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## 1. Operating results overview

### (1) Operating results for the fiscal year under review

During the fiscal year ended March 31, 2017, signs of major changes to our industry became evident, such as the successive releases of VR (virtual reality) devices that are highly compatible with games. With an eye to creating a new market we entered a new era many are calling “VR year one.”

Under such circumstances, the Company has carried out reorganization and strengthened its management structure aiming to reform its development divisions, which are the core of its business operations. At the same time, the Company promoted speedy decision-making and agile business development by clarifying reporting lines and responsibilities.

Moreover, the Company strove to enhance its presence and increase its brand value by generating synergy with its flagship titles through a mixed media strategy leveraging its rich content assets. This included an animated TV program based on *Monster Hunter Stories* that began airing in October 2016 (Fuji Television Network); the musical theater performance of *Resident Evil: Voice of Gaia* in Tokyo and Osaka, which is the first ever musical theater performance based on a survival horror game; and the Hollywood film, *Resident Evil: The Final Chapter*, which is based on the Company’s popular game series and was first released in Japan on December 23, 2016, followed by a worldwide run.

Under the Corporate Governance Code of Japan, the Company has been engaged in measures to make its corporate governance effective, which include the proactive promotion of constructive dialogues with domestic and foreign institutional investors and the adoption of some of their suggestions in company management.

The resulting net sales were 87,170 million yen (up 13.2% from the previous fiscal year).

Regarding profitability, operating income was 13,650 million yen (up 13.5% from the previous fiscal year), ordinary income was 12,589 million yen (up 10.9% from the previous fiscal year) and net income attributable to owners of the parent was 8,879 million yen (up 14.6% from the previous fiscal year).

#### Status of business by operating segment

##### ① Digital Contents business

*Resident Evil 7 biohazard* (for PlayStation 4, Xbox One, Windows PC), which features the ability to play the full game in the included optional PSVR Mode for PS4, gave an overall solid performance, while *Monster Hunter XX (Double Cross)* (for the Nintendo 3DS family of systems), is off to a promising start following its March 2017 release.

Re-releases of the *Resident Evil* series performed steadily thanks to a stable fanbase for the brand. Further, *Monster Hunter Generations*, known as *Monster Hunter X (Cross)* in Japan and Asia (for the Nintendo 3DS family of systems), achieved solid sales overseas thanks to Capcom's established brand capabilities. On the other hand, *Dead Rising 4* (for Xbox One and Windows PC) and *Monster Hunter Stories* (a game targeting younger audiences, for the Nintendo 3DS family of systems) underperformed.

In online games and mobile contents, the Company broke new ground amidst ongoing efforts to achieve progress in this static sub-segment by reviewing its development framework and operation methods. This led *Toraware no Paruma* (an enterprising romance game for Android devices and iOS that was developed primarily by female staff) to reach the top of the App Store paid application rankings on its release date.

The resulting net sales were 58,704 million yen (up 11.7% from the previous fiscal year), and operating income was 11,096 million yen (down 8.8% from the previous fiscal year).

## ② Arcade Operations business

In the Arcade Operations business, signs of recovery to our industry are becoming evident, partly because regulations on the entry into arcades at night were relaxed by the amendments to the Act on Control and Improvement of Amusement Business, etc. effective June 2016. Under such circumstances, efforts were made to capture a broad customer base by securing repeat customers and attracting persons of middle or advanced age and children accompanied by a parent. This was done through community-based arcade marketing to win the support of local residents by holding various events and operating arcades that offer comfortable experiences to customers under the banner of "No. 1 arcade in the community."

To develop new business opportunities, the Company also pushed forward innovative new business formulas, such as opening CharaCap shops, which primarily sell character merchandise inside arcades. During the period under review, three new arcades were opened while one arcade was closed bringing the total number of arcades to 36.

The resulting net sales were 9,525 million yen (up 5.2% from the previous fiscal year) and operating income was 752 million yen (up 7.5% from the previous fiscal year).

## ③ Amusement Equipments business

In the Pachinko & Pachislo sub-segment, *Monster Hunter Kyoryu Sensen*, this fiscal year's major release, was a mega hit thanks to synergy with home video games, and drove sales expansion. In the Arcade Games Sales sub-segment, the Company launched *Mario Party Fushigi no Challenge World* and focused on repeat sales of existing products.

The resulting net sales were 16,856 million yen (up 26.3% from the previous fiscal year) and operating income was 5,106 million yen (up 81.6% from the previous fiscal year).

#### ④ Other Businesses

The net sales from Other Businesses, mainly consisting of royalty income from licensing and sale of character merchandise, were 2,083 million yen (up 2.0% from the previous fiscal year) and operating income was 969 million yen (up 89.8% from the previous fiscal year).

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

###### (Assets)

Total assets as of the end of the fiscal year ended March 31, 2017 increased by 5,840 million yen from the end of the previous fiscal year to 118,897 million yen.

The primary increase was 10,295 million yen in notes and accounts receivable, trade. The primary decrease was 3,891 million yen in cash on hand and in banks.

###### (Liabilities)

Total liabilities as of the end of the fiscal year ended March 31, 2017 increased by 3,234 million yen from the end of the previous fiscal year to 41,122 million yen.

