

**Consolidated financial results
for the year ended March 31, 2020 (Unaudited)**

Company name: CAPCOM Co., Ltd.

Code number: 9697

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Ordinary general shareholders' meeting : June 17, 2020

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Stock listing: Tokyo

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Dividend payment date: June 18, 2020

Yes

Yes (For institutional investors)

Note: Numbers are rounded down to the nearest 1 million yen.

1. Results for the year ended March 31, 2020 (from April 1, 2019 to March 31, 2020)

(1) Financial results

Note: Percentage represents change from the previous fiscal year.

	Net sales		Operating income		Ordinary income		Net income attributable to owners of the parent	
	million yen	%	million yen	%	million yen	%	million yen	%
Year ended March 31, 2020	81,591	-18.4	22,827	25.8	22,957	26.2	15,949	27.1
Year ended March 31, 2019	100,031	5.8	18,144	13.1	18,194	19.3	12,551	14.8

Note: Comprehensive income

Year ended March 31, 2020 : 15,257 million yen (18.4%)

Year ended March 31, 2019: 12,888 million yen (24.1%)

	Earnings per share	Diluted earnings per share	Return on equity	Return (ordinary income) on assets	Operating margin
	yen	yen	%	%	%
Year ended March 31, 2020	149.41	—	16.9	17.2	28.0
Year ended March 31, 2019	115.45	—	14.4	14.7	18.1

Reference: Equity in earnings (losses) of affiliates

Year ended March 31, 2020: — million yen

Year ended March 31, 2019: — million yen

(2) Financial position

	Total assets	Net assets	Shareholders' equity ratio	Net asset value per share
	million yen	million yen	%	Yen
Year ended March 31, 2020	143,466	99,735	69.5	934.28
Year ended March 31, 2019	123,407	88,749	71.9	831.37

Reference: Shareholders' equity

Year ended March 31, 2020: 99,735 million yen

Year ended March 31, 2019: 88,749 million yen

(3) Cash flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Ending balance of cash and cash equivalents
	million yen	million yen	million yen	million yen
Year ended March 31, 2020	22,279	-8,437	-6,351	59,672
Year ended March 31, 2019	19,847	-2,261	-11,443	53,004

2. Dividends

Record date	Dividend per share					Dividend paid	Payout ratio (Consolidated)	Dividend on equity (Consolidated)
	1st Quarter-end	2nd Quarter-end	3rd Quarter-end	Year-end	Annual			
Year ended March 31, 2019	—	15.00	—	20.00	35.00	3,777	30.3	4.3
Year ended March 31, 2020	—	20.00	—	25.00	45.00	4,803	30.1	5.1
Year ending March 31, 2021 (Forecast)	—	20.00	—	25.00	45.00		26.7	

Note: For dividends for the year ended March 31, 2020, please see "Notice Regarding Dividends from Retained Earnings," which was published today (May 8, 2020).

3. Earnings forecast for the fiscal year ending March 31, 2021 (From April 1, 2020 to March 31, 2021)

Note: Percentage represents change from the previous fiscal year.

	Net sales		Operating income		Ordinary income		Net income attributable to owners of the parent		Net income per share
Year ending March 31, 2021	million yen	%	million yen	%	million yen	%	million yen	%	yen
	85,000	4.2	25,500	11.7	25,500	11.1	18,000	12.9	168.62

Note: Capcom discloses a full year business forecast, as it manages its business performance on an annual basis.

Notes

- (1) Changes in significant consolidated subsidiaries during the period: No
 (Changes in specified subsidiaries due to changes in the scope of consolidation)
- (2) Changes in accounting principles, accounting estimates and retrospective restatement for consolidated financial statements
- ① Changes resulting from amendment of the accounting standard: Yes
- ② Changes other than ①: No
- ③ Changes in accounting estimates: No
- ④ Retrospective restatement: No
- (3) Number of shares outstanding (Common stock):
- ① Number of shares outstanding (including treasury stock)
- | | | | |
|----------------------------|-------------|----------------------------|-------------|
| Year ended March 31, 2020: | 135,446,488 | Year ended March 31, 2019: | 135,446,488 |
|----------------------------|-------------|----------------------------|-------------|
- ② Number of treasury stock
- | | | | |
|----------------------------|------------|----------------------------|------------|
| Year ended March 31, 2020: | 28,695,874 | Year ended March 31, 2019: | 28,695,180 |
|----------------------------|------------|----------------------------|------------|
- ③ Average number of shares outstanding
- | | | | |
|----------------------------|-------------|----------------------------|-------------|
| Year ended March 31, 2020: | 106,751,088 | Year ended March 31, 2019: | 108,716,271 |
|----------------------------|-------------|----------------------------|-------------|

(Explanation about the appropriate usage of business prospects and other special notes)

- The above-mentioned business forecasts were based on the information available as of the date of the release of this report.
- Future events may cause the actual results to be significantly different from the forecasts.
- Please refer to [1. Operating results overview (4) Outlook] on page 4 for more details.
- Capcom is scheduled to hold an earnings presentation for institutional investors on May 12, 2020. Video of the presentation will be posted along with the presentation materials on Capcom's web page shortly after the presentation.

