

**CAPCOM**

CAPCOM INTEGRATED REPORT

**2017**

*Leading World Creators*



# 2017

## Editorial Policy

Capcom's Integrated Report conveys initiatives aimed at improving corporate value over the medium- to long-term to shareholders, investors and all other stakeholders. This report is issued with the intent of creating opportunities for further dialogue.

This report was created according to the "International Integrated Reporting Framework" announced by the International Integrated Reporting Council (IIRC).

Furthermore, we aim to express ideas in a simple and easily understood manner and visually represent important items to aid understanding.

Details are available online.

## Period and Scope

This report reviews the fiscal year ended March 31, 2017 (April 1, 2016–March 31, 2017). When necessary, it also includes references to fiscal periods before and after this timeframe.

Unless otherwise indicated, the scope of data presented in this report is on a consolidated basis.

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Separate Volume: The Latest Development Report 2017

# UNIVERSAL EXCITEMENT



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## Corporate Philosophy

# “Capcom: Creator of Entertainment Culture that Stimulates Your Senses”

Our principle is to be a creator of entertainment culture. Through development of highly creative software contents that excite people and stimulate their senses, we have been aiming to offer an entirely new level of game entertainment. Since Capcom’s establishment in 1983, we have developed numerous products with world-class development capabilities as our strength.

Game content, an artistic media product that fascinates people, consisting of highly creative, multi-faceted elements such as characters, storyline, worldview and music, makes use of a variety of media that supports the development of an enriching society. Going forward, Capcom aims to become a unique company recognized by society as having the most entertaining content in the world.

Social (Contributions to Regional Revitalization) / P56



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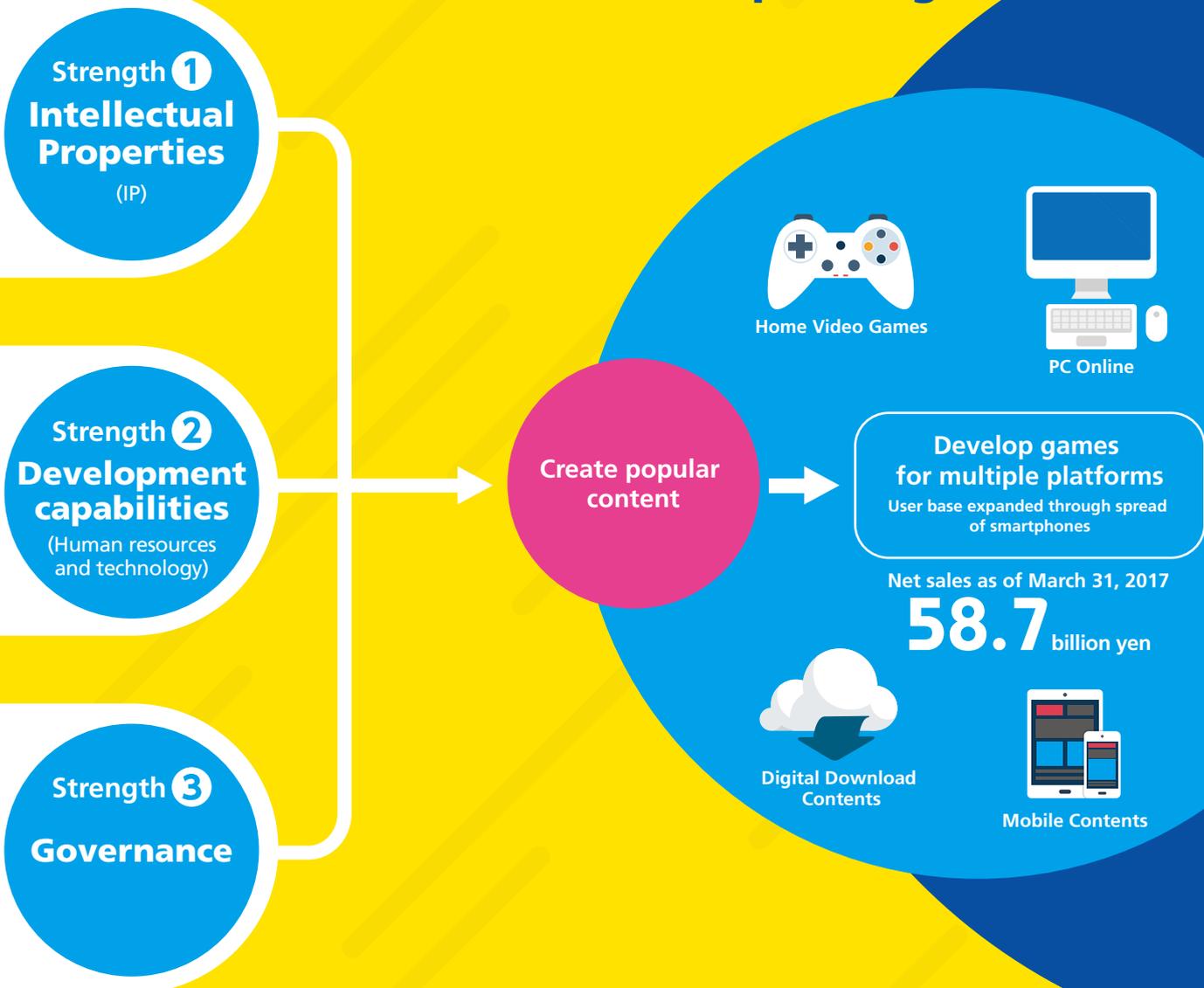
Photo by: Robert Paul

# Leverage our three strengths to create popular content and generate value to society

In line with our corporate philosophy, Capcom aims to improve its economic value; we do this by engaging in risk control through governance, while also creating original content (intellectual property) with our advanced development capabilities and fully leveraging the intellectual properties we've created. By providing the value generated through these activities to society and engaging in a series of activities to reinvest in the future, while also living up to the expectations of our stakeholders and society at large, we are growing our corporate value.

## Three Strengths

## Single Content Multiple Usage



Net sales as of March 31, 2017

# 87.1 billion yen



### Movies

Hollywood movies, animated movies, CG movies



### Arcade Game Machines

Token games  
Pachinko and pachislo



### Publishing

Strategy books, illustrated compilations, comics

## Multimedia development of content

Accelerate roll-out of content to various forms of media and cultivate non-game user segment

Net sales as of March 31, 2017

# 28.4 billion yen



### Events

Concerts, theatrical productions



### Arcade Operations

Facilities at shopping centers, big-box store locations



### Character Merchandising

Figures, T-shirts, Food, etc.

## OUTPUT (Non-financial Results)

2 titles achieved million-seller status

Hired 150 new graduates as developers

Operations began at new R&D building

5 local revitalization projects

58 educational support activities

Senior tours at 26 arcades

Transitioned to a company with an audit and supervisory committee

## Social Contributions

Provided joy and stress relief

Stimulated communication between generations

Advanced technology spurred new industries

Contributed to local revitalization

Provided space for senior citizens to interact

Created inbound effect from raising consciousness around gaming culture

Secured human resources in the IP industry

# Model



**Resident Evil series**  
Total number of units sold  
**77** million  
(As of March 31, 2017)



**Street Fighter series**  
Total number of units sold  
**39** million  
(As of March 31, 2017)

Strength **1**  
**Intellectual Properties**  
(IP)

# Capcom Characters Continue

## to Be Loved Around the World

We have continued to create a wealth of popular content (intellectual properties) since our founding, 34 years ago. Today, our IP are loved the world over, and we are working to maximize profitability by expanding from games into movies, animation, stage productions and other works.

### Key Points

- Numerous intellectual properties that are popular worldwide
- Multiplatform strategy for publishing to maximize number of units sold
- Single Content Multiple Usage strategy to roll out intellectual properties into wide range of fields, including movies and merchandise

**KPI**  
(Fiscal year ended March 31, 2017)  
Cumulative million-seller titles  
**79** titles

Number of units sold in fiscal year ended March 31, 2017  
**19.4** million units

Cumulative number of Hollywood movies using our IP  
**8** titles



### Mega Man series

Total number of units sold

**31** million

(As of March 31, 2017)

Appreciation from Society

Increasing brand awareness and growing our fan base

Using our IP to contribute to society

Brand value further increases

## Our Strengths Reinforce ESG

### Growing our fan base and contributing to society with our IPs

We actively use our intellectual properties to contribute to society. Capcom characters are highly popular among the youth demographic, so we utilize this brand awareness to support things like the development of the tourism industry, cultural promotion and the improvement of public order. Not only do these activities provide social value, but they can also be expected to introduce our content to a wider audience, further improving our brand value and growing our fan base.



### Monster Hunter series

Total number of units sold

**40** million

(As of March 31, 2017)

## Capcom Strengths



### 3D Scanning

→ Please refer to page 38



### RE ENGINE

→ Please refer to page 38

The Source of Our Creativity Is Our

# Outstanding Creators and Cutting-Edge Technology

## Strength ② Development capabilities

(Human resources  
and technology)

Our roughly 2,000 in-house developers work daily to improve quality in the aim of delivering top-level entertainment.

We opened our new R&D Building #2 in 2016, which is equipped with world-class development equipment and technology.

## Key Points

- One of the largest Japanese game studios in terms of number of developers
- Number to be increased to 2,500 developers by FY2021
- Development capabilities to create original titles
- Technological know-how to quickly support the latest technology

## KPI

(As of March 31, 2017)

Number of developers

# 1,994

Amount invested in development

(Fiscal year ended March 31, 2017)

# 27.7 billion yen



### Virtual Reality (VR)

→Please refer to page 38



### Motion Capture

→Please refer to page 38

- Hiring without regard to nationality or gender
- Providing a pleasant workplace



## Our Strengths Reinforce ESG

### Promoting diversity to increase quality of titles

In the game market, user interests and preferences are becoming increasingly diverse. As such, securing diverse human resources is a critical challenge in game development. At Capcom, members of our talented staff come from various backgrounds and are engaged in a wide range of activities regardless of nationality, gender or beliefs, allowing us to develop content with global appeal.



Strength ③  
Governance

The Key to Our Growth Strategy Lies in  
**Governance  
Reforms to Promote  
Management  
Visualization**

The game industry is a “hit business,” in which performance is affected by the presence or absence of hit titles. In such a business, avoiding risks through governance is essential for sustainable growth. We are working to further enhance management visualization as well as strengthen our organizational design to better allow our external directors to carry out oversight.

**KPI**

(Fiscal year ended March 31, 2017)

External Director Ratio

**50%**

Meetings with shareholders  
and investors

**362** times

External evaluation of  
governance by third party

**7.28/10**

Source: Nikkei NEEDS-Cges



In the fiscal year ended March 31, 2016, the external director ratio was 50%, up from 42% the previous year.

In the fiscal year ended March 31, 2017, meetings were held with shareholders and investors 362 times.



## Key Points

- Transitioned to a company with an audit and supervisory committee in 2016
- Promoting management visualization with a focus on numbers
- Proactive investor and shareholder relations

## Our Strengths Reinforce ESG

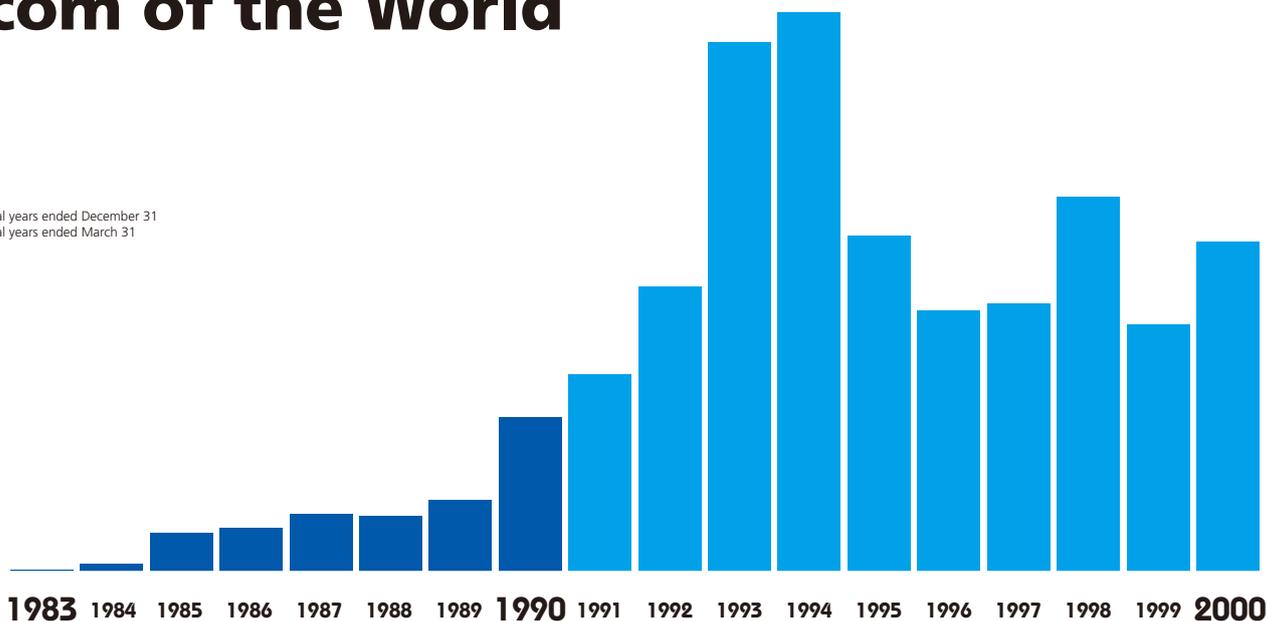
Promoting management transparency and visualization

While taking advantage of the quick decision-making and management flexibility inherent in a founder-lead company, in principle we prepare documentation based on quantitative data and promote management visualization enabling multiple checks in order to reduce the risks associated with management decisions.

# From Capcom of Japan to Capcom of the World

## Capcom Sales

Note: 1983–1988: Fiscal years ended December 31  
1989–2017: Fiscal years ended March 31



## Genesis

1983, Capcom Co., Ltd., was established in Osaka. The Nintendo Entertainment System (NES) came out that same year, but it was difficult to develop high-quality arcade-level content for, so Capcom focused business development on the creation and sales of arcade games using the proprietary high-spec circuit board “CP System.”

- 1979** Established the I.R.M. Corporation in Matsubara, Osaka (capital of 10 million yen) with objectives of developing and selling arcade game machines.
- 1983** Established the previous CAPCOM CO., LTD., (capital of 10 million yen) in Hirano, Osaka, with the objective of selling software.
- 1983** Established the Tokyo Branch in Shinjuku, Tokyo.
- 1985** Established CAPCOM U.S.A., INC., in California to distribute Capcom's products in the U.S.A.
- 1989** Merged the previous CAPCOM CO., LTD., with SANBI. Changed corporate name to CAPCOM CO., LTD., and moved the head office to Higashi-ku, Osaka.
- 1989** Established a resident office in the U.K.

## Big Hits Drive Business Expansion

In the 1990s, the arrival of Super NES prompted Capcom to formally enter home video game development. Numerous hit titles were created that drew on Capcom’s arcade game development expertise. The Single Content Multiple Usage strategy was launched in earnest in 1994 with the release of a Hollywood movie and animated movie based on *Street Fighter*.