The primary increase was 7,825 million yen in short-term borrowings. The primary decrease was 4,323 million yen in long-term borrowings.

###### (Net assets)

Net assets as of the end of the fiscal year ended March 31, 2017 increased by 2,605 million yen from the end of the previous fiscal year to 77,774 million yen.

The primary increase was 8,879 million yen in net income attributable to owners of the parent. The primary decreases were an increase of 3,302 million yen in treasury stock and 2,774 million yen in cash dividends.

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

Cash and cash equivalents as of the end of the fiscal year ended March 31, 2017 decreased by 4,091 million yen from the end of the previous fiscal year to 24,337 million yen.

Cash flow positions of each activity and their factors are described below.

###### (Cash flows from operating activities)

Net cash gained from operating activities was 3,200 million yen (4,347 million yen in the previous fiscal year).

The primary items increasing cash flows were 12,489 million yen in net income before income taxes (11,150 million yen in the previous fiscal year), a 5,980 million yen increase in depreciation and amortization (5,712 million yen in the previous fiscal year), and a 2,280 million yen increase in notes and accounts payable, trade (935 million yen in the previous fiscal year). The primary items decreasing cash flows were 10,393 million yen increase in accounts receivable, trade (2,208 million yen in the previous fiscal year) and 6,513 million yen increase in income taxes paid (972 million yen paid in the previous fiscal year).

(Cash flows from investing activities)

Net cash used in investing activities was 3,628 million yen (1,639 million yen in the previous fiscal year).

Primary item used was 3,074 million yen in payment for acquisitions of tangible fixed assets (5,813 million yen in the previous fiscal year).

(Cash flows from financing activities)

Net cash used in investing activities was 3,130 million yen (1,115 million yen invested in the previous fiscal year).

Primary increases used were as follows: 3,302 million yen in payment for repurchase of treasury stock (5 million yen in the previous fiscal year), 2,794 million yen in dividends paid by parent company (2,228 million yen in the previous fiscal year), and 1,497 million yen in repayments of long-term borrowings (883 million yen in the previous fiscal year). The primary decrease was 5,000 million yen increase in short-term borrowings (none in the previous fiscal year).

#### (4) Outlook

Looking forward, the market environment is changing rapidly with the emergence of new business areas in VR (virtual reality) and AR (augmented reality) as well as further increases in mobile contents and the spread of online games. In addition, Nintendo Switch, a new home video game console, was released in March 2017.

Amidst such structural changes to the industry, the Company will endeavor to increase profitability through business management based on selection and concentration. This will include the allocation of development resources in accordance with the Company's medium-term strategic map to priority divisions, such as home video game software development, which is its core competence, and mobile contents.

In addition to package game sales, the Company will focus its efforts on expanding digital download sales, which promise higher profitability, in order to diversify its profit structure. The Company will also endeavor to further cultivate existing customers while developing new customers by enhancing its product line-up, which includes releasing distribution titles as well as re-releasing or remaking popular titles from its back catalog.

Holding a significant number of popular IP, such as *Monster Hunter* and numerous others, the Company will strive to leverage these valuable assets to generate synergy and break through the current situation of its online games and mobile contents businesses. At the same time, the Company will promote the development of appealing titles in-step with market trends, through the development, marketing and operations departments working as one. Additionally, it will continue to build a value chain, seeking to increase customer satisfaction through the timely provision of additional contents.

Expansion of sales in large overseas markets is essential for the achievement of the Company's growth scenario. The Company is one of the world's leading contents holders with many brands that are popular overseas including *Resident Evil* and *Street Fighter*, both of which have been made into Hollywood films. The Company will promote aggressive global strategies by leveraging these strengths, coordinating with its overseas subsidiaries in releasing software that meet overseas customer demands and increasing its presence through the popularization of the "Capcom Brand."

Meanwhile, the pachinko & pachislo market faces some uncertainty due to the recent revision in the pachislo model certification method and the strengthening of applicable regulations. However, the Company will expeditiously develop compliant equipment and promote business flexibly to enable it to respond promptly to changes in the industry.

As home video game consoles and smart devices continue to advance, offering support for features such as VR and high-definition 4K resolution, enhancing development infrastructure will be crucial to the development of video game software suitable for game consoles with sophisticated functions while satisfying diverse customer needs.

Under the slogan "from Osaka to the world," the Company opened its R&D Building #2 in 2016 as a new game development hub. The Company will continue to engage in aggressive business management, keeping in mind strategic business alliances, mergers and acquisitions, and any other options available for the achievement of sustainable growth and improvement of medium- to long-term corporate value.

Additionally, the Company has been promoting the establishment of a work-life balance through child-rearing support and other initiatives, empowering employees to pursue both their career and childrearing in order to secure and utilize superior talent. As a part of this endeavor, the Company opened onsite childcare facilities in April 2017.

## 2. Basic policy regarding selection of accounting standards

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

We are in consideration whether to adopt the International Financial Reporting Standards (IFRS) in light of the ratio of foreign shareholders and trend of adoption of IFRS by other companies within the games industry in Japan.