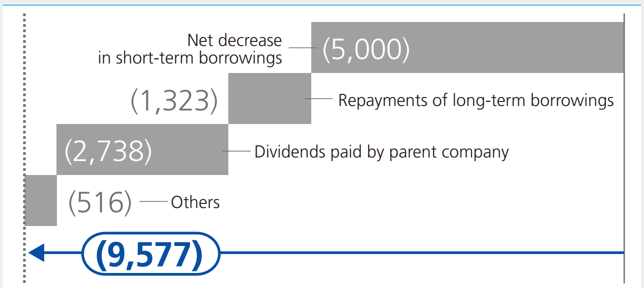
Net cash used in financing activities was 9,577 million yen (3,130 million yen invested in the previous fiscal year).

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

Cash Flows from Investing Activities (Millions of yen)



Cash Flows from Financing Activities (Millions of yen)



5. Our Financial Strengths

(1) High profitability of core business

Our medium-term goal is stable growth of operating income. We aim to achieve both improved profitability and profit growth by increasing development cost investment efficiency, carefully reviewing the profitability of each title and employing a strategy of selection and concentration on projects that can be expected to contribute to profits. Based on this policy, in the fiscal year ended March 2018, we were second among the five main players in the domestic market* in terms of operating margin (17.0%) despite coming in last* in terms of net sales (94,515 million yen). Our Digital Contents business was also second (25.8%) in the comparison of margins in game software sales, which is the core business of each company. As for our future outlook, there will be no change to our policy of maintaining high profitability, but in preparation for changes in the market associated with rapid developments in game-related technology, we will also need to make anticipatory investments in new fields. As such, we will make investments for growth in the medium-to-long term while maintaining a minimum operating margin of 15%.

* We have selected competing manufacturers whose core business is home video game software. We compiled the rankings based on information disclosed by each company.

(2) Financial flexibility based on high free cash flow

In the fiscal year ended March 2018, net cash gained from operating activities amounted to 34,721 million yen, primarily as a result of a record-breaking hit major title in our core Consumer business. Net cash used in investing activities was 2,847 million yen, which is the standard level for us. As a result, free cash flow came to 31,874 million yen. Compared to competitors with large businesses, we were second in terms of free cash flow. Our free cash flow to net sales ratio of 33.7% is the highest among the five companies. This gives us a high level of financial flexibility compared to the industry standard. We will continue to promote measures for growth from a medium-to-long term perspective and work on further enhancing our capital policy.

Profitability Comparison (Year ended March 2018)

	Net sales (Millions of yen)	Operating margin (%)	Game business margin (%)
CAPCOM	94,515	17.0	25.8
SQUARE ENIX HOLDINGS	250,394	15.2	22.7
SEGA SAMMY HOLDINGS	323,664	5.5	10.3
BANDAI NAMCO HOLDINGS	678,312	11.1	15.3
KONAMI HOLDINGS	239,497	18.9	31.1

(Prepared based on disclosures by each company)

Free Cash Flow Comparison (Year ended March 2018)

	Free cash flow (Millions of yen)	Fee cash flow to net sales ratio (%)
CAPCOM	31,874	33.7
SQUARE ENIX HOLDINGS	22,447	9.0
SEGA SAMMY HOLDINGS	6,065	1.9
BANDAI NAMCO HOLDINGS	–8,200	–1.2
KONAMI HOLDINGS	35,496	14.8

(Prepared based on disclosures by each company)