- 1990** Stocks registered as OTC securities with the Japan Securities Dealers Association.
- 1993** Established CAPCOM ASIA CO., LTD. in Hong Kong to distribute Capcom’s products in Southeast Asia.
- 1993** Stock listed on the second section of the Osaka Stock Exchange.
- 1993** Held Street Fighter II Turbo Championship 93 in Kokugikan, a forerunner of today’s use of fighting games in eSports.
- 1994** Constructed head office, which was relocated to Uchihirano-machi, Chuo-ku, Osaka.
- 1995** Completed construction of the R&D Building.
- 1999** Stock changed listing to the First Section of the Osaka Securities Exchange.
- 1999** Adopted executive officer system.

## Title History

### 1983

Released our first originally developed coin-op *Little League*.



### 1984

Released our first arcade video game *Vulgus*.

### 1985

Released our first home video game *1942* for the Nintendo Entertainment System (NES).

### 1987

Released *Mega Man* for the NES.



### 1992

Released *Street Fighter II* for the Super NES.



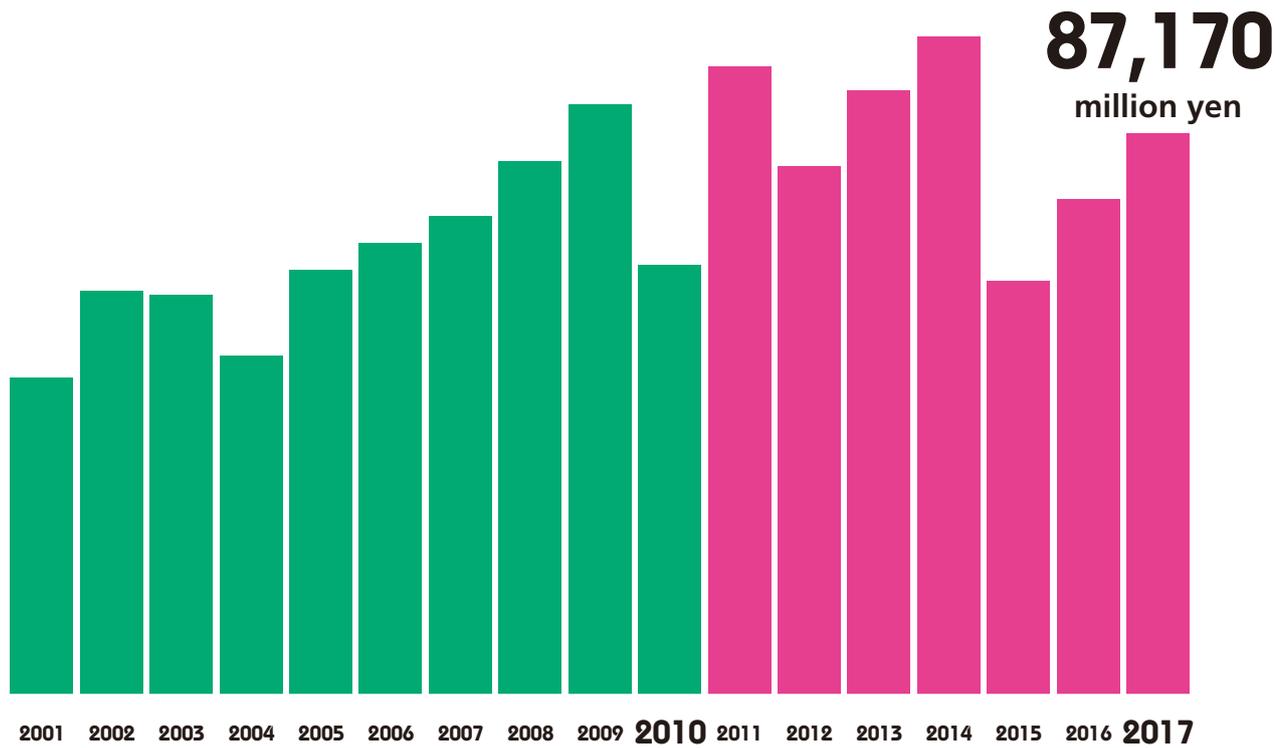
### 1993

Released *Breath of Fire* for the Super NES.

### 1996

Released *Resident Evil* for PlayStation, a long-time seller which had record breaking sales, and established the genre of survival horror.





## Going Global

In 2000, Capcom listed its shares on the First Section of the Tokyo Stock Exchange. In the 2000s, Capcom created one hit title after another that gained popularity overseas. The Hollywood movie version of *Resident Evil* earned 102 million dollars globally, part of a six title hit series that continues to spread the Capcom brand throughout the world.

- 2000** Stock was listed on the First Section of the Tokyo Stock Exchange.
- 2001** Appointed two external directors for the first time.
- 2002** Established CE EUROPE LTD. in the U.K.
- 2002** Increased the number of external directors by one, bringing the total to three.
- 2002** Established the Compensation Committee.
- 2003** Established CEG INTERACTIVE ENTERTAINMENT GmbH in Germany.
- 2003** Established the Compliance Committee.
- 2005** Launched educational support activities for elementary and junior high school students as part of our corporate social responsibility (CSR) as a game manufacturer.
- 2007** Established CAPCOM ENTERTAINMENT KOREA CO., LTD. in South Korea.
- 2008** Made ENTERRISE CO., LTD. a subsidiary.
- 2008** Made K2 CO., LTD. a wholly-owned subsidiary.
- 2008** Established Capcom Entertainment France SAS in France.

## Media Diversification

The smartphone and tablet game app market is growing rapidly. Capcom has released titles featuring our intellectual properties in this market. We are also staying ahead of technological advances by developing games for dedicated consoles that make use of virtual reality.

- 2010** Established CAPCOM GAME STUDIO VANCOUVER, INC. in Canada.
- 2011** Established the Audit Committee.
- 2012** Established CAPCOM TAIWAN CO., LTD. in Taiwan.
- 2015** Signed a Comprehensive Partnership Agreement with the city of Kofu to promote vitalization of the local economy by using Capcom characters.
- 2016** Completed construction of the R&D Building #2 in Osaka City.
- 2016** Transitioned into a company with an audit and supervisory committee, with a 50% ratio of external directors.
- 2016** Established the Nominating Committee.

### 2001

Released *Onimusha* for PlayStation 2. The first game for PlayStation 2 to become a million-seller in Japan. Released *Devil May Cry* for PlayStation 2.



### 2005

Released *Sengoku BASARA* for PlayStation 2.



### 2006

Released *Dead Rising* for Xbox 360. Became a million-seller, unprecedented for a new title created for a new game console.

### 2012

Released the home video game *Dragon's Dogma*. It sold over one million units, uncommon in recent years for a new brand.



### 2017

Released *Resident Evil 7 biohazard*. Full support for VR became a hot topic.



### 2018

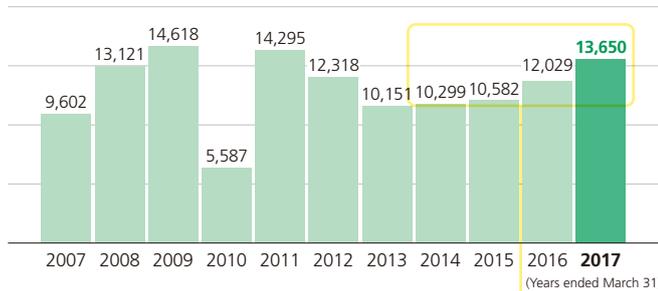
*Monster Hunter: World* to be released worldwide.

# Financial Highlights

## Operating Income/Operating Margins

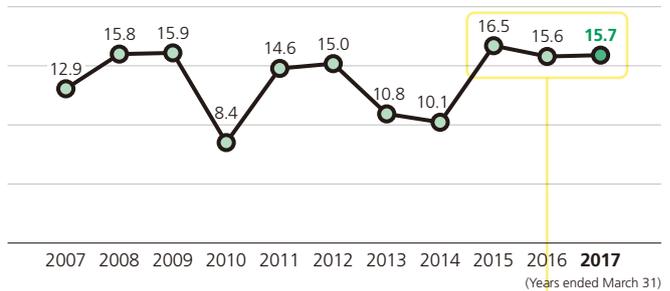
Operating Income (Millions of yen)

**13,650** million yen  
**13.5% UP** ↗



Operating Margins (%)

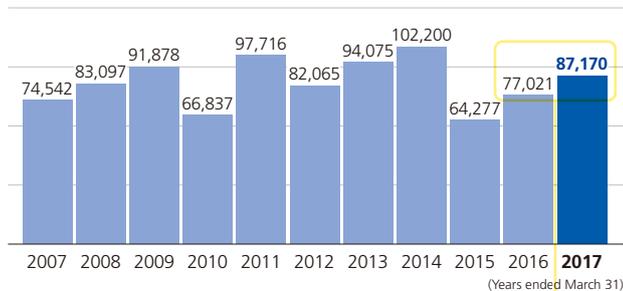
**15.7%**  
**0.1point UP** ↗



In line with structural reforms conducted in the fiscal year ended March 2004, operating income increased steadily until the fiscal year ended March 2009. In the fiscal year ended March 2010, the postponed release of major titles and the failure of some titles to meet sales targets overseas resulted in a temporary decline in income. In the fiscal year ended March 2011, we promoted profit structure reforms aimed at more efficient development investment. We promoted business restructuring by transitioning to in-house production and strengthened our digital download strategy in response to rapid changes in the market beginning in the fiscal year ended March 2013. As a result, operating income and operating margins underperformed until the fiscal year ended March 2014 while these reforms were implemented. However, since the fiscal year ended March 2014, operating income has increased for four consecutive fiscal years thanks to growth of the Consumer and Amusement Equipments businesses. Further, since the fiscal year ended March 2015, the operating margin has remained at approximately 16%.

Net Sales (Millions of yen)

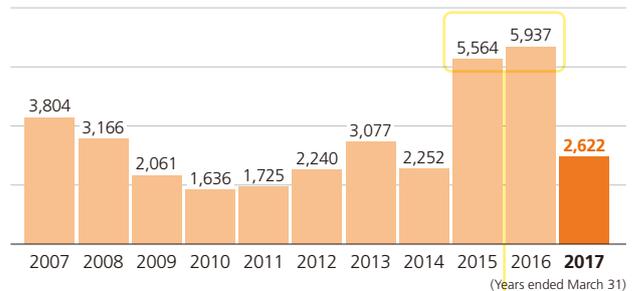
**87,170** million yen  
**13.2% UP** ↗



In the fiscal years ended March 2010 and March 2012, net sales declined due to the postponed release of titles. However, the promotion of structural reforms in the Consumer business resulted in Capcom achieving net sales of 100 billion yen in the fiscal year ended March 2014 for the first time. Although net sales decreased significantly in the fiscal year ended March 2015 due to a decline in pachislo machine releases, the steady release of major titles from the Consumer business since the fiscal year ended March 2016 has resulted in an increase in net sales for two consecutive fiscal years.

Capital Investments Costs (Millions of yen)

**2,622** million yen  
**55.8% DOWN** ↘



Capcom's capital investment is mainly used to (1) purchase development equipment, (2) expand business offices in Japan and overseas and (3) open new amusement arcades. The main factor behind the increase in capital investment in the fiscal years ended March 2007, March 2008 and March 2013 was development environment improvements in line with the transition to next generation game consoles in the Consumer area. In the fiscal years ended March 2015 and March 2016, capital investments increased substantially in line with an increase in development employees required to expand our title lineup and the construction of two new development buildings.

→Please refer to “11-Year Summary of Consolidated Financial Indicators” on pages 73–74

**Net Income Attributable to Owners of the Parent** (Millions of yen)

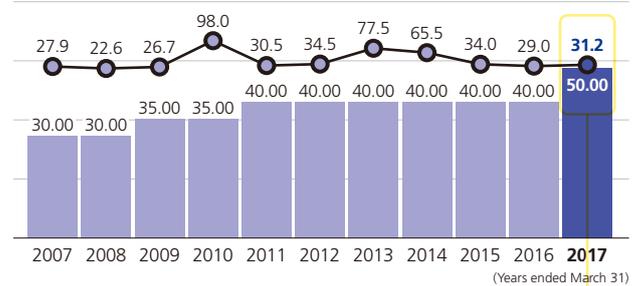
**8,879** million yen  
**14.6% UP** ↗



Performance was sluggish in the fiscal years ended in March 2010, 2013 and 2014, as (1) a complete overhaul to the Amusement Equipments' underperforming profit structure, (2) development structure revisions in line with enhanced digital downloads in the Consumer business and (3) strengthened Mobile Contents business management capabilities in line with development organization integration resulted in the recognition of special losses on restructuring and business restructuring expenses. **From the fiscal year ended March 2015, income increased four years in a row due to the benefits realized from development organization reforms.**

**Dividend per Share/Dividend Payout Ratio**

■ Dividend per Share (Yen)    ● Dividend Payout Ratio (%)  
**50.0** yen    **31.2%**  
**25.0% UP** ↗    **2.2point UP** ↗



In the fiscal year ended March 2007, the annual dividend was raised to 30 yen thanks to the stable revenue base brought about by structural reforms. Moreover, from the fiscal year ended March 2009, the annual dividend was increased to 35 yen, and again up to 40 yen beginning in the fiscal year ended March 2011. **In the fiscal year ended March 2017, it was raised again to 50 yen to clearly show shareholders that our basic shareholder return policy is to maintain a consolidated payout ratio of 30%.**

**R&D Investment Costs/Internal R&D Ratio**

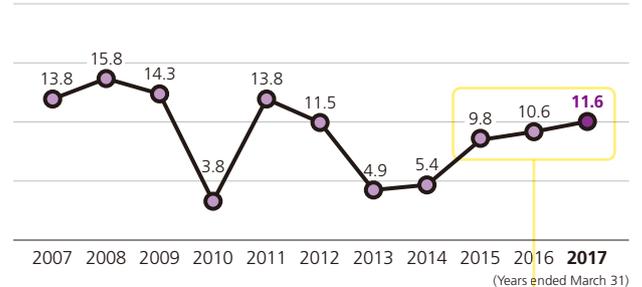
■ R&D Investment Costs (Millions of yen)    ● Internal R&D Ratio (%)  
**27,720** million yen    **74.7%**  
**1.7% UP** ↗    **4.8point UP** ↗



At Capcom, we believe the generation of creative and original content is the source of corporate growth, thus 80% or more of our annual development investments are allocated to the Digital Contents business. Recently in the Consumer segment, development costs have been trending higher in line with increasingly high-performance hardware, but we have been able to streamline development through increased employee utilization rates. Due to expanding our lineup, costs have increased significantly since the fiscal year ended March 2008; however, **we expect them to remain around 30 billion yen going forward.**

**Return on Equity (ROE) (%)**

**11.6%**  
**1.0point UP** ↗



Although net assets increased between the fiscal years ended March 2007 and March 2009, stable net income resulted in ROE of around 14%. In the fiscal years ended in March 2010, 2013 and 2014, this figure declined due to decreases in net income from the recognition of special losses on restructuring and business restructuring expenses. **From the fiscal year ended March 2015, ROE has once again been on the rise on the elimination of special losses and improved profitability.**

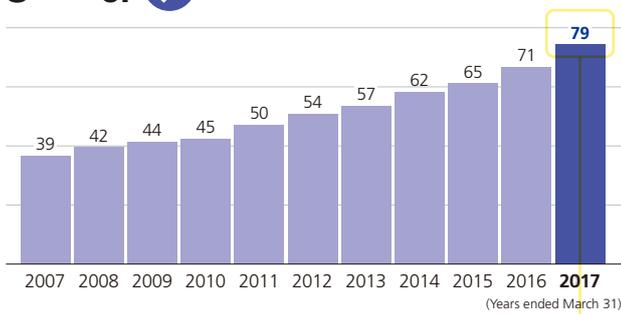
# Non-Financial Highlights

## Intellectual Capital

Cumulative Million-Seller Titles (Titles)

**79** titles

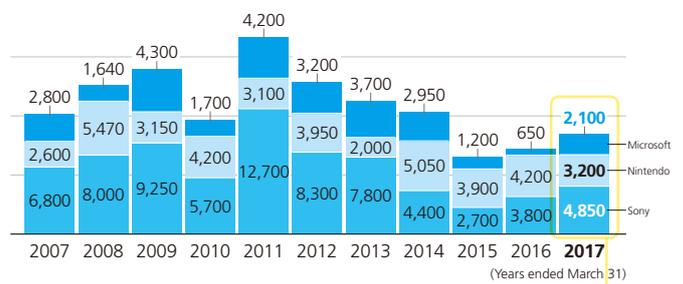
**8 titles UP** ↗



Capcom boasts world-leading development capabilities, as evidenced by our numerous intellectual properties. **Our content is popular around the world, and up to now, a total of 79 titles have sold over one million units.** In order to increase our brand value and profitability, we leverage this in-house produced intellectual capital across a wide range of media, including PC Online and Mobile, pachislo machines, movies and toys in promoting our Single Content Multiple Usage strategy.