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1. Operating results overview

(1) Operating results for the fiscal year under review

During the fiscal year ended March 31, 2020, advances in the communications environment, including the start of commercial service of the next-generation communication standard “5G,” provided a backdrop for new momentum in the sector as a spate of IT giants entered the market, including U.S.-based Apple with its Apple Arcade game subscription service, along with a new cloud-based game streaming service from Google.

In such an environment, in addition to focusing resources on the development and sales of home video game software, which is the source of its competitive advantage, the Company enhanced its development structure by bolstering its developer workforce and workplace environment. In such a situation, *Monster Hunter World: Iceborne* (for PlayStation 4, Xbox One and PC), the flagship title for the current fiscal year, shipped over 5 million units worldwide, supported by consistent popularity. In addition, profit improved due to the continued popularity of major catalog titles, particularly in overseas markets, and the growth of highly profitable digital download sales.

Meanwhile, the Company released *Shinsekai: Into the Depths*, a new title for the Apple Arcade game subscription service, in a bid to promote its multi-platform business strategy. In addition, the Company remained committed to building a new business model in order to put on track its eSports Business Division, which has garnered attention for its future growth potential. These initiatives included holding events in Japan, such as Street Fighter League: Pro-JP operated by RAGE, and in the U.S., such as Capcom Cup 2019, the world championship tournament that caps the Capcom Pro Tour.

The resulting net sales were 81,591 million yen (down 18.4% from the previous fiscal year), the decrease due in part to the change from physical package sales to digital sales. In terms of profitability, profit improved at all levels due to the contribution of the hit title *Monster Hunter World: Iceborne*, primarily sold digitally, as well as to an increase in the percentage of highly profitable digital sales within catalog title sales. Specifically, operating income was 22,827 million yen (up 25.8% from the previous fiscal year), ordinary income was 22,957 million yen (up 26.2% from the previous fiscal year), and net income attributable to the owners of the parent was 15,949 million yen (up 27.1% from the previous fiscal year). Following the previous fiscal year, all three figures increased to record-highs once again due to success in streamlining the Company’s profit structure.

Status of business by operating segment

① Digital Contents business

In this business segment, *Monster Hunter World: Iceborne* (for PlayStation 4, Xbox One and PC) delivered solid sales and served as the key driver of profitability growth owing to a focus on high-margin digital sales. Further, healthy sales of catalog titles also contributed to profit. Specifically, *Resident Evil 2* (for PlayStation 4, Xbox One and PC) and *Devil May Cry 5* (for Xbox One, PlayStation 4 and PC), both released in the previous fiscal year and recipients of an Award for Excellence at the Japan Game Awards: 2019, saw continued growth in sales buoyed by a growing user base. *Monster Hunter: World* (for PlayStation 4, Xbox One and PC), released two fiscal years ago,

also continued to display its long sales life, achieving cumulative sales of 15 million units.

The resulting net sales were 59,942 million yen (down 27.8% from the previous fiscal year) due to an increase in the percentage of digital sales. Operating income was 24,161 million yen (up 3.6% from the previous fiscal year) due to contributions from *Monster Hunter World: Iceborne* and catalog titles.

② Arcade Operations business

In this business, the Company worked to secure a wide range of customers through community-based promotion activities, such as holding various events and conducting service day campaigns, under the banner of “the No. 1 arcade in the community.” In addition to repeat customers, targeted segments included females and families as well as new customer segments such as middle-aged and elderly people, and inbound tourists.

During the period under review the total number of stores reached 40 with the opening of Capcom Store Tokyo in Shibuya Parco (Tokyo), a specialty store that sells original merchandise and limited-edition items and represents a new business endeavor for Capcom, as well as two new arcades: Plaza Capcom Ikebukuro (Tokyo) and Plaza Capcom Fujiidera (Osaka).

The resulting net sales were 12,096 million yen (up 9.5% from the previous fiscal year) and operating income was 1,211 million yen (up 10.5% from the previous fiscal year).

③ Amusement Equipments business

In recent years, the pachislo machine market has been sluggish due to factors such as the revision in pachislo model certification methods. Despite this, *Shin Onimusha* delivered a strong performance after its March release this year, exceeding unit sales expectations while providing a sign that the market may have finally bottomed out and is heading toward recovery.

The resulting net sales were 6,533 million yen (up 90.9% from the previous fiscal year) and operating income was 2,085 million yen (an operating loss of 2,668 million yen in the previous fiscal year.)

④ Other Businesses

The net sales from Other Businesses, mainly consisting of royalty income from the licensing and sale of character merchandise, were 3,018 million yen (up 17.2% from the previous fiscal year) and operating income was 544 million yen (down 32.8% 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, 2020 increased by 20,058 million yen from the end of the previous fiscal year to 143,466 million yen.

The primary increases were 12,653 million yen in cash on hand and in banks and 4,295 million yen in work in progress for game software.

(Liabilities)

Total liabilities as of the end of the fiscal year ended March 31, 2020 increased by 9,073 million yen from the end of the previous fiscal year to 43,731 million yen.

The primary increases were 1,361 million yen in accrued income taxes and 1,229 million yen in electronically recorded monetary obligations.

(Net assets)

Net assets as of the end of the fiscal year ended March 31, 2020 increased by 10,985 million yen from the end of the previous fiscal year to 99,735 million yen.

The primary increase was 15,949 million yen in net income attributable to owners of the parent. The primary decrease was 4,270 million yen in dividends from retained earnings.

(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, 2020 increased by 6,667 million yen from the end of the previous fiscal year to 59,672 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 22,279 million yen (19,847 million yen in the previous fiscal year). A breakdown of cash flows is as follows: 22,890 million yen in net income before income taxes (17,770 million yen in the previous fiscal year), a 2,117 million-yen increase in accounts receivable - trade (858 million yen in the previous fiscal year), a 4,293 million-yen increase in work in progress for game software (a 8,876 million yen decrease in the previous fiscal year), and 6,515 million yen in income taxes paid (5,938 million yen in the previous fiscal year).

(Cash flows from investing activities)

Net cash used in investing activities was 8,437 million yen (2,261 million yen in the previous fiscal year). The primary items used were 6,019 million yen in payments into time deposits (not recorded in the previous fiscal year) and 2,273 million yen in payments for acquisitions of tangible fixed assets (2,093 million yen in the previous fiscal year).

(Cash flows from financing activities)

Net cash used in financing activities was 6,351 million yen (11,443 million yen in the previous fiscal year). A breakdown of the primary uses are as follows: 4,265 million yen in dividends paid by parent company (3,554 million yen in the previous fiscal year).

(4) Outlook

In this industry, it is expected that entertainment choices for customers will undergo diversification; for example, high-definition, cloud-based simultaneous multiplayer games for smartphones should be made possible by the

high-speed, large-capacity, low-latency communications accompanying the rollout of commercial 5G services this year in markets including Japan. Further, the possibility of a full-scale market entry by external players has brought a seismic shift in the landscape and a wave of new business opportunities.

Situated in an industry that undergoes rapid environmental change, the Company is focusing on securing stable revenue annually while building a competitive advantage via a strong management system and pursuing a high-margin, digital-forward strategy focused on expanding digital download sales. At the same time, the Company has been bolstering developer personnel through securing and training excellent human resources in order to build out its core business of home video game software development. With a maturing market, declining birthrate and aging population in Japan, overseas business expansion is indispensable to the Company's future growth plans. For this reason, in addition to Europe and the United States—its primary competitive markets—the Company aims to build an advantage in rapidly growing Asia through delighting customers there with releases of world-renowned IP while increasing its share of sales in the region.

Further, the Company sees esports as an integral part of its future growth strategy and is working to consolidate its position in this expanding market with upfront capital allocation and investments in human resources; it plans to found the Esports Academy (tentative name) for training professional players as well as to establish regional teams and leagues for female players.

In addition to implementing organizational reforms in response to changes in the environment, the Company is focused on improving corporate value while aiming to optimize its business portfolio. This is achieved through efficiently allocating management resources via a method of selection and concentration, investing in growth areas and reviewing its position in unprofitable businesses.

To this end, the Company will strive to achieve sustainable growth by utilizing both its strengths and the priority measures outlined below.

① Priority measures

A. Promotion of digital strategy

- a) One of the reasons for increased profits in the fiscal year under review is the expansion of digital download sales. The Company will continue to accelerate the focus from physical packaged sales to digital sales in step with advances in internet technology and the overall trend of digital transformation.
- b) In addition to eliminating manufacturing costs of the disks and packaging containers, digital sales can reduce distribution cost and inventory risks, and allow for more flexible pricing by region and sales period. Moreover, they help minimize piracy and second-hand sales, while allowing for a long-term sales-life, contributing to stable profits each year.
- c) Through digital marketing the Company will conduct efficient promotional activities. For instance, it will analyze and predict customer preferences with centralized management of user play data and carry out development based on meeting market needs. It will also set prices

flexibly in real time through digital initiatives matched to diverse customer behavior.

- d) In pursuing digital strategy, marketing to capture users is critical. Therefore, it is important to secure human resources with advanced skills and special expertise in utilizing the latest technology to carry out activities such as analysis of customer play history and behavioral prediction. For this reason, in addition to acquiring such human resources from outside the firm, the Company will work to train-up the necessary human resources through in-house training and practical education.

B. Strengthening the eSports business

- a) Going forward, esports are expected to attract more attention due to various activities that should energize the market. In addition to the first esports tournament in the history of the National Sports Festival being held at the Ibaraki National Sports Festival last year, esports are being considered for inclusion as a medal event at the Asian Games in Hangzhou, China in 2022.
- b) Esports are also attracting attention as a form of entertainment that can take advantage of 5G, and are rapidly growing even in Japan, which had lagged other regions of the world up to now. For instance, leagues featuring professional sports teams are being launched and major companies are crossing industry boundaries to enter the market by sponsoring sporting events in Japan.
- c) The Company is investing management resources for development of this new business because it has accumulated a wealth of esports experience and operational know-how by holding the Capcom Pro Tour through its U.S. subsidiary for many years.
- d) Nonetheless, the domestic market is still in an early phase of seed-sowing. Several issues to be addressed remain, including regulatory obstacles, training of professional players and building out the environment. Therefore, in order to monetize this business, it is necessary to build a model with a medium- to long-term perspective, with the understanding that it will take some time before the fruits of any investment can be reaped.

C. Expansion of global operations

- a) To pursue growth strategies while the domestic market matures, it is indispensable to cultivate overseas markets.
- b) The Company is a world-leader in content and holds multiple, internationally popular brands having continuously produced hit titles in the U.S. and Europe, including in the *Street Fighter* and *Resident Evil* series, both of which have been adapted into Hollywood films.
- c) In recent years, the company's presence overseas has been steadily rising due to the huge success of *Monster Hunter: World*. In addition to the U.S. and Europe, the Company plans to aggressively expand business opportunities in other regions by further promoting the Capcom brand. As the Asian market is expected to grow in the future, the Company will restructure local subsidiaries and focus on expanding sales in the region. It will also develop new markets such as South America.

② Strengths

A. A robust development structure

The Company boasts a robust development structure that produces million-selling titles each year through creating engaging content that delights customers. It intends to further enhance its competitiveness by concentrating management resources in the development of home video games based on its medium-term development map, while at the same time developing a breadth of content tailored to the needs of the market through greater in-house production. To this end, the Company is improving its core competence, i.e. its development structure, through reducing both costs and the span of each development cycle with increased staff and an improved production environment, thereby improving profit management.

B. Leveraging IP through Single Content Multiple Usage strategy

The Company holds a wealth of content assets from having produced numerous million-selling titles. Its licensing business provides diversified revenue sources, which work to secure stable profits each year, by utilizing well-known game characters across various media, such as in movies, animation, toys, food and beverages, leveraging the synergy created by popular titles. This year, a Hollywood movie based on the company's *Monster Hunter* series is scheduled to be released worldwide. The Company will continue to enhance its brand value going forward with a media mix including movies, TV, etc., and so continue to build its value chain.

C. Multi-platform releases

The Company's proprietary game engines (integrated development environment), such as the RE ENGINE and MT Framework, allow the sharing of development tools across different platforms, such as PlayStation 4, Xbox One, Nintendo Switch and PCs. By utilizing these proprietary game engines, the Company is capable of releasing the same software across multiple platforms, which has contributed to increasing sales and improving profitability.

③ Reinforcement of information security

Measures against various cyber risks both in Japan and overseas, including the prevention of information leaks and compliance with the E.U.'s General Data Protection Regulation (GDPR), have become crucial in light of the importance of personal information management systems in recent years. As a part of these measures, the Company is reinforcing its information security system through the hiring of expert personnel, human resources development, thorough in-house training and regular checks, to prevent cyberattacks, including computer viruses and unauthorized access that would debilitate information systems and cause turmoil.

④ Business continuity planning

In recent years, various regions around Japan have been ravaged by typhoons, earthquakes and other large-scale, unforeseen natural disasters. In response to these events, the Company will reinforce its crisis

management system so that, in the event of an emergency, damages, losses and the impact on important businesses will be kept to a minimum through quick and appropriate responses, and that business activities will be able to continue through early recovery.

Further, accompanying the state of emergency that was declared in Japan due to the novel coronavirus, COVID-19, there are some concerns regarding the impact on the Arcade Operations and Amusement Equipments businesses, as well as on content production through work-from-home. Among these, in addition to anticipating a decrease in revenue due to temporary closures of stores in the Arcade Operations business, it will be necessary to closely monitor any decline in demand in the Amusement Equipments business as well following voluntary suspension of operations on the part of the hall operators. Meanwhile, the Company will revise its development process for content production, concentrating its ingenuity and knowhow to minimize any adverse impact.

Nonetheless, the core Digital Contents business can be expected to continue to contribute results even in a situation where retail stores around the world have temporarily suspended operations because the Company has successfully advanced digital sales.

The company is committed to building a solid business foundation while remaining cognizant of any changes in the business environment brought by COVID-19.

⑤ HR strategy

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

⑥ Basic capital policies

A. Dividend policy

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

B. Acquisition of treasury stocks

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

C. Total payout ratio

The Company is also mindful of the total payout ratio $[(\text{dividend paid} + \text{treasury stock acquired}) \div \text{net income}]$, which shows the level of return to shareholders, and we strive to achieve market confidence based on well-balanced capital strategy.

⑦ Basic policy for strategic holdings of publicly listed shares

- A. In order to strengthen and tighten relationships with those companies with which there are ongoing business dealings, while eliminating habitual cross-holding and personal favoritism, the Company comprehensively takes into consideration the relevant advantages and disadvantages from medium- to long-term perspectives, including whether the shares contribute to future business relationships and sustainable enhancement of corporate value. As a result, the Company limits its holdings to a minimum and, as of the end of the current fiscal year, only three securities were held.
- B. The Company considers the details of the business relationship, the amounts, the benefits and the stock price fluctuation risks on the continuous holding of such shares. As a result, if it is determined that little economic rationality remains in holding such shares, such as in cases where the carrying amount has fallen 50% or more, the Company takes into account factors including the economic situation and, upon consulting with the issuer, reduces or disposes of such shares at the appropriate time.
- C. When exercising voting rights, the Company decides on whether to vote for or against each proposal pursuant to internal procedures, comprehensively taking into account the business conditions, corporate misconduct, and other factors pertaining to the relevant business partner.

⑧ Dialog with stakeholders

Each year the Company continues an active dialog with shareholders and institutional investors through meetings to promote better understanding of its management policies and growth strategies. At the same time, it endeavors to meet the expectations of all stakeholders, including shareholders, institutional investors and customers. The Company also provides information on the general meeting of shareholders and financial results by such means as the Integrated Report and the Capcom IR Website, where it also discloses updates on the latest company information, and works to respond quickly and appropriately to various requests and questions from stakeholders.

⑨ IR/SR activities

The Company has been ahead of the curve in placing focus on IR and SR activities. This includes over 350 meetings with shareholders and institutional investors each year, as well as speaking on its management policies and financial information through top management meetings and results briefings, all in an effort to build a relationship of trust and to increase fans of Capcom. During the period under review, the Company's activities were recognized by the following third-party organizations.

Integrated Report	Excellent Integrated Report GPIF's asset managers entrusted with domestic equity investment
	Excellence Prize, 22nd Nikkei Annual Report Awards Nihon Keizai Shimbun Inc.
IR Website	Grand Prize, Internet IR Award 2019 Daiwa Investor Relations Co., Ltd.
	Overall Ranking: Grade AAA, Fiscal 2019 Listed Company Website Quality Ranking Nikko Investor Relations Co., Ltd.
	Overall ranking No.2, Investor Relations Site Ranking 2019 Gomez Consulting Department, Morningstar Japan K.K.

⑩ ESG initiatives

ESG stands for Environmental (E), Social (S) and Corporate Governance (G). The Company, from an ESG standpoint of fulfilling its social responsibilities as a good corporate citizen, promotes business strategies that pay due consideration to the environment (such as the reduction of greenhouse gas (GHGs) emission by switching to LED lighting and the reduction of paper resources by digitizing instruction manuals), society (such as through outreach classes for children and regional revitalization efforts using the Company's game and esports businesses) and corporate governance (such as through raising the ratio of outside directors, promoting diversity in the workplace for female and non-Japanese employees and establishing the Nomination and Remuneration Committee), and strives to enhance corporate value by building trust with stakeholders (including shareholders, investors, customers, business partners, creditors, employees and regional communities).

⑪ Relationship between SDGs and ESG

SDGs stand for Sustainable Development Goals and represent the sustainable development goals (17 goals) that should be achieved by the world during the 15-year period from 2016 to 2030, as set forth by the United Nations. ESG takes a forecasting approach that implements improvement measures based on the present. Compared to this, SDGs take a back-casting approach that set and implement necessary measures by calculating backwards from the future. SDGs are composed of three core elements: environmental protection, economic growth, and social inclusion, and are highly relevant to ESG while including some aspects of ESG. Instead of pursuing these activities in all areas, the company will focus on activities based on its business and situation. As part of this effort, the company has been furthering the reduction of plastic waste (by discontinuing discs and packaging) through the promotion of digital sales, providing a rewarding work environment (by establishing on-site childcare), and supporting child abuse prevention activities (through donations to relevant organizations and facilities), as well as promoting maintenance and improvement of employees' health (through promoting use of paid leave to reduce working hours).

⑫ Other important matters concerning the Company

In consideration of the declaration of a state of emergency in Japan due to the spread of COVID-19 and to the subsequent requests to implement measures such as work from home policies, all of the Company's offices have been closed and a work from home policy for all employees (except for a certain number necessary for continuing operations) is in effect for approximately the duration of the state of emergency, in order to prevent spread of the infection among employees, business partners and the greater community.

2. Basic policy regarding selection of accounting standards

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

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

3. Summary of consolidated financial statements

(1) Consolidated balance sheets

(million yen)

	Previous fiscal year (as of March 31, 2019)	Current fiscal year (as of March 31, 2020)
Assets		
Current assets		
Cash on hand and in banks	53,004	65,657
Notes and accounts receivable - trade	13,970	15,959
Merchandise and finished goods	1,182	1,557
Work in progress	734	883
Raw materials and supplies	538	258
Work in progress for game software	16,926	21,222
Other	4,518	3,320
Allowance for doubtful accounts	(58)	(31)
Total current assets	90,817	108,829
Fixed assets		
Tangible fixed assets, net of accumulated depreciation		
Buildings and structures, net	10,845	10,644
Machinery and vehicles, net	24	14
Tools, fixtures and furniture, net	1,377	1,445
Equipment for amusement facilities, net	1,821	1,879
Land	5,235	5,235
Leased assets, net	718	1,118
Construction in progress	336	509
Total tangible fixed assets	20,359	20,847
Intangible assets	432	351
Investments and other assets		
Investments in securities	576	415
Claim in bankruptcy and reorganization	19	19
Lease deposits	3,979	4,134
Deferred tax assets	6,420	7,906
Other	834	996
Allowance for doubtful accounts	(32)	(32)
Total investments and other assets	11,798	13,438
Total fixed assets	32,590	34,636
Total assets	123,407	143,466

(million yen)

	Previous fiscal year (as of March 31, 2019)	Current fiscal year (as of March 31, 2020)
Liabilities		
Current liabilities		
Notes and accounts payable - trade	3,988	3,461
Electronically recorded monetary obligations	1,153	2,383
Current portion of long-term borrowings	1,579	4,129
Lease obligations	406	502
Accrued income taxes	4,251	5,612
Accrued bonuses	3,089	3,130
Other	8,743	16,643
Total current liabilities	23,212	35,863
Long-term liabilities		
Long-term borrowings	6,735	2,606
Lease obligations	369	690
Deferred tax liabilities	6	4
Liabilities for retirement benefits for employees	3,004	3,212
Asset retirement obligations	571	656
Other	758	697
Total long-term liabilities	11,445	7,868
Total liabilities	34,658	43,731
Net assets		
Shareholders' equity		
Common stock	33,239	33,239
Capital surplus	21,328	21,329
Retained earnings	62,595	74,275
Treasury stock	(27,456)	(27,458)
Total shareholders' equity	89,708	101,385
Accumulated other comprehensive income		
Net unrealized gain or loss on securities, net of tax	26	(106)
Cumulative translation adjustments	(713)	(1,306)
Accumulated adjustments for retirement benefits	(271)	(237)
Total accumulated other comprehensive income	(958)	(1,650)
Total net assets	88,749	99,735
Total liabilities and net assets	123,407	143,466

(2) Consolidated statements of income and comprehensive income
Consolidated statements of income

(million yen)

	Previous fiscal year from April 1, 2018 to March 31, 2019	Current fiscal year from April 1, 2019 to March 31, 2020
Net sales	100,031	81,591
Cost of sales	62,809	40,643
Gross profit	37,222	40,947
Selling, general and administrative expenses	19,078	18,119
Operating income	18,144	22,827
Non-operating income		
Interest income	171	271
Dividend income	16	18
Exchange gain, net	362	—
Subsidy income	—	86
Other	422	104
Total	974	480
Non-operating expenses		
Interest expense	80	74
Commission fees	69	69
Additionally paid retirement benefits	601	—
Exchange loss, net	—	93
Other	173	113
Total	924	350
Ordinary income	18,194	22,957
Special losses		
Loss on sales and/or disposal of fixed assets	30	62
Impairment losses	393	—
Loss on sales of investments in securities	—	4
Total	423	67
Net income before income taxes	17,770	22,890
Income taxes - current	6,603	8,472
Income taxes - deferred	(1,385)	(1,531)
Total	5,218	6,941
Net income	12,551	15,949
Net income attributable to owners of the parent	12,551	15,949

Consolidated statements of comprehensive income

(million yen)

	Previous fiscal year from April 1, 2018 to March 31, 2019	Current fiscal year from April 1, 2019 to March 31, 2020
Net income	12,551	15,949
Other comprehensive income		
Net unrealized gain or loss on securities, net of tax	(112)	(133)
Cumulative translation adjustments	428	(592)
Adjustments for retirement benefits	20	34
Total other comprehensive income	336	(691)
Comprehensive income	12,888	15,257
Comprehensive income attributable to:		
Owners of the parent	12,888	15,257
Non-controlling interests	—	—

(3) Consolidated statements of changes in net assets
 Previous fiscal year from April 1, 2018 to March 31, 2019

(million yen)

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance as of April 1, 2018	33,239	21,328	53,602	(21,454)	86,716
Changes of items during the current fiscal year					
Cash dividends			(3,558)		(3,558)
Net income attributable to owners of the parent			12,551		12,551
Repurchase of treasury stock				(6,001)	(6,001)
Disposal of treasury stock		—		—	—
Net changes of items other than shareholders' equity					
Total changes of items during the current fiscal year	—	—	8,993	(6,001)	2,991
Balance as of March 31, 2019	33,239	21,328	62,595	(27,456)	89,708

	Accumulated other comprehensive income				Total net assets
	Net unrealized gain on securities, net of tax	Cumulative translation adjustments	Accumulated adjustments for retirement benefits	Total accumulated other comprehensive income	
Balance as of April 1, 2018	139	(1,142)	(292)	(1,295)	85,421
Changes of items during the previous fiscal year					
Cash dividends					(3,558)
Net income attributable to owners of the parent					12,551
Repurchase of treasury stock					(6,001)
Disposal of treasury stock					—
Net changes of items other than shareholders' equity	(112)	428	20	336	336
Total changes of items during the current fiscal year	(112)	428	20	336	3,328
Balance as of March 31, 2019	26	(713)	(271)	(958)	88,749

Current fiscal year from April 1, 2019 to March 31, 2020

(million yen)

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance as of April 1, 2019	33,239	21,328	62,595	(27,456)	89,708
Changes of items during the current fiscal year					
Cash dividends			(4,270)		(4,270)
Net income attributable to owners of the parent			15,949		15,949
Repurchase of treasury stock				(2)	(2)
Disposal of treasury stock		0		0	0
Net changes of items other than shareholders' equity					
Total changes of items during the current fiscal year	—	0	11,679	(2)	11,677
Balance as of March 31, 2020	33,239	21,329	74,275	(27,458)	101,385

	Accumulated other comprehensive income				Total net assets
	Net unrealized gain on securities, net of tax	Cumulative translation adjustments	Accumulated adjustments for retirement benefits	Total accumulated other comprehensive income	
Balance as of April 1, 2019	26	(713)	(271)	(958)	88,749
Changes of items during the previous fiscal year					
Cash dividends					(4,270)
Net income attributable to owners of the parent					15,949
Repurchase of treasury stock					(2)
Disposal of treasury stock					0
Net changes of items other than shareholders' equity	(133)	(592)	34	(691)	(691)
Total changes of items during the current fiscal year	(133)	(592)	34	(691)	10,985
Balance as of March 31, 2020	(106)	(1,306)	(237)	(1,650)	99,735

(4) Consolidated statements of cash flows

(million yen)

	Previous fiscal year from April 1, 2018 to March 31, 2019	Current fiscal year from April 1, 2019 to March 31, 2020
Cash flows from operating activities		
Net income before income taxes	17,770	22,890
Depreciation and amortization	3,228	2,795
Impairment loss	393	—
Change in allowance for doubtful accounts	32	(25)
Change in accrued bonuses	223	49
Change in liabilities for retirement benefits for employees	214	258
Interest and dividend income	(189)	(289)
Interest expense	80	74
Exchange losses (gains), net	(127)	180
Loss on sales and/or disposal of fixed assets	30	62
Change in accounts receivable - trade	(858)	(2,117)
Change in inventories	1,621	(256)
Change in work in progress for game software	8,876	(4,293)
Change in notes and accounts payable - trade	1,665	749
Other	(7,286)	8,525
Subtotal	25,675	28,605
Interest and dividends received	191	265
Interest paid	(81)	(75)
Income taxes paid	(5,938)	(6,515)
Net cash provided by operating activities	19,847	22,279
Cash flows from investing activities		
Payments into time deposits	—	(6,019)
Payments for acquisition of tangible fixed assets	(2,093)	(2,273)
Proceeds from sales of tangible fixed assets	4	0
Payments for acquisition of intangible assets	(112)	(65)
Payments for purchase of investments in securities	(14)	(10)
Proceeds from sales of investments in securities	—	3
Payments for other investing activities	(182)	(213)
Proceeds from other investing activities	138	140
Net cash used in investing activities	(2,261)	(8,437)
Cash flows from financing activities		
Repayments of long-term borrowings	(1,473)	(1,579)
Repayments of lease obligations	(414)	(505)
Payments for repurchase of treasury stock	(6,001)	(1)
Dividends paid by parent company	(3,554)	(4,265)
Net cash used in financing activities	(11,443)	(6,351)
Effect of exchange rate changes on cash and cash equivalents	323	(823)
Net change in cash and cash equivalents	6,464	6,667
Cash and cash equivalents at beginning of year	46,539	53,004
Cash and cash equivalents at end of year	53,004	59,672

(5) Notes to consolidated financial statements

(Going concern assumptions) Not applicable

(Change in accounting standard)

Effective from the beginning of the fiscal year under review, subsidiaries of the CAPCOM Group for which International Financial Reporting Standards (“IFRS”) are applicable have adopted IFRS 16 “Leases.”

Accordingly, a lessee in all leases recognized right-of-use assets and lease liabilities, and presents depreciation expenses of the right-of-use assets and interest expenses of the lease liabilities in principle.

In adopting IFRS 16 “Leases,” the transition method is followed. Regarding the leases that were categorized as operating leases in the past, right-of-use assets and lease liabilities have been recognized from the beginning of the fiscal year under review. Due to the application, CAPCOM has recognized “leased assets, net” of 309 million yen for fixed assets and “lease obligations” of 46 million yen for current liabilities and “lease obligations” of 257 million yen for long-term liabilities on the Consolidated balance sheet for the year ended March 31, 2020.

The impact of this change on profit or loss for the year ended March 31, 2020 is immaterial.

(Segment Information)

1. Outline of business reportable segment

(1) Classification of business reportable segment

The business segments Capcom reports are the business units for which Capcom is able to obtain individual financial information separately in order for the board of directors to conduct periodic investigation to determine distribution of operational resources and evaluate their business performance.

Capcom has several operational headquarters, which plan comprehensive business strategies in domestic and overseas markets for their products and services, and develops its business activities.

Therefore Capcom’s reportable segments are based on the products and services its operational headquarters deal in and are composed of the following 3 units: “Digital Contents,” “Arcade Operations” and “Amusement Equipments.”

(2) Product and service line

“Digital Contents” develops and distributes home video games, online games and mobile games for consumers.

“Arcade Operations” operates amusement facilities which house amusement and arcade game machines.

“Amusement Equipments” develops, manufactures and distributes arcade game machines and amusement machines etc. to arcade and amusement facility operators.

2. Method of calculating sales and income (loss), identifiable assets and liabilities, and other items by reportable segment

The accounting procedure for the reportable segment is in principle the same with that for the consolidated financial statements.

Income by reportable segment is calculated based on operating income on the consolidated statements of income.

3. Information on net sales and operating income (loss), identifiable assets and liabilities, and other items by reportable segment
Previous fiscal year (from April 1, 2018 to March 31, 2019)

(million yen)

	Reportable segment				Other (Note 1)	Total	Adjustment (Note 2)	Consolidated total (Note 3)
	Digital Contents	Arcade Operations	Amusement Equipments	Total				
Net sales								
(1) Customers	82,982	11,050	3,422	97,455	2,575	100,031	—	100,031
(2) Inter-segment	—	—	—	—	—	—	—	—
Total	82,982	11,050	3,422	97,455	2,575	100,031	—	100,031
Operating income (loss)	23,315	1,096	(2,668)	21,743	811	22,554	(4,410)	18,144
Identifiable assets	54,109	7,730	6,420	68,261	617	68,878	54,528	123,407
Other items								
Depreciation and amortization	945	1,158	439	2,542	21	2,564	663	3,228
Increase in tangible and intangible fixed assets	108	1,215	294	1,618	18	1,636	931	2,568

(Note) 1. "Other" incorporates operations not included in business segments reported, including Character Contents business etc.

2. Adjustments are as follows.

(1) Adjustments of operating income (loss) of -4,410 million yen include unallocated corporate operating expenses of -4,410 million yen.

The corporate operating expenses, which do not belong to any reportable segments mainly consist of administrative expenses.

(2) Adjustments of identifiable assets of 54,528 million yen include unallocated corporate identifiable assets of 54,528 million yen.

(3) Adjustments of increase in tangible and intangible fixed assets of 931 million yen are capital investment by headquarters.

3. Operating income (losses) for segments are adjusted on operating income on the consolidated statements of income.

Current fiscal year (from April 1, 2019 to March 31, 2020)

(million yen)

	Reportable segment				Other (Note 1)	Total	Adjustment (Note 2)	Consolidated total (Note 3)
	Digital Contents	Arcade Operations	Amusement Equipments	Total				
Net sales								
(1) Customers	59,942	12,096	6,533	78,572	3,018	81,591	—	81,591
(2) Inter-segment	—	—	—	—	—	—	—	—
Total	59,942	12,096	6,533	78,572	3,018	81,591	—	81,591
Operating income (loss)	24,161	1,211	2,085	27,458	544	28,003	(5,176)	22,827
Identifiable assets	53,117	7,624	13,100	73,842	554	74,396	69,070	143,466
Other items								
Depreciation and amortization	840	1,163	152	2,157	16	2,173	621	2,795
Increase in tangible and intangible fixed assets	177	979	69	1,226	468	1,694	881	2,576

(Note) 1. "Other" incorporates operations not included in business segments reported, including Character Contents business etc.

2. Adjustments are as follows.

(1) Adjustments of operating income (loss) of -5,176 million yen include unallocated corporate operating expenses of -5,176 million yen.

The corporate operating expenses, which do not belong to any reportable segments mainly consist of administrative expenses.

(2) Adjustments of identifiable assets of 69,070 million yen include unallocated corporate identifiable assets of 69,070 million yen.

(3) Adjustments of increase in tangible and intangible fixed assets of 881 million yen are capital investment by headquarters.

3. Operating income (losses) for segments are adjusted on operating income on the consolidated statements of income.

(Per share information)

	Previous fiscal year 〔 from April 1, 2018 〕 〔 To March 31, 2019 〕	Current fiscal year 〔 from April 1, 2019 〕 〔 To March 31, 2020 〕
	(yen)	(yen)
Net asset value per share	831.37	934.28
Earnings per share	115.45	149.41

(Note) 1. The diluted earnings per share for the fiscal year under review is omitted as the Company has no residual securities.

2. The basis for computation of net asset value per share is as follows:

	Previous fiscal year (As of March 31, 2019)	Current fiscal year (As of March 31, 2020)
	(million yen)	(million yen)
Total amount of net assets	88,749	99,735
Amounts to be deducted from total amount of net assets	—	—
Ending balance of net assets attributable to common stock	88,749	99,735
Number of shares of common stocks used for computation of net assets per share (thousand shares)	106,751	106,750

3. The basis for computation of earnings per share is as follows:

	Previous fiscal year 〔 From April 1, 2018 〕 〔 To March 31, 2019 〕	Current fiscal year 〔 From April 1, 2019 〕 〔 To March 31, 2020 〕
	(million yen)	(million yen)
Net income attributable to owners of the parent	12,551	15,949
Amount not allocated to common stock	—	—
Net income attributable to owners of the parent allocated to common stock	12,551	15,949
Average number of shares of common stock outstanding during the fiscal year (thousand shares)	108,716	106,751