Software Shipments by Hardware Manufacturer (Thousands of units)

■ Sony      ■ Nintendo      ■ Microsoft  
**4.85 million units**      **3.2 million units**      **2.1 million units**  
**1.05 million units UP** ↗      **1 million units DOWN** ↘      **1.45 million units UP** ↗



In the Digital Contents business, Capcom has established a basic “multiplatform strategy” aimed at providing content for multiple game platforms (hardware), ensuring steady sales of software for all types of hardware. Since the fiscal year ended March 2005, hardware has become increasingly diverse amid the accelerating spread of each type of hardware in various regions. **By providing titles based on hardware prevalence and attributes, we maximize sales opportunities.**

### TOPICS

#### Growing the *Resident Evil* Fan Base

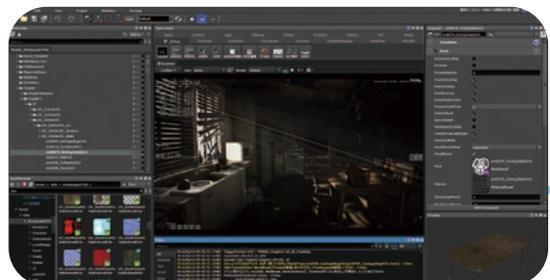
*Resident Evil* is one of our most popular series and features games in which players utilize a variety of weapons and other items to escape terrifying situations. The latest in the series, *Resident Evil 7 biohazard*, has sold 3.5 million copies worldwide. This game featured a dramatic switch from third-person to first-person play, as well as highly realistic graphics made possible by the RE ENGINE. In recent years we have been working to expand the fan base of the series by appealing to a wider range of age groups with products that include high-definition rereleases of past titles for current-generation game consoles.



### TOPICS

#### The RE ENGINE: a Development Tool for Higher Quality and Efficiency

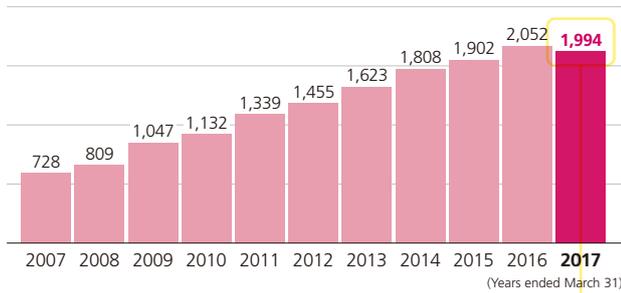
Capcom has long utilized our proprietary MT Framework engine; however, with the development of *Resident Evil 7 biohazard*, we also began using the new RE ENGINE to create realistic worlds for current-generation hardware. Not only has this made greater realism possible—from the texture of objects to dust motes floating in the air—but it has also enabled higher quality and more efficient game development, including reducing the testing time for program changes to one-tenth of what it was.



## Human Capital

Content Developers (People)

**1,994** people  
**58** people DOWN ↻



Developers engaged in the creation of content—the source of our competitive advantage—account for 70% of all Capcom employees. We are working to secure and train outstanding developers based on our desire to make the most entertaining games in the world, which has resulted in a nearly three-fold increase in developers in the past 10 years. Above all, switching to a structure focused on internal production in the fiscal year ended March 2012 to strengthen and streamline development has enabled us to hire more than 100 new graduates every year. In the fiscal year ended March 2017, that number decreased slightly mainly due to restructuring of our overseas development organization.

### TOPICS

#### A Game Born Out of a Women-Friendly Workplace

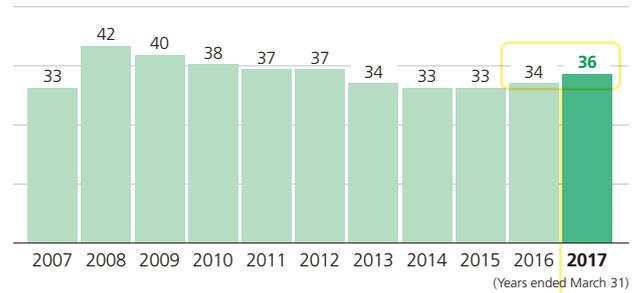
At Capcom, we are working to improve the working environment for women. Women now account for around 20% of our employees thanks to introducing maternity leave, childcare leave, shortened working hours and promoting the use of these benefits throughout the company. In the year ended March 2017, we released a romance game for women and developed primarily by female employees called *Toraware no Paruma*. Ideas that could only come from women are found throughout this new intellectual property, and it has earned the support of many users, even taking the number one spot in paid app rankings.



## Production Capital

Number of Stores in Arcade Operations Business (Stores)

**36** stores  
**2** stores UP ↻



In Japan, Capcom operates Plaza Capcom amusement facilities. These are predominantly in large commercial complexes, and we have diligently followed a scrap-and-build policy to maximize our efficiency in their operations.

Due to market stagnation, we had been cutting back on opening new stores since the fiscal year ended March 2009 and focusing on improving the profitability of existing locations, but more recently we have been opening new stores in locations with high concentrations of customers to secure new revenue streams.

### TOPICS

#### Cultivating New Customer Segments with Fresh Attractions

In the fiscal year ended March 31, 2017, which has been called “VR Year One,” we rolled out new attractions using VR, such as *Tokusatsu Taikan VR Daikaijyu Capdon*, at the Kichijoji Plaza Capcom. Additionally, we have been working to create new opportunities for earnings and expand our customer base, such as opening GAME LAND Shinsapporo, a new arcade with karaoke, in March 2017. This was our first facility in Hokkaido in 18 years.



# Environment, Social, and Governance Results

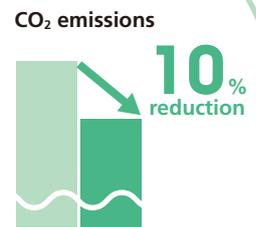
## Environmental



### 10% Reduction in CO<sub>2</sub> Emissions throughout All Buildings

Our new R&D Building #2 (opened in 2016) and the Capcom Technical Center are equipped with LED lighting and displacement air conditioning systems, which reduce CO<sub>2</sub> emissions by approximately 10%\* overall versus previous levels.

\* Assumes energy consumption of 100% without introduction of this equipment.



## Governance

### Governance Reform Initiatives

Generally, an owner-run company excels at flexibility and fast decision making, though concerns may exist over the difficulty of passing on management to the next generation. At Capcom, we strive to make management more transparent and visible, and have implemented various governance reforms. We proactively appoint external directors, with 50% of our directors now external directors.



#### Main Governance Reform Initiatives

Month/year	Measure	Purpose
Jul. 1999	Introduced Corporate Officer System	Clearly separated execution of management and supervision
Jun. 2001	Brought on board first two external directors	Strengthened management monitoring functions
Jun. 2001	Increased number of external auditors by one, appointing three	Strengthened auditing functions
Feb. 2002	Established Remuneration Committee	Secured fairness and propriety of director remuneration decisions
Jun. 2002	Increased number of external directors by one, appointing three	Strengthened management monitoring functions
Apr. 2003	Established Compliance Committee	Prevented violations of laws and ordinances
Apr. 2011	Established Audit Committee	Strengthening risk management through auditing the state of business administration
Jun. 2014	Shortened director terms from two years to one year	Clarified director management responsibilities
Jun. 2016	Transitioned into a company with an audit and supervisory committee, reaching a 50% ratio of external directors	Strengthened supervisory function of Board of Directors meetings
Jun. 2016	Established Nominating Committee	Secured objectivity and propriety of decision process for selecting director candidates

# Social

→ Please refer to "ESG-based Value Creation" on pages 53-72

## Opening an On-site Day Care Center

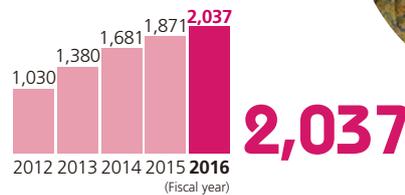
In addition to adopting maternity leave/childcare leave and shortened working hour systems, Capcom opened a day care center, Capcom Juku, near our office in April 2017. In recognition of efforts such as these, we have been awarded the Kurumin mark since 2014.



## Community Building Support for Senior Citizens

Today, amusement facilities, otherwise known as video game arcades, are increasingly popular among senior citizens as spaces for interacting with others. In order to make these facilities more comfortable for seniors to use, Capcom has been holding free video game arcade tours for seniors since 2012.

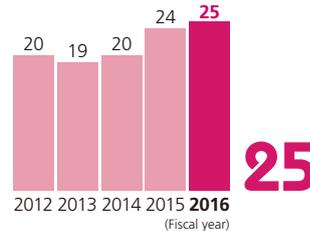
Cumulative number of participants in senior tours



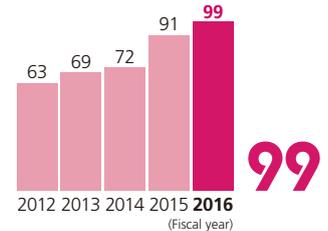
## Promoting Diversity

Capcom strives to provide a workplace where women can excel and actively hires non-Japanese employees as well. While the Japanese game industry is generally known for being a male-dominated industry, some 20% of our employees are female and we have 25 female managers (representing 11.4% of managers overall).

Number of female managers



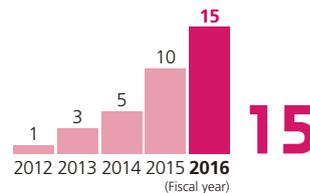
Number of non-Japanese employees (Capcom Co., Ltd.)



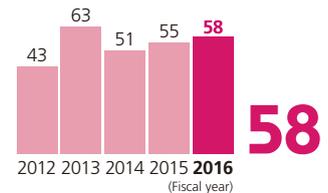
## Supporting Education and Regional Vitalization Across Japan

As a good corporate citizen trusted by society, Capcom strives to support education through efforts such as on-site classes offered to children. We also endeavor to support regional vitalization through our popular video game characters and through efforts to boost public safety and order.

Cumulative number of regional vitalization projects



Number of educational support activities



**Osaka prefecture**  
**Osaka Prefectural Police**  
**Boosting public order**  
Worked with the Osaka Prefectural Police to help educate the public about preventing vehicle-related theft.

**Kochi prefecture**  
**Higashi Nakasuji Middle School**  
**Educational support**  
Offered video game literacy education at Higashi Nakasuji Middle School in Shimanto, Kochi.

**Yamanashi prefecture**  
**Kofu city**  
**Regional vitalization**  
Provided Capcom characters to Kofu, Yamanashi for rubber stamp collecting events and for novelty items.

**Shizuoka prefecture**  
**Hamamatsu city**  
**Regional vitalization**  
Cooperated with development of a tour guide app for Hamamatsu, Shizuoka.

**Yamanashi prefecture**  
**Asahi Elementary School**  
**Educational support**  
Taught on-site classes on the connections between working at a video game company and arithmetic at Asahi Elementary School in Kofu, Yamanashi.

CEO Commitment



Kenzo Tsujimoto

Chairman and  
Chief Executive Officer (CEO)

To Create the World's Most Entertaining Games

# With a Solid Management Foundation and Capabilities, We Aim to Enhance Corporate Value through Content Branding



## Five Elements Required for Sustainable Corporate Value Enhancement

I think a manager's corporate social responsibility is exceedingly simple: by setting up a business and employing people, you grow your company, earn profit, pay taxes and then provide dividends; this allows you to build a relationship of co-existence and co-prosperity with stakeholders, and allows the Company to continue on.

I believe the perpetuation of this cycle leads to the sustainable enhancement of corporate value. However, this requires the incorporation of five elements: **1** a corporate philosophy and culture that fosters the

ambitions and values set out at our founding, **2** human resources that are passionate about growing the Company, **3** business advantages that leverages the Company's competitiveness, **4** management strategy that quickly responds to market changes and **5** governance (ESG) that facilitates risk control.

On the following pages, I will explain to our shareholders how we are favorably positioned in each of these five elements that facilitate sustainably enhancing corporate value.

### Management Foundation



### Management Capabilities



## Enhanced corporate value

Create the world's most entertaining games  
Provide shareholders with dividends  
Contribute value to society

## CEO Commitment

Elements for Enhancing Corporate Value **1** Corporate philosophy and culture **2** Human resource capabilities **3** Business advantages

### Our Three-Tier Management Foundation is the Bedrock of our Competitive Advantage

#### Corporate Philosophy and Culture— We Value the Ambition to be the Best in the World

Capcom’s basic philosophy is to create an entertainment culture through the medium of games by developing highly creative content that excites and stimulates the senses. In other words, we help build an emotionally rich society by creating entertainment culture with the world’s most entertaining games.

➔ For details, please refer to “Corporate Philosophy” on page 02

In 1983, I founded Capcom under the motto of “originality and ingenuity” with the vision of developing games people would find entertaining; in a word, I wanted to create games of world-class quality. Underpinning this was my belief that increasingly sophisticated graphics and more immersive worlds would eventually make games as moving and impressive as a Disney film.

34 years later, I have amassed more than 2,800 colleagues who share this vision. These values have become our corporate culture and DNA, with (1) a spirit that is always eager to take on new challenges and (2) a sense of pride to constantly strive to be world-class deeply ingrained in every Capcom employee.

Again and again, we have been able to produce unique series, including *Street Fighter*, *Resident Evil* and *Monster Hunter* because of the fertile soil of a corporate culture cultivated over many years.

#### Human Resource Capabilities— A Sincere and Unwavering Spirit

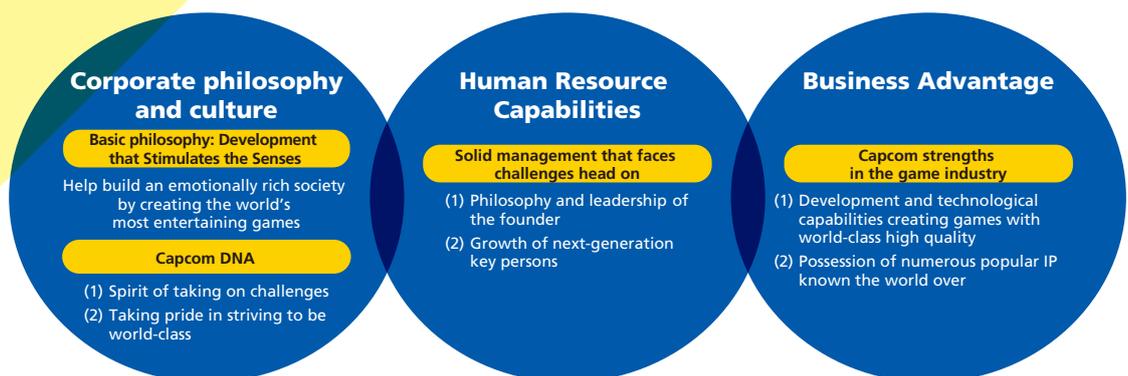
Within corporate management, people’s character and spirit are important management resources that have a substantial impact on corporate value. In last year’s integrated report, I discussed my management philosophy and capabilities as founder, demonstrated by: (1) realizing the ambitions I had for Capcom at its founding to create multiple worldwide major hit titles and (2) persevering until we succeed, establishing both earnings growth and earnings volatility control since our founding.

➔ For details, please refer to “Capcom Management Resource VRIO Analysis and Evaluation/Measures” on page 76

At present, one of the concerns among our investors is the thinness of our management team as a founder-run company; in other words, have we prepared a management structure for the next-generation?

Key people for the next-generation are President Haruhiro Tsujimoto and Executive Corporate Officer Yoichi Egawa. Both have the qualities necessary for management. For example, even when Capcom was a small business, President Tsujimoto was on hand as a member of the founding family, working with the sense of responsibility and self-awareness inherent in a family-run operation. Even after becoming president, he never rested on his laurels: leveraging his diligence and sincerity, he went on to establish the Arcade Operations business, while also taking pains to utilize

Diagram 01 Three-Tier Management Foundation



our content across multiple mediums. As for Executive Corporate Officer Egawa, who joined Capcom right after its founding, he has a track record of delivering results: from working on the development of CP system boards to establishing the Pachinko & Pachislo and Mobile businesses, he has led R&D with an attitude of never running away, never giving up—no matter how tough the circumstances.

These two distinct individuals were also thoroughly trained by me, and when combined with the corporate culture we have cultivated over many years with the aforementioned approach to visualizing management, I think we have in place a robust team in whose management style long-term investors can place their trust.

**Business Advantages—  
Two Competitive Barriers**

Capcom’s strengths are (1) the development and technological capabilities to create world-class, high-quality games and (2) numerous popular branded IP known the

world over. [➔For details, please refer to "Capcom Management Resource VRIO Analysis and Evaluation/Measures" on page 76](#)

Combining these strengths with our capital and the relationships of trust we have with hardware manufacturers creates significant competitive advantages (profitability) in the Consumer sub-segment. Against this backdrop, in the consumer market, technological standards and development costs rise with each hardware cycle, while the life of major titles has grown longer and models for capturing user time and spending have come to predominate. [➔For details, please refer to page 44](#)

Furthermore, while strictly speaking not a competitive advantage per se, in sub-segments other than Consumer our rollout of popular IP across multiple mediums contributes to stable earnings. Moreover, if we make use of our strengths in the Mobile Contents sub-segment, there is a potential for it to become a core business in the future, thus we will continue to treat it as a management priority issue. [➔For details, please refer to "Growth Strategy" on page 29](#)

Elements for Enhancing Corporate Value **4** Management Strategy

## Increasing Fans of Capcom IP via Strategic Shift to Recurring Revenue Model

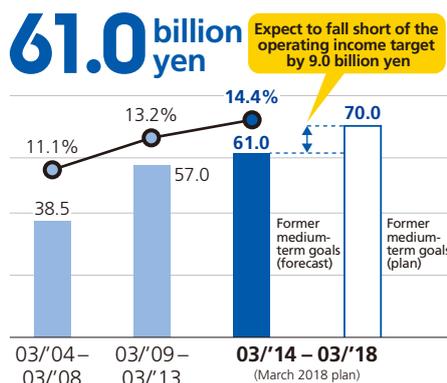
### 1. Summary of Former Medium-Term Goals

Up to now, we had aimed for operating income of 70.0 billion yen for the cumulative five-year period ending on March 31, 2018, and an operating margin of 20% in the fiscal year ending March 31, 2018 as our medium-term goals.

Our current forecast calls for operating income of 61.0 billion yen for the cumulative five-year period and an average operating margin of 14.4%, both of which are solid improvements over the previous two cumulative five-year periods.

However, we will fall short of our cumulative

**Diagram 02**  
Cumulative Five-Year Operating Income and Operating Margins (Billions of yen)



**Diagram 03**  
Operating Income by Business Segment (Cumulative Five-Year) (Billions of yen)

Business Segment	Medium-term goals				Compared to previous fiscal year	Compared to goal
	03/'04 – 03/'08	03/'09 – 03/'13	03/'14 – 03/'18	03/'14 – 03/'18		
Digital Contents	28.0	59.5	51.6	57.0	-7.9	-5.4
Arcade Operations	9.8	5.4	4.7	8.5	-0.7	-3.8
Amusement Equipments	13.2	8.9	21.6	20.0	12.7	1.6
Other Businesses	1.1	4.8	4.5	5.5	-0.3	-1.0
Adjustment	-13.6	-21.6	-21.4	-21.0	0.2	-0.4
<b>Total</b>	<b>38.5</b>	<b>57.0</b>	<b>61.0</b>	<b>70.0</b>	<b>4.0</b>	<b>-9.0</b>

## CEO Commitment

operating income target by 9.0 billion yen. [Diagram 02]

Breaking down causal factors by business segment [Diagram 03], in the Amusement Equipments business, by expanding our pachislo lineup and strengthening our sales structure, we were able to significantly exceed the profit level (1.6 billion yen over the target) of the previous ten years when we focused on the consignment business. The Digital Contents business made contributions through concentrating on in-house development of Consumer games and improving our download ratio. At the same time, although we focused efforts on in-house development to acquire Mobile management know-how, these efforts did not bear fruit. PC Online in-house development and alliances in Asia also failed to meet expectations, resulting in our falling short of the target by 5.4 billion yen. In the Arcade Operations business, we felt the impact of consumption tax hikes beginning in April 2014, resulting in lower earnings per customer and increased costs due to tax increases, causing us to miss targets by 3.8 billion yen.

Next, regarding the operating margin in the fiscal year ending March 31, 2018, we have been able to improve margins and maintain them in the mid-15% range, however this will put us 4.3% under the target. Similar to the reasons we failed to achieve operating income targets, the challenging conditions faced by our individual businesses were a factor. On the other hand, we have been flexibly making development and business investments for the future beyond those in our plans in order to achieve sustainable growth. For example, even if the construction of R&D Building #2 (increase in amortization expenses) and the hiring of more than

100 new graduates each year (lower productivity) impacts current margins, these were positioned as upfront investments executed to increase profits stably in the future.

In summation, we have made significant strides toward establishing the foundation for our core Consumer business to be a future driver of growth. This leaves us with the issue of the Mobile business, which can become the next pillar of growth.

Given the above, we have rescinded our previous medium-term business goals, and will work toward new medium-term business goals going forward.

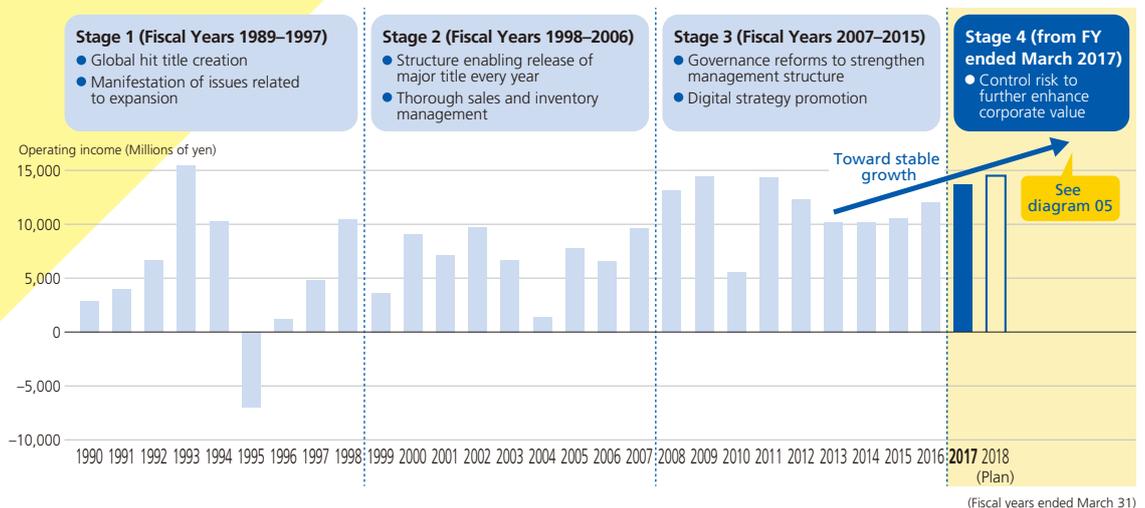
### 2. Establishment of New Medium-Term Goals (1) Management Direction

Capcom management policies are to (1) create exciting, world-class content (IP), (2) maximize earnings by leveraging our rich library of IP across multiple platforms and media and (3) maintain these activities to become a continuous sustainable growth company.

### (2) Management Goals

We have established operating income growth each fiscal year as the KPI for achieving the above. Rather than struggling to coordinate major title launch periods for this, we intend to take a natural approach of establishing a build-up model of stable growth. This will enable institutional investors managing pensions and individual investors on fixed incomes to maintain long-term holdings with confidence. As we are emphasizing annual growth, we have not announced

Diagram 04  
Four Management Stages and Operating Income Trends



a specific rate of increase, but we are considering a profit growth rate between 5%–10%. [\[Diagram 05\]](#)

**(3) Management Strategy**

We are currently in the fourth stage (beginning in fiscal year ended March 31, 2017), which is the culmination of my experience as a manager. The main theme now is controlling risks to further enhance corporate value as a sound growth strategy. [\[Diagram 04\]](#)

As a manager, I classify corporate risks into two main categories: earnings volatility risks and management decision risks. First I would like to discuss the control of earnings volatility risks.

To mitigate earnings volatility risks over the medium-to long-term, measures enabling sustainable growth must include (1) transforming the foundation of our Consumer business model from a traditional one-time sale “transactional model” to a continuous “recurring revenue model” and (2) creating a business portfolio and diversifying earnings risks by thoroughly leveraging Capcom’s basic strategy, Single Content Multiple Usage. [\[Diagram 05\]](#)

Historically, earnings in Capcom’s core Consumer business fluctuated depending on whether or not we created hit titles. Although we achieved some success (controlled earnings volatility) through timing the releases of multiple hit titles in the past, it did not meet my objectives for stable growth. However, since 2013, game consoles have been equipped with robust online functionality, enabling us to develop growth strategies around digital.

Specifically, new titles [\[Diagram 05-A\]](#) will work as

growth drivers as we (1) release approximately three major titles each year, (2) extend the sales life of the full game and additional digital downloads to 3–4 years, and (3) strengthen our presence overseas, which comprises approximately 85% of the market.

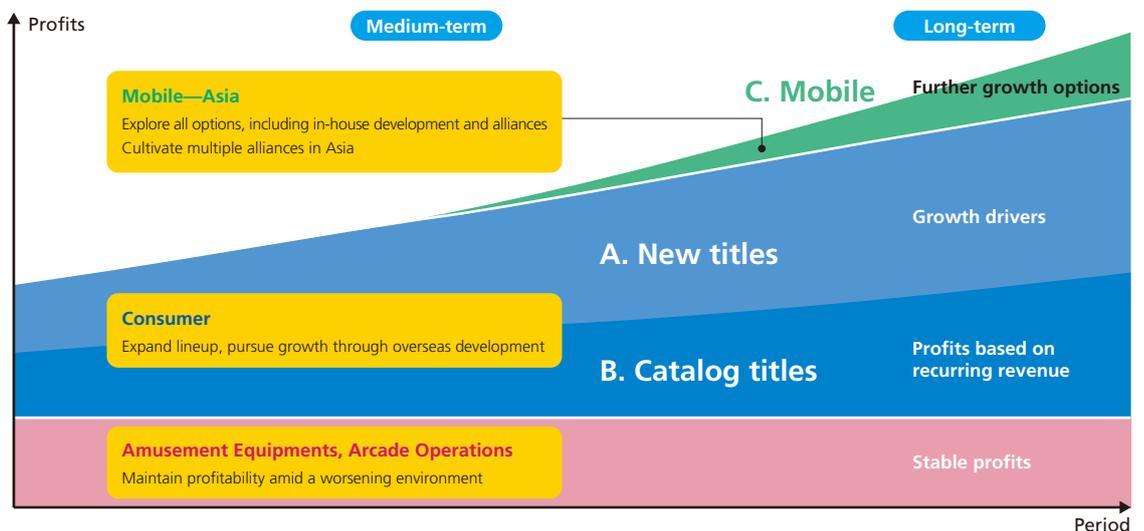
Next, in terms of catalog titles [\[Diagram 05-B\]](#), we will generate profits on a recurring revenue basis through (1) download sales of past titles and (2) the launch of past hit titles for current-generation game consoles.

Furthermore, our Single Content Multiple Usage strategy has not yet been of a scale sufficient to offset volatility in Consumer games. However, in addition to the fact that now Mobile and PC Online account for 75% of the market as game platforms, because both are recurring revenue businesses, we will thoroughly leverage our IP to pursue in-house development, alliances, M&A and a variety of other possibilities, building a business foundation as a further growth option (second pillar). [\[Diagram 05-C\]](#)

In the game industry, which is often called the hit business, Capcom will establish a management structure and strategy able to achieve sustainable growth other companies have yet to achieve while enhancing corporate value.

Diagram 05

**Medium-to Long-Term Growth Image**



## CEO Commitment

Elements for Enhancing Corporate Value **5** Governance (ESG)

### Creating Shared Value Unique to a Game Company while Tackling Social Issues

I believe that resolving social issues through business activities and building healthy relationships with stakeholders, while at the same time promoting the Creating Shared Value (CSV) concept that generates social and economic benefits, will lead to the enhancement of corporate value. [\[Diagram 06\]](#)

#### 1. Building a Healthy Relationship Between Games and Society

Traditionally, games have provided joy and stress relief; in recent years however, following an increase in mobile games, new issues such as minors spending large amounts of money on in-game purchases and real money trading (RMT) are beginning to appear. In recognition that this is a substantial problem for the industry overall, companies are working together primarily through industrial organizations to (1) establish guidelines and educate, (2) share information on issues and examples among member companies and (3) regularly exchange information with guardians, educators, consumer organizations and governments. [➔ For details, please refer to "Relationship with Customers" on page 55](#)

In addition, Capcom conducts literacy and career education to spread awareness of the proper way to interact with games as part of its educational support activities. These efforts are aimed at supporting the healthy development of young people and easing the concerns society has about the influence of video games.

#### 2. Commitment to Regional Communities

The promotion of our Single Content Multiple Usage strategy provides society with a wide range of benefits. Specifically, these include the use of popular Capcom IPs in local revitalization activities to support (1) economic development, (2) cultural development, (3) awareness for improved public safety and (4) awareness of elections. We are achieving quantitative social outcomes through solving the common problem of attracting and appealing to the youth demographic. [➔ For details, please refer to "Relationship with Regional Communities" on page 56](#)

At the same time, these four activities deliver value to Capcom in the form of (1) improving existing user satisfaction through event participation and (2) enhancing the image of games among middle-aged and seniors. With respect to (2) in particular, this segment cannot be considered current users, thus by contributing popular contents to local communities, we are able to cultivate new game users through their personal smartphones.

#### 3. Commitment to Employees

As can be seen from the fact that labor costs (base costs) account for approximately 80% of development costs, the game industry is a labor-intensive industry and an extraordinarily knowledge-intensive industry, thus human resources are an especially important management resource.

I recognize the importance of diversity for creating

Diagram 06 Initiatives for Creating Shared Value (CSV)



content that will resonate globally, thus Capcom promotes the retention and training of talented human resources without regard for gender or race. We also conduct various development programs, because human resource development is directly linked to strengthening our R&D capabilities. In addition, we not only bring together the world's most advanced development facilities and technologies, but also ensure a robust development environment that includes facilities such as an onsite daycare center, all of which allows developers to concentrate on their work. Regarding remuneration, in addition to regular bonuses, Capcom has introduced a system offering incentives and assignment allowances for each title in an attempt to further increase motivation. [➔ For details, please refer to "Relationship with Employees" on page 57](#)

In my view, the most critical aspect of human

resource development is providing an environment that enables employees to take on new challenges. Managers typically tell their employees to do this, but I think that if employees are being urged to, they must be provided with a proper safety net. Without a safety net in place, no one will jump onto the flying trapeze, even if they are pushed. The manager's role is to push employees to take on one new challenge after another, identify obstacles and come up with solutions. This enables employees to take on challenges without fear of failure, develop the world's most entertaining games and create new businesses leading to a virtuous cycle that creates business opportunities.

The management visualization initiatives in which I am engaged [\[see the next section\]](#) play a role in providing employees with a space in which they are free to grow and be active.

## Reducing Management Decision Risks through Governance Reforms Spanning 18 Years

The more we accelerate the execution of our growth strategies, the higher the risks become. I think governance is useful for avoiding and minimizing these risks. As risks can be broadly categorized into earnings volatility risks and management decision risks, I will now explain how governance can be used to control management decision risks. [\[Diagram 07\]](#)

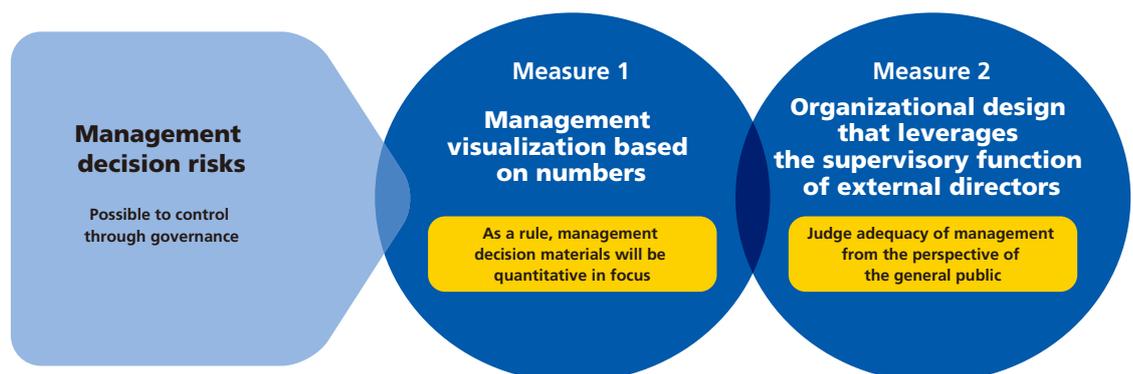
### Measure 1: Management Visualization Based on Numbers

In line with changes in company scale and business characteristics, I think it is important that management also be able to flexibly change its management style.

For example, when a company is small, management is like the pilot of a propeller aircraft engaging in visual flight. They are always present and make decisions based on confirming conditions with their own eyes. On the other hand, when a company is large, management is more like the pilot of a jumbo jet. In this case, it is too risky to make decisions based solely on visual flight.

Diagram 07

### Measures for Utilizing Governance to Reduce Management Decision Risks



## CEO Commitment

Accordingly, the pilot switches to instrument flight to control the aircraft. Similarly, corporate managers must rely on numbers to make decisions.

For this reason, I require that materials (documents) used for decision-making are, in principle, quantitatively focused. Specifically, these materials compare and contrast net sales, year-on-year performance and earnings forecasts, which make it easier to identify problems by enabling us to confirm complex combinations of data. Furthermore, these materials are used by external directors for supervisory purposes and provided to investors as part of our IR activities. This is part of the mechanism I call “management visualization.” Management decisions based on visualizing operations enable us to evaluate the Company with two sets of eyes using a system attempting to achieve management transparency.

Even when I talk with developers, numbers are the common language. Using only qualitative words and sentences leaves significant room for arbitrariness on the part of the person in charge. In comparison, numbers enable comparisons from a variety of angles, facilitating decisions based on real conditions.

“Businesses performing well should be left alone. The manager’s job is to focus initiatives on businesses that are facing problems or not proceeding according to plans, and to make changes enabling them to succeed. Top management exists to make decisions, not constantly hang around the workplace.” The risk control efforts I am engaged in at present, involve teaching next-generation members to effectively utilize the management experience I have accumulated as founder of the Company. The systemization of management will enable Capcom to continue functioning steadily into the future.

### Measure 2: Organizational Design that Leverages the Supervisory Function of External Directors

For the past 18 years, Capcom has executed a variety of governance reforms. → For details, please refer to page 17

Since introducing the external director system in the fiscal year ended March 31, 2002, external directors have increased to account for 50% of the Board of Directors as of June 2016. This is based in part on investor concerns that “as a founder-run company, Capcom can quickly make management decisions and respond to changes in the business environment, but isn’t there a risk of arbitrary decisions and execution?”

External director appointment criteria has not changed since the system was introduced, but in short, we appoint directors who are specialists and command the highest level of ‘insight’ into their respective areas, and who are able to objectively make decisions regarding Capcom’s management and business activities. With the avoidance of business investment risk as a priority issue, Capcom appoints individuals from Japan’s leadership class (in terms of business crisis management, law and government) who are able to provide sound opinions without making allowances for industry conditions, who are not intimidated by the company founder and who are able to determine validity from the general public’s point of view.

Furthermore, in June 2016 Capcom transitioned from a company with a board of corporate auditors to a company with an audit and supervisory committee. We determined that to maintain stable corporate management, we must further strengthen our management base and ability to thoroughly manage risks.

For additional details, please refer to the Governance section in this report on page 61.

### Enhancing Corporate Value and Shareholder Returns

## Management Philosophy Balancing 27 Consecutive Years of Dividend Payments and All-Time Highest Dividends\*

### 1. Basic Policy Regarding Dividends

“Given that we are building a foundation for stable growth and have achieved the fourth consecutive year of operating income growth, how do we approach shareholder returns?”

I think shareholder returns are an important management issue, thus dividends are determined with consideration for future business development and changes in the management environment.

And, the conclusion arrived at through discussions

\* Ordinary dividends excluding commemorative or special dividends

by the Board of Directors was that, to place more emphasis on the return of profits, we will strive to pay stable dividends with a consolidated dividend payout ratio of 30% as our basic policy. This means that we will pay dividends steadily in accordance with profit growth, without making judgments based on performance volatility in a single fiscal year, while also bearing in mind the continuation of stable dividends.

The reason I think both the payout ratio and stable dividends are important is, for example, because a sudden decrease or cessation of dividends can be the difference between life and death for pensioners who depend on dividends to cover part of their lifestyle expenses. Regular and stable revenue enables the reliable establishment of future lifestyle plans. This belief is based on my background, on having lost my father when I was young; even though I opened a retail business I struggled, however I felt gratitude for the stable revenue I earned each day. We also receive requests for stability from long-term investors who manage pensions.

Capcom shareholders represent all types of people, and I assume some of them may be facing these kinds of issues, which is why we have never once failed to provide dividends during the 27 years since we went public in 1990, and have steadily increased our dividend amount. [\[Diagram 08\]](#)

Capcom’s basic shareholder return policy aims to (1) enhance corporate value through investment in growth, (2) continue paying dividends (30% payout

ratio) according to performance levels while striving for stable dividends and (3) acquire treasury stock to increase the value of earnings per share. Over the past ten years, the dividend amount has increased 1.7 times. Furthermore, we believe it is also important to efficiently utilize shareholders' equity, thus we are improving ROE along with the acquisition of treasury shares.

➔ For details, please refer to “Financial Strategy According to the CFO” on page 39

## 2. Dividends for This Fiscal Year and the Next

In the fiscal year ended March 31, 2017, the ordinary dividend (excluding commemorative or special dividends) for the full fiscal year was an all-time high of 50 yen. Also, we acquired treasury stock in the amount of 1.48 million shares. In the next fiscal year (ending March 31, 2018), we plan on paying a dividend of 50 yen.

Going forward, we will continue to strengthen shareholder return by securing investment capital, buying back shares and gradually raising the dividend in line with earnings.

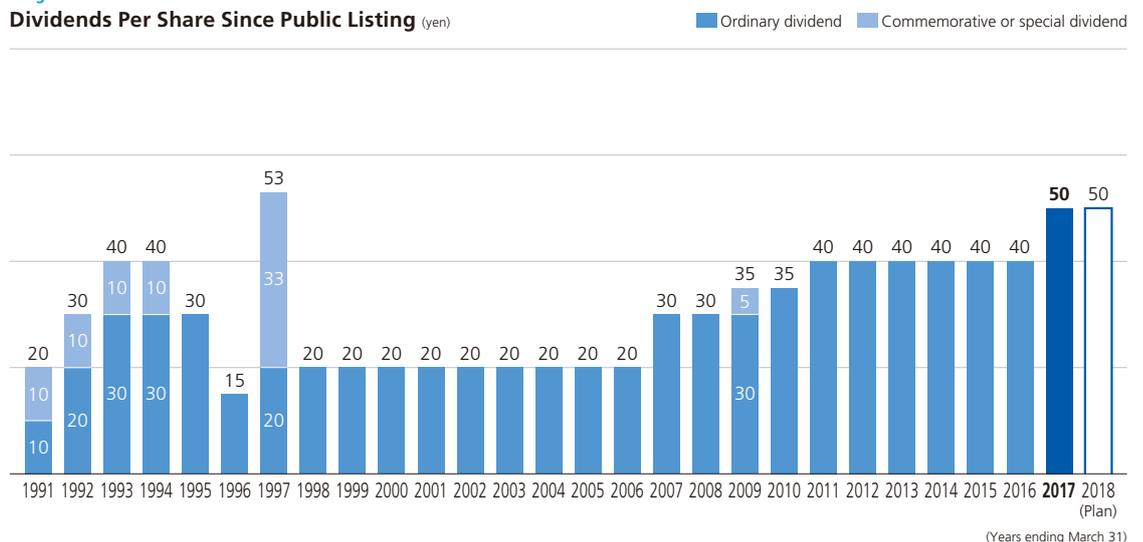
As a senior manager with 50 years of experience in this industry, my goal is to increase market capitalization and achieve corporate growth exceeding that of the past 34 years to continue meeting the expectations of all Capcom shareholders.

**Kenzo Tsujimoto**  
Chairman and  
Chief Executive Officer (CEO)



Diagram 08

Dividends Per Share Since Public Listing (yen)



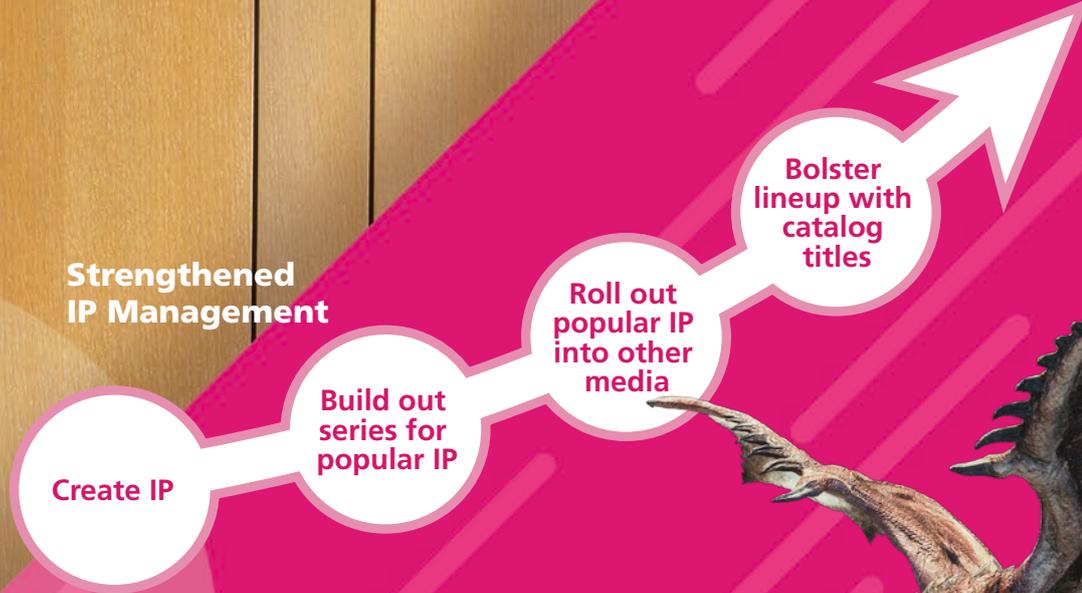
## The COO's Discussion of Growth Strategies

A portrait of Haruhiro Tsujimoto, a middle-aged man with dark hair, smiling broadly. He is wearing a dark navy blue suit jacket, a white dress shirt, and a red patterned tie. His right hand is raised in a fist, resting against his chest. The background is a warm, wood-grain texture. On the right side, there are large, semi-transparent pink and purple circular and rectangular shapes.

# Haruhiro Tsujimoto

President and  
Chief Operating Officer (COO)

Maximize user numbers and earnings of each IP



Bolster lineup with catalog titles

Roll out popular IP into other media

Build out series for popular IP

Create IP

## We are Promoting our Brands Globally by Strategically Leveraging Capcom IP

During the fiscal year under review, the game market saw the successive launches of both new game consoles as well as VR devices, which are highly compatible with games, marking the start of a new generation.

I view the biggest changes in the market this year to have been (1) the growth of digital downloadable content, which accounted for half of the consumer market, our core business, indicating further changes in user purchasing behavior and (2) in the mobile market, where current game play trends have peaked and we began exploring the evolution of what comes next.

To continue growing in this constantly changing

game market, it is critical that we aggressively utilize our rich library of IP, one of our strengths, in developing series and expanding into other media (Single Content Multiple Usage). In addition, rather than maintaining our conventional individual title-based marketing strategies and revenue management, I think it is necessary to, with a sense of speed, analyze platforms and user segments and strengthen brands more comprehensively by individual IP (series).

On the following pages, I will provide details on Capcom's growth strategy.

### Growth Strategy ① Consumer Business Expansion

- Steady Launches of Core IP in Global Markets
- Bolster Digital Downloads (Full-Game & Additional Content)
- Strengthen Brands on an IP Basis

### Growth Strategy ② Overhaul Our Online Business

- Domestic Alliances—Exploring Partnerships to Effectively Use Our IP
- Overseas Alliances—Promoting Regional Strategies in Asia, Europe and North America
- Internal R&D—Focusing Efforts on Developing High-Quality Games

Annual Growth in Operating Income

## The COO's Discussion of Growth Strategies

Diagram 09

Consumer Business Operating Margin (%)

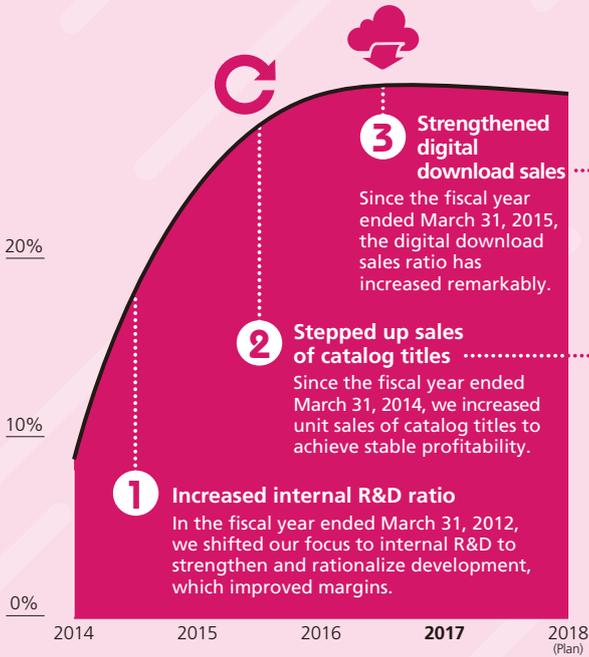


Diagram 10

Digital Sales and Digital Ratio

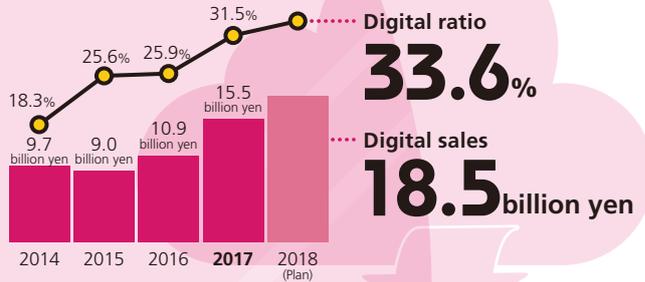
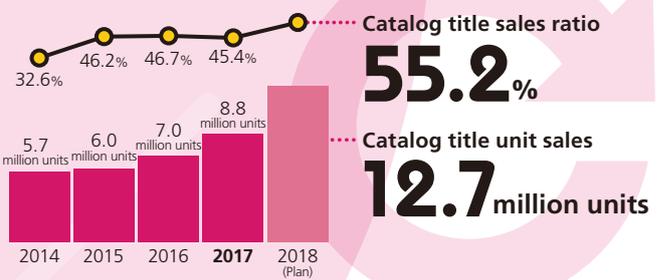


Diagram 11

Unit Sales and Ratio of Catalog Titles



Growth Strategy

1

# Consumer Business Expansion

## Overcoming the Earnings Volatility Unique to the Hit Business, Realizing Annual Growth in Operating Income

Generally, earnings fluctuate significantly in the Consumer business depending on whether or not you have a hit title.

To smooth fluctuations in performance and achieve stable growth, since 2012 Capcom has made efforts to transition to a recurring revenue model by promoting the (1) stable launch of core brands and (2) strengthening of download sales.

In the consumer market, which is expected to grow to 27.2 billion dollars in 2021 (up 28.3% compared to 2016), the increasing sophistication of development technologies is raising barriers to entry, causing a decline in the number of software developers. This is an advantageous environment for Capcom, as we possess a wealth of IP and strong technological capabilities. [Please refer to "An Analysis of the Market and Capcom" on page 75](#)

Capcom positions the Consumer business, our source of corporate value, as one of the most important businesses in our growth strategy. We will reduce performance volatility and realize our new medium-term business goal of annual growth in operating income through the implementation of the following three measures. [\[Diagram 09\]](#)

## Measure 1 Steady Launches of Core IP in Global Markets

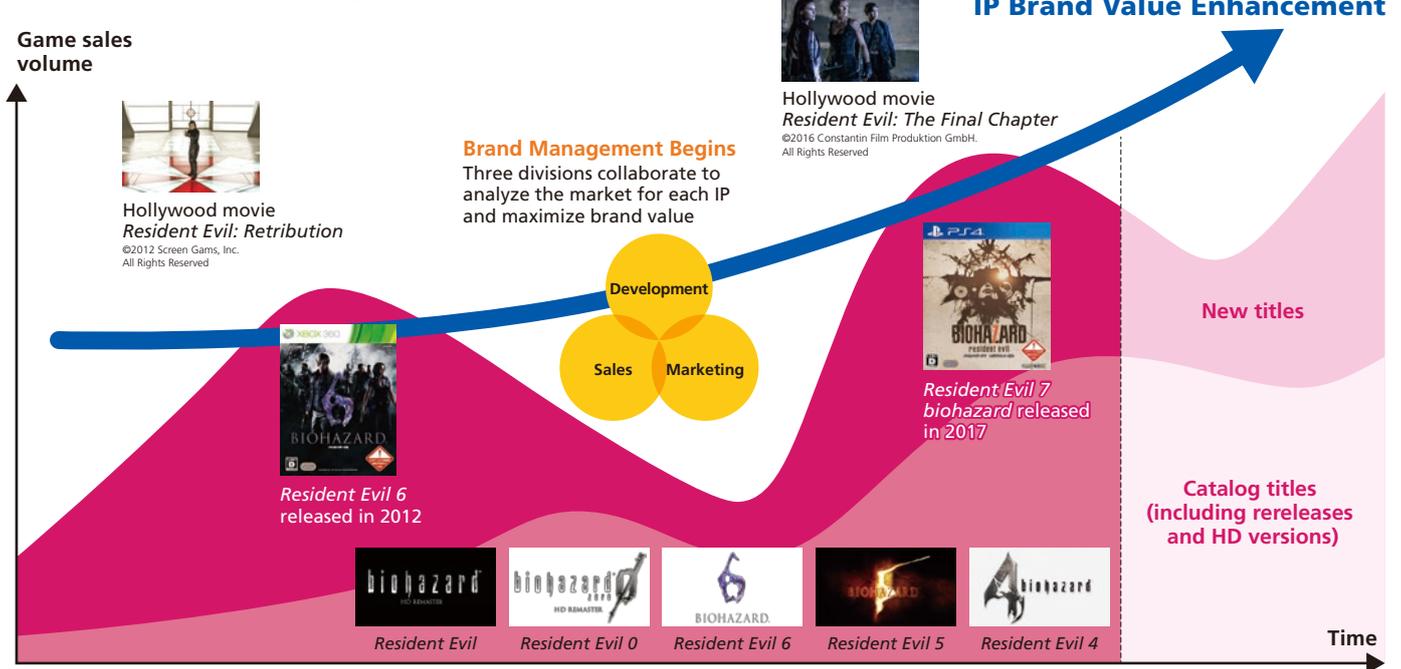
One of Capcom's strengths is our large library of popular IP, backed by our in-house production of legendary content. In the past, there were times when earnings fluctuated significantly due to the number of major titles launched during the fiscal year. [Please refer to Diagram 04 on page 23](#)

However, since structural reforms conducted in the fiscal year ended March 31, 2013, and the full-fledged use of our strategic map (60-month), we have formed a title portfolio focused on stable growth and established a mechanism for placing 2,000 developers on a 52-week map at the required time on the required development team. As a result, we shortened the launch cycle for each series from 3-4 years to 2.5 years, enabling the launch of multiple major titles each fiscal year; thus, we will expand our lineup over the medium- to long-term. [Please refer to Diagram 05 on page 24](#)

Furthermore, we think there is substantial room for growth in the European and North American markets, which comprise 85% of the consumer market. We will aggressively launch content already popular in these markets, including *Resident Evil* and *Street Fighter*, while strengthening the global expansion of the *Monster Hunter* brand.

Moreover, to achieve medium- to long-term growth,

Diagram 12

**Resident Evil Series Brand Strategy**

it is also essential to create new IP. Concurrent with the above measures, we are allocating a certain percentage of development investment to develop new brands.

### Measure 2 Bolster Digital Downloads (Full-Game & Additional Content)

The merits of digital downloads include (1) improved profitability (full-game downloads) due to package production cost reductions and avoidance of inventory risk, (2) additional earnings opportunities through full-game downloads of catalog titles, which can be difficult to sell in packaged form at physical retail shops, and (3) anchoring users by providing content on an ongoing basis and acquiring additional revenue (additional content).

In addition to new and catalog core IP titles, Capcom has strengthened distribution of digital downloads for current generation game consoles, and digital sales are growing steadily. [Diagram 10] In particular, catalog titles and rereleases for current-generation game consoles have contributed to revenue over the long-term as we have promoted the transition to a recurring revenue model. [Diagram 11] As for points 1 and 2 above, there is still a lot of room to expand our lineup, including with dormant IP, thus we will focus efforts toward this goal going forward.

In addition, with respect to additional content, we will focus on rolling out content best suited to the format, including releasing new characters in *Street Fighter*. This will not only promote ongoing user engagement and contribute to revenue, it will also lead to increased user satisfaction and expanded sales of upcoming titles.

Through these measures, we will increase our digital ratio from 31% at present, to 50% over the medium-term.

### Measure 3 Strengthen Brands on an IP Basis

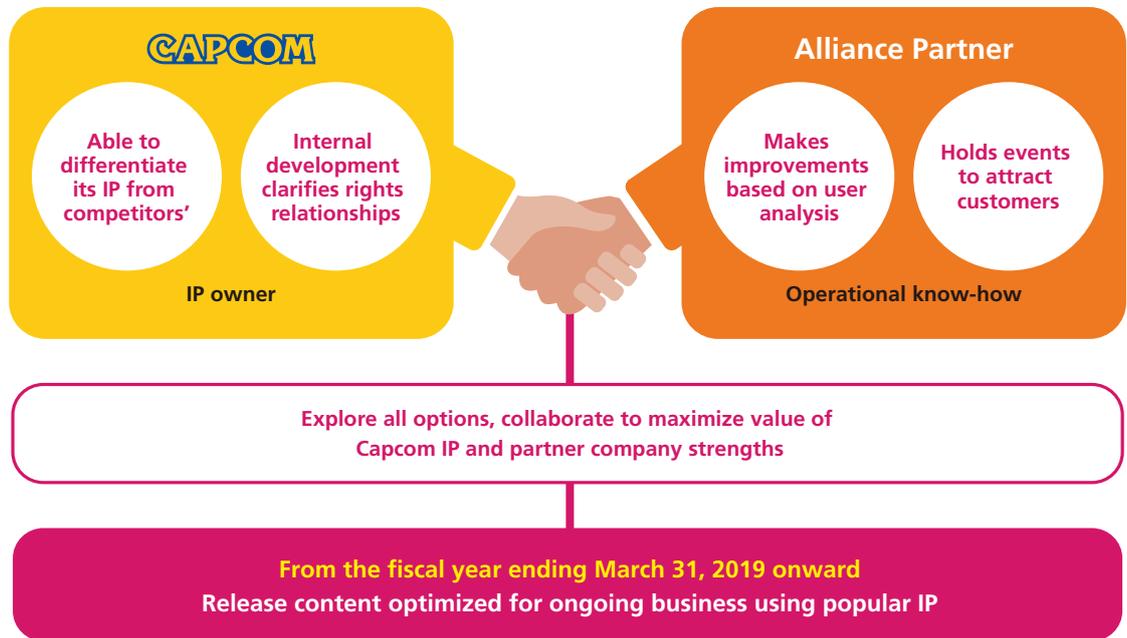
The potential for new titles to become hits in the current consumer market is declining because of the oligopoly of major titles requiring large investment and advertising expenses, longer sales periods due to the spread of digital downloads, and the increasing length of time users spend continuing to play a single game. Given this environment, IP brand strategy based on careful market analysis and sales strategy is extremely important for securing stable revenues. [Diagram 12]

Accordingly, assuming a long-term sales period for full-game downloads, with individual titles we will strengthen post-launch marketing measures such as additional content and pricing strategies, and maximize profits during the earnings period. Furthermore, we will attempt to strengthen brands and expand our fan base, leveraging synergies in sales by launching and developing promotions for not only new titles, but also catalog titles and rereleases for current-generation game consoles from the same IP during the same time frame. For example, in the run-up to our new title *Resident Evil 7 biohazard* this fiscal year, we rereleased *Resident Evil 4*, *5* and *6* for current-generation game consoles during the same time window, resulting in overall IP (*Resident Evil*) unit sales that substantially exceeded our initial plans.

We are working toward globally coordinating a three-pillar system comprised of our development, marketing and sales divisions in order to comprehensively analyze the user attributes, platform ownership status and price sensitivity for each IP, as well as to maximize revenues and brand power.

## The COO's Discussion of Growth Strategies

Diagram 13  
Mobile Contents Domestic Alliance Plan



Growth Strategy

2

## Overhaul Our Online Business

### Transforming the Mobile Business into a Growth Business: a Priority Issue for Management

Investors have asked “why is Capcom’s Mobile business lagging behind in terms of sales volume and growth rate, as compared to other companies in the same industry that are expanding revenues in the growing mobile market?” This is because, despite taking suitable measures to overhaul a primarily in-house development structure for the past three years, we have been unable to achieve satisfactory results. We recognize that the mobile game market accounts for the majority of the game market, and think our investors’ point is valid; thus, we made a decision: we will return to our foundation and maximize profits by thoroughly leveraging our advantageous position of possessing a wealth of popular IP. We will focus efforts on creating a business platform that places no restrictions on the Mobile business. In other words, going forward, we will explore all possibilities: not only internal R&D, but also alliances and M&A with companies specializing in the mobile sector.

### Measure 1 Domestic Alliances— Exploring Partnerships to Effectively Use Our IP

Critical prerequisites for success in the Mobile business include (1) possessing popular IP able to be differentiated from numerous other competing titles and (2) possessing the operational know-how to implement appropriately timed game content updates and in-game events based on user behavior analysis.

The challenge for Capcom is how to respond to the second point. Titles such as *Monster Hunter Explore* contribute to stable earnings, however, greater operational know-how will be needed in order to take advantage of business opportunities.

To resolve this issue, we will accelerate alliances in Japan. <sup>[Diagram 13]</sup> Specifically, as the market environment has intensified in the past year, the rising importance of point one has provided a tailwind, increasing alliance proposals from companies specializing in the mobile sector and enabling Capcom to negotiate multiple options.

When negotiating, we are leaving all options open, and will adopt an alliance structure that maximizes the strengths of both parties (Capcom’s IP and the target company’s operational expertise). We will consider aspects such as the IP, development structure, game genre, and monetization methods to be used in order to make the optimal decisions for each deal. At this

Diagram 14

## Mobile Content Strategy by Region

## Europe and North American Market

## Alliances

- Promote new projects and development of new genres with alliance partners

## In-house

- Ongoing management of existing content



## Japanese Market

## Alliances

- In negotiations with multiple partners, aim to launch content beginning in the fiscal year ending March 31, 2019

## In-house

- Integrate development organization to maximize resource utilization efficacy
- Begin development and management of new titles developed in-house with participation of Consumer segment creators



## Asian Market

## Alliances

- Accelerate development and operations by licensing out IP to major local companies

## In-house

- Ongoing development and operations through proprietary studios



juncture, I am unable to discuss which companies we are working with, specific titles or launch dates; however, once the details of an alliance are decided, we will make an effort to quickly move forward with development. Our aim is to begin launching titles from the fiscal year ending March 31, 2019.

### Measure 2 Overseas Alliances—Promoting Regional Strategies in Asia, Europe and North America

The overseas mobile market is four times larger than that of Japan and Asia in particular—which includes, China—is expected to drive growth going forward. In light of varying market characteristics in each region, Capcom will create hit titles promoting strategies tailored to each region. [\[Diagram 14\]](#)

First, in the Asian region, we had focused our efforts on PC Online development; however, the market is shifting towards mobile, so we will concentrate on the Mobile business going forward. Specifically, we will expand our business focusing on development and operations by licensing out IP to major local players. The reason for promoting licensing (alliances) is to avoid country risk in Asia and acquire operational know-how based on local user preferences. With the exception of Taiwan and a few other places where we are engaged in proprietary development, we have determined alliances to be effective at this time. Multiple projects

are already underway as we establish a foothold for full-scale efforts beginning in the next fiscal year.

In Europe and North America, where the proportion of female and younger users is comparatively higher than other areas, our analysis leads us to believe there is a significant opportunity for creating new genres unlike any other in conventional mobile games. We have already set our sights on several of these and have begun new projects and alliances with companies knowledgeable in this area.

### Measure 3 Internal R&D—Focusing Efforts on Developing High-Quality Games

Mobile device specifications have improved substantially and we predict that in one or two more generations we will be able to develop mobile games with quality rivalling that of Consumer games. Capcom will solidify its Mobile business foundation through alliances in Japan and overseas and, with an eye to the long-term, engage in internal game development for high-spec devices. By having Consumer game developers also participate in mobile development, we can pioneer new genres, as we did with *Toraware no Paruma*, while maximizing revenue by utilizing mobile as another platform in the multi-platform approach of our Consumer business.

## The Head of Development Discusses Development Policies and Foundation Building

Development  
Management

# The Foundation and Policies that Drive the World's Most Entertaining Games

The DNA of Capcom's game development is deeply infused with Chairman Tsujimoto's approach to craftsmanship: making the highest quality in the world, and going one step further to create something truly interesting. This thinking has not changed since the Company's founding. The exhilaration and sense of fulfillment of leading this elite group of talented individuals toward being the very best in the world is a feeling that I would not trade for anything.

Over the years, I have lead numerous projects, anchored by the motto of "never running away, and never giving up." Going forward, I am resolved to meet the expectations of the Chairman, and therefore the expectations of all of our customers, in my efforts.

My duties as the person responsible for development are to strengthen our development structure to ensure the world's highest quality games, while launching multiple major titles each year, scoring a hit mobile title, expanding our downloadable content offering, and leveraging our back catalog of titles. Beyond that, I must further strengthen our production pipeline, while working on the development of new IP.

To realize these goals, it is essential that we expand our development resources (our people). To this end, we formulated a human resource strategy that breaks from traditional approaches, and are focusing efforts on both recruiting and training development personnel, and building up our development environment.

## Yoichi Egawa

Director and Executive Corporate Officer  
In charge of Consumer Games Development  
and PS/AM Business Division



Diagram 15  
Main Pipeline (Plan for Fiscal Years 2015–2017)

Brand	Fiscal year ended March 31, 2016	Fiscal year ended March 31, 2017	Fiscal year ending March 31, 2018 (plan)
<b>Resident Evil</b>	<ul style="list-style-type: none"> <li>● Resident Evil: Revelations 2</li> <li>● Resident Evil 6*</li> <li>● Resident Evil 0*</li> </ul>	<ul style="list-style-type: none"> <li>● Resident Evil 7 biohazard</li> <li>● Resident Evil 4*</li> <li>● Resident Evil 5*</li> <li>● Umbrella Corps</li> </ul>	<ul style="list-style-type: none"> <li>● Resident Evil: Revelations*</li> <li>● Resident Evil: Revelations (NSW)</li> <li>● Resident Evil: Revelations 2 (NSW)</li> <li>● Resident Evil 7 biohazard Gold Edition</li> </ul>
<b>Monster Hunter</b>	<ul style="list-style-type: none"> <li>● Monster Hunter X (Cross)</li> </ul>	<ul style="list-style-type: none"> <li>● Monster Hunter XX (Double Cross)</li> <li>● Monster Hunter Stories</li> </ul>	<ul style="list-style-type: none"> <li>● Monster Hunter: World</li> <li>● Monster Hunter XX (Double Cross) Nintendo Switch Ver.</li> <li>● Monster Hunter Stories (ver.1.2)</li> </ul>
<b>Dead Rising</b>		<ul style="list-style-type: none"> <li>● Dead Rising*</li> <li>● Dead Rising 2*</li> <li>● Dead Rising 2: Off the Record*</li> <li>● Dead Rising 4</li> </ul>	<ul style="list-style-type: none"> <li>● Dead Rising 4 (PS4)</li> </ul>
<b>Street Fighter</b>	<ul style="list-style-type: none"> <li>● Street Fighter V</li> </ul>		<ul style="list-style-type: none"> <li>● Ultra Street Fighter II: The Final Challengers</li> </ul>
<b>Devil May Cry</b>	<ul style="list-style-type: none"> <li>● DEVIL MAY CRY 4 Special Edition</li> </ul>		
<b>Dragon's Dogma</b>	<ul style="list-style-type: none"> <li>● Dragon's Dogma: Dark Arisen (PC)</li> </ul>		<ul style="list-style-type: none"> <li>● Dragon's Dogma: Dark Arisen*</li> </ul>
<b>MARVEL VS. CAPCOM</b>		<ul style="list-style-type: none"> <li>● Ultimate Marvel vs. Capcom 3</li> </ul>	<ul style="list-style-type: none"> <li>● Marvel vs. Capcom: Infinite</li> </ul>
<b>Total</b>	<b>7 titles</b>	<b>11 titles</b>	<b>Over 11 titles</b> <small>Excludes unannounced titles as of September 30, 2017</small>

Notes: 1. \* indicates current generation game consoles 2. NSW: Nintendo Switch

The Head of Development Discusses Development Policies and Foundation Building

# People and Technology: Building Up the Dual Foundations Essential to Game Creation

## Bolstering Development Personnel

### Growing a Young Pool of Talent

Within the creative field of game development, the most important factor in being able to quickly adapt to the ever-increasing scale of game development, while at the same time bolstering the lineup of major titles needed to provide stable growth, is building up our personnel base. To this end, we have hired 100 developers every year since fiscal 2011 with the goal of maintaining a workforce of 2,500 developers by fiscal 2021. To ensure the quality and quantity of our human resources, we have introduced unique training and mentoring systems to increase both human skills and technical skills, establishing a practical means of developing young employees to become fully self-sufficient by their third year of employment.

The reason we choose in-house production over subcontracting, despite increased fixed costs, can be found in advancements in and the growing scale of game development. We judged that, in addition to there being few subcontractors able to provide us with the necessary support, creating an environment of friendly competition is essential to world-class development and technological capabilities.

### Developing Core Human Resources

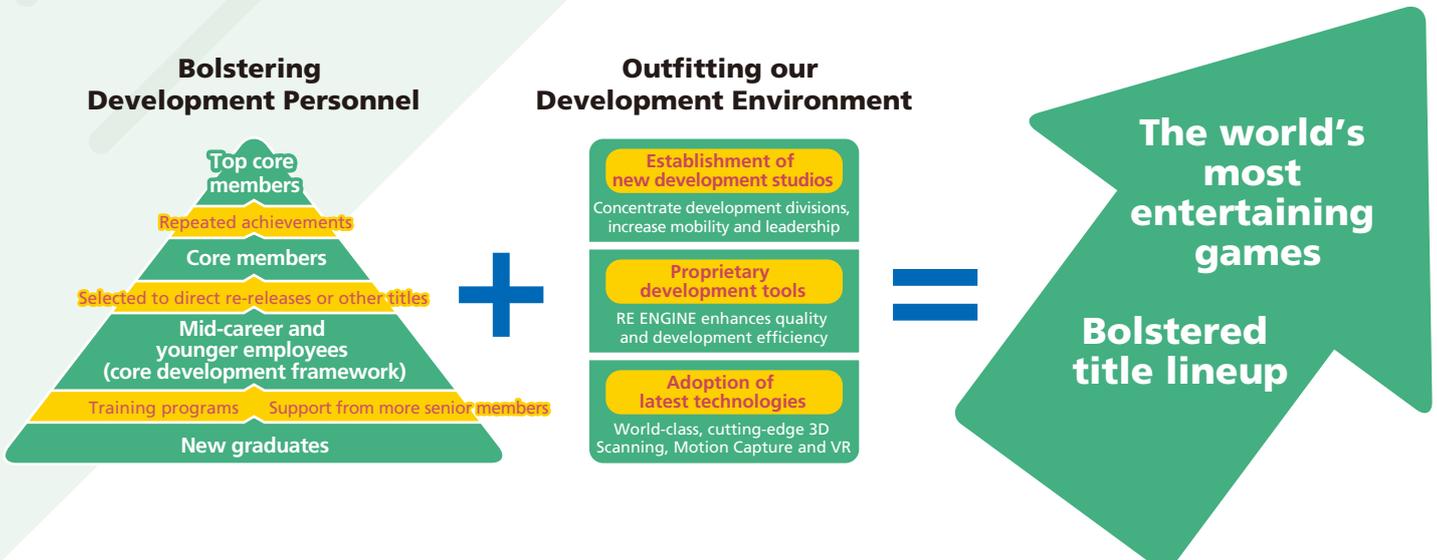
Another important initiative is developing mid-career and younger employees (core development framework) to become “core members” who will lead overall game development. No matter how much we increase the number of our younger employees, if we do not bolster core members such as producers and directors in each section, we will not be able to increase our title lineup.

We will selectively promote talented personnel in key areas and cultivate them through title development.

Occasionally, our employees must cope with failure, and sometimes they will hit a wall, but a wealth of experiences is the source of personal growth.

Within a development organization, I believe it is the responsibility of management to provide an environment enabling employees to take on challenges while reducing business risk from failure.

We are already seeing the result of this selective promotion reflected in major titles and current-generation console re-release titles. Going forward, we will also proactively assign young people to mobile development.



## Outfitting our Development Environment

It is our belief that building an environment to facilitate the creation of entertaining games and maximally leverage the talents of developers is vitally important, thus, we have established a number of world-class R&D centers and development facilities.

### RE ENGINE

Enabling graphical expressions nearly indistinguishable from live action, this engine also supports the latest technologies, including VR. Further, it dramatically shortens the time required for each process in game development. One merit of an in-house development engine is that the engine team is able to collaborate with the game development team to constantly improve specifications. This important foundational asset helps us realize quality appreciated the world over.



### 3D Scanning

Capcom has a 3D scanning studio world-class in scale and equipped with approximately 130 cameras. Photographing items in 360° enables them to be scanned as 3D objects.

This substantially reduces the time required for CG modeling traditionally done by hand, and in addition to efficiency, enables us to pursue even higher precision and quality.



### Motion Capture

This technique uses an infrared camera to detect actual human movement, which is converted to data on a computer. In pursuit of realistic character movement, we built a new studio boasting a ceiling height of seven meters, one of the largest in Japan. This makes it possible to record wire action, falling stunts and other actions from different heights.



### Virtual Reality (VR)

VR technology enables users to experience immersion in virtual worlds. Users are able to enjoy an overwhelming sense of realism as images completely fill their field of vision. *Resident Evil 7 biohazard* was the first game in the industry to be fully VR-compatible, and garnered high praise both in and outside the Company for providing a horror-entertainment experience beyond imagining.



## Financial Strategy According to the CFO

# Proactively Investing in a Stable Financial Foundation to Create a Virtuous Cycle of Growth

Kenkichi Nomura

Director, Executive Corporate Officer and Chief Financial Officer (CFO)

**Q** What is the basic policy underpinning Capcom's financial strategy?

**A** We support the achievement of our growth strategies from a funding perspective.

Capcom has made an effort to improve net cash and increase capital efficiency to build a lean financial foundation and secure funding to invest in growth. At present, we are executing a growth strategy aimed at enhancing corporate value over the medium- to long-term. We are increasing investment in R&D by approximately 30 billion yen every fiscal year to enhance the development environment in our core Digital Contents business and to bolster our title lineup. We will more closely scrutinize the selection and concentration of invested capital and thoroughly review cost of sales, selling, general and administrative expenses and other costs and strive to improve our earnings structure. We will support the achievement of growth strategies from a funding perspective by strengthening our financial base, and securing cash and commitment lines at a level commensurate with the scale of investment.

**Q** In what ways have you increased capital efficiency up to now?

**A** We exceeded our target for ROE.

We established a numerical target for ROE as an indicator of capital efficiency and achieved the following results.

Target: (Moving average for three fiscal years ended March 2017)	8-10%
Result: (Moving average for three fiscal years ended March 2017)	10.7%

We achieved the target with an ROE averaging 10.7% over the past three fiscal years. In terms of priority items underlying the achievement of this target, (1) with regard to net income margin improvement, we were able to achieve stable increases compared with the

previous three fiscal years. In addition, (2) TAT and (3) financial leverage are also on the rise.

ROE components	3/15	3/16	3/17	3/18(Plan)
(1) Net margin (%)	10.3	10.1	10.2	10.2
(2) TAT (%)	63.8	68.1	73.3	—
(3) Financial leverage (times)	1.41	1.50	1.53	—
ROE (%)	9.8	10.6	11.6	12.2

We forecast ROE of 12.2% in the next fiscal year.

We will perform composite checks comparing ROE to net sales, to the forecast, as well as year-over-year in order to continue improving these three factors.

**Q** How will you secure net cash and manage risks?

**A** We are working on building a mechanism to efficiently create net cash.

For Capcom to efficiently generate net cash, we formulated two new financial strategies focused on generating cash flows through process management. The first is to thoroughly manage return on investment. Accordingly, we manage a database able to compare the ROI status of each title while ascertaining and analyzing the investment profitability of each project. The second strategy is to maximize working capital efficiency. To this end, we are creating a framework to manage our investment turnover period and turnover ratio in a more visible manner.

Moreover, net cash in the fiscal year under review was 8.4 billion yen, which decreased for the third year in a row. In addition to increased development investment in accordance with bolstering our lineup, this was mainly due to an approximately 10.0 billion yen increase in accounts receivable, trade, due to titles launched at the end of the fiscal year under review. Considering accounts receivable, trade, at the end of each fiscal year, the amount has generally been maintained at roughly the

# Investing for Our Growth Strategy

## Financial Strategy Overview

### Strategy ①

## Improving Net Cash

ROI status for each title and thorough working capital efficiency

### Strategy ②

## Increasing Capital Efficiency

ROE  
10.7%  
(Moving average for three fiscal years ended March 2017)

same level as net cash for the past several fiscal years. Thus, we can say that assets contributing to so-called future growth, including the balance of titles in development, have been steadily rising. <sup>[Diagram 16]</sup>

with cash on hand (24,337 million yen) as well as an unused 21.7 billion yen commitment line of credit (total contract value: 26.7 billion yen) to maintain an appropriate range.

**Q** What is the status of internal reserves and fund procurement?

**A** We have secured levels enabling us to respond to normal increases in development costs.

Consumer game software development expenses have been on the rise since the arrival of high performance, multifunctional current-generation game consoles. In addition to requiring a development period of two or more years for a major title, greater penetration of digital download sales is lengthening the lifecycle for games as well as the investment payback period. Furthermore, even online games require ongoing investments for regular post-release updates and network infrastructure maintenance, thus we are required to keep a certain amount of cash on hand.

Given these conditions, to ensure our ability to procure funds, we determine the level of cash and cash equivalents that needs to be maintained in consideration of reserves from the investment plan and risk management. This amount will then be supplemented

**Q** Specifically, what kind of growth strategy investments do you make?

**A** We invest 80% of management resources into the Digital Contents business.

To achieve stable medium- to long-term growth, we recognize that it is critical to secure a sufficient amount of investment for the Digital Contents business, the source for our original IP. Specifically, in addition to an enhanced title lineup and new technologies including VR, we must invest in hiring more developers and improving our development environment. Accordingly, we will allocate about 80% of management resources (R&D investment and capital expenditure totaling 34.5 billion yen in the fiscal year ending March 31, 2018), amounting to an investment of 27.5 billion yen, in the Digital Contents business. Moreover, we use the asset in-development turnover rate as an indicator measuring investment level adequacy. In the fiscal year under review, the asset in-development turnover rate was 2.9, slightly higher than 2.8 in the previous fiscal year. <sup>[Diagram 17]</sup>

Diagram 16  
Net Cash on a Historical Basis (Billions of yen)

**8.4 billion yen**

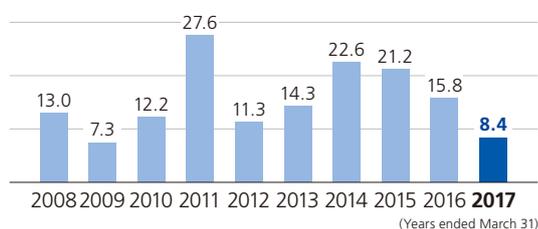
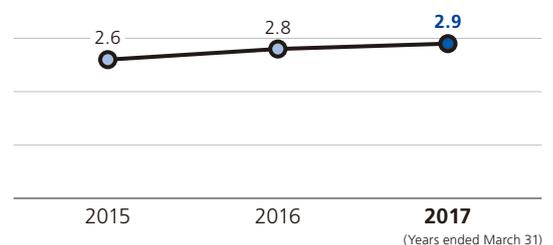


Diagram 17  
In-development asset turnover ratio (%)

**2.9%**



### Business Overview

### Operating Results for This Fiscal Year



## Digital Contents

This business develops and sells packaged games and digital download content for the Consumer sub-segment. It also develops and manages Mobile Contents and PC Online Games. Consumer games produces creative, original content with a focus on action and adventure. Many of these million-seller titles are used for smartphone, tablet device and PC online games distributed worldwide in order to maximize earnings.

### Consumer (Package + Digital Download Contents)

- We launched *Resident Evil 7 biohazard* to 3.5 million unit sales worldwide
- *Monster Hunter XX (Double Cross)* sold 1.7 million units
- Rereleases of past *Resident Evil* titles on current-generation game consoles performed admirably

### Mobile Contents

- Capcom Mobile was established to unify the Mobile business
- We released *Otomon Drop Monster Hunter Stories*



## Arcade Operations

We operate amusement facilities, primarily Plaza Capcom arcades, in Japan. These arcades are predominantly in large commercial complexes. We have diligently followed a scrap-and-build policy to maximize our efficiency in arcade operations, and have been hosting various events designed to attract families and female customers.

- We focused efforts on cultivating new customer segments, including free game experience tours for middle-aged and elderly persons and the installation of karaoke equipment
- Three arcades were opened, one unprofitable arcade was closed
- Sales at existing arcades were up 2% over those in the previous year



## Amusement Equipments

Here, we are engaged in two sub-segments that utilize the contents from our home video games. The Pachinko & Pachislo (PS) sub-segment is involved in the development, manufacture and sales of frames and LCD devices for gaming machines as well as software. The Arcade Games Sales sub-segment develops, produces and sells arcade games for amusement facilities, creating synergy between businesses.

- In the PS sub-segment, we sold 37,000 *Monster Hunter Kyoryu Sensen* pachislo machines
- We released *Mario Party Fushigi no Challenge World* arcade games in the Arcade Games Sales sub-segment



## Other Businesses

Based on our Single Content Multiple Usage strategy of developing game content for various media, we pursue a variety of copyright-related business opportunities including publishing (walkthrough and strategy guides as well as game art books) and licensing (music CDs and merchandise). Furthermore, we are concentrating on developing game content into movies and animated television programs.

- In line with our Single Content Multiple Usage strategy, we maximized earnings and strengthened brand power of proprietary content by laterally expanding into businesses related to game sales
- We contributed to maximizing unit sales of *Resident Evil 7 biohazard* and *Monster Hunter*-related titles with events tied into product launches

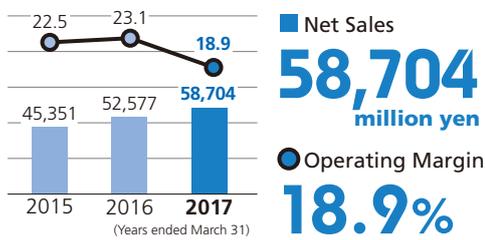
# gments

## Main Products for This Fiscal Year (Output)

### PC Online

- *Monster Hunter Frontier Z* for PC Online contributed steadily to earnings
- Sales of the online game *Dragon's Dogma Online* were firm

### Net Sales/Operating Margins



### *Resident Evil 7 biohazard*

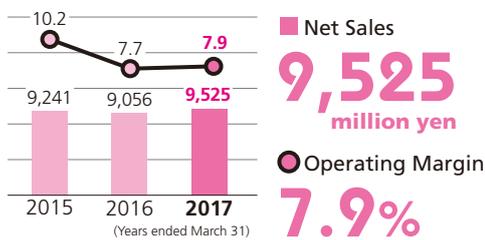
Building upon the series' roots of fear, exploration and tense atmosphere, this game garnered worldwide acclaim from both players and the press for overhauling its system and focusing on deeply immersive horror, selling 3.5 million units.



### *Monster Hunter XX (Double Cross)*

An evolution of the previous title this game featured a variety of new elements, including a new main monster and Hunter Arts. The game achieved 1.7 million units in sales by accurately reading the needs of fans; a Nintendo Switch version of the game was released in August 2017.

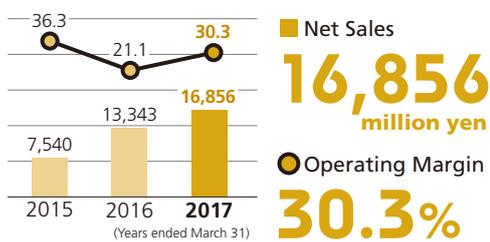
### Net Sales/Operating Margins



### GAMELAND Shin-Sapporo

In March 2017, we opened our first new location in Hokkaido in 18 years. It should appeal to a wide range of customers, with a capsule toy corner, karaoke rooms and other attractions.

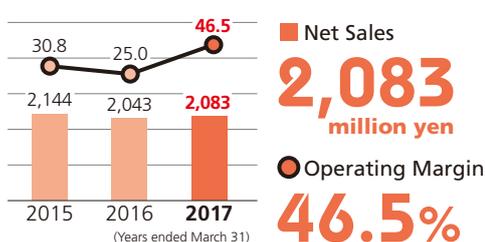
### Net Sales/Operating Margins



### *Monster Hunter Kyoryu Sensen Pachislo Machine*

This is the latest pachislo machine to utilize the *Monster Hunter* brand, which is popular in both the home video game and pachislo machine markets. The brand power of the series and the G-Slide movable liquid crystal screen garnered fan support and led to sales of 37,000 units, surpassing projections.

### Net Sales/Operating Margins



### *Resident Evil: The Final Chapter*

Screened worldwide in January 2017 in conjunction with the release of *Resident Evil 7 biohazard* (Japan got an early screening in December 2016). Box-office revenue reached 310 million dollars, the highest ever for the series.

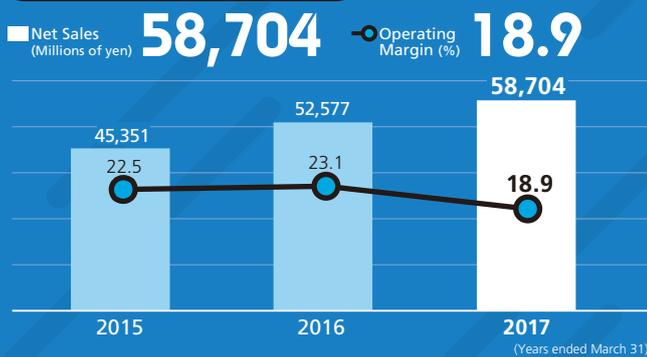
© 2016 Constantin Film Produktion GmbH. All Rights Reserved.



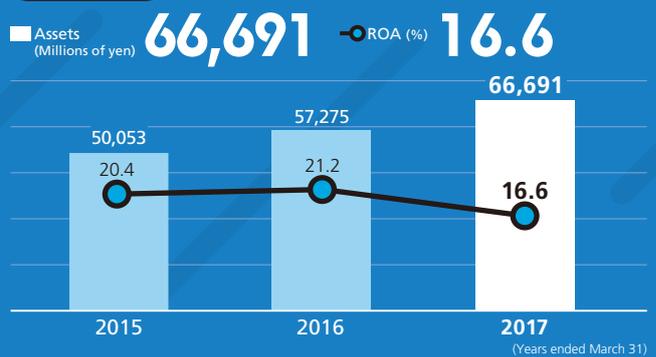
# Digital Contents

This business develops and sells packaged games and digital download content for the Consumer sub-segment. It also develops and manages Mobile Contents and PC Online Games. Consumer games produces creative, original content with a focus on action and adventure. Many of these million-seller titles are used for smartphone, tablet device and PC online games distributed worldwide in order to maximize earnings.

## Net Sales/Operating Margins



## Assets/ROA



## SWOT Analysis

S: Strengths W: Weaknesses O: Opportunities T: Threats

- World-class development and technological capabilities
- Own many original popular titles (intellectual capital)

- Dependence on specific genres
- Shortage of development staff
- Insufficient hit mobile titles and management expertise



- Decreased competition in Consumer business and DLC market growth
- Expansion of peripheral businesses in Consumer sub-segment (VR and eSports, etc.)
- Mobile contents market expansion

- Consumer game presence diminished by diversity of entertainment
- Low barriers for entry into mobile contents, large number of competitor firms

## Utilization of Non-Financial Capital

### Human Capital

- About 2,000 in-house developers

### Production Capital

- Global penetration of game consoles and smartphones
- Highly efficient proprietary game development engine

### Intellectual Capital

- Own many original popular titles (intellectual capital)
- User trust in the Capcom brand

### Social Capital

- Partnerships with development companies in Japan and other countries
- Partnerships with online game companies, primarily in Asia



Resident Evil 7 biohazard



Monster Hunter XX (Double Cross)



Dead Rising 4



Monster Hunter Stories

Diagram 18

Consumer Market (Billions of dollars)

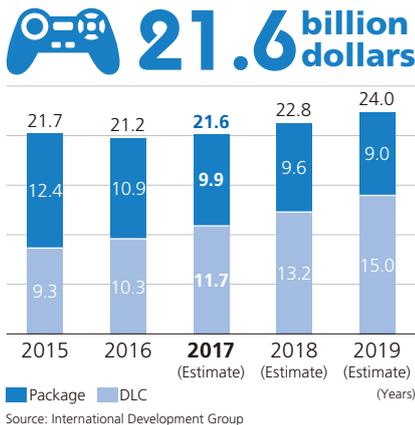
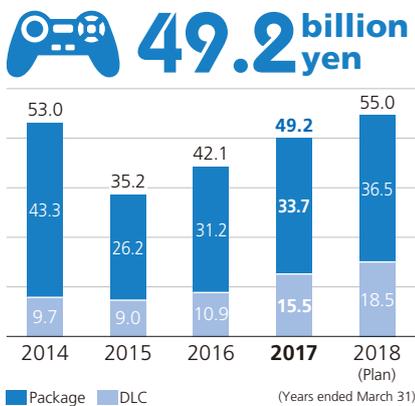


Diagram 19

Capcom Consumer Sales (Billions of yen)



## Consumer (Package + Digital Download Contents) Sub-segment

### Market Trends and Operating Results for This Fiscal Year

#### Despite market stalling at the previous year's levels, net sales increased 16.8% thanks to growth of major titles and digital download contents

In 2016, the consumer (package + digital download contents) market stayed at approximately the same level as the previous year, reaching 21.2 billion dollars (down 2.3% from the previous fiscal year). This was due to a changeover to current-generation game consoles and the enhancement of online functionality, accompanied by an increase in digital download sales and a decrease in packaged sales. The consumer market is primarily comprised of North America, Europe and Japan, and this trend was especially evident in the North American and European markets, which account for approximately 85% of this market. The highly profitable digital download contents market now accounts for roughly 48% of the consumer market. [\[Diagram 18\]](#)

The latest titles in Capcom's flagship series performed favorably overall, with *Resident Evil 7 biohazard* selling 3.5 million units and *Monster Hunter XX (Double Cross)* selling 1.7 million units. Moreover, with support from a steady user base, *Resident Evil 4*, *Resident Evil 5* and

*Resident Evil 6*, which were rereleased on current-generation consoles, gave a solid performance (selling a combined 2.8 million units); catalog title *Monster Hunter X (Cross)* sold 1 million units, pushing earnings higher. On the other hand, despite enjoying solid popularity and consistent demand, sales of *Dead Rising 4* and the youth-orientated *Monster Hunter Stories* were weak overall. In digital downloads sales of the aforementioned rereleases, as well as catalog titles with wide profit margins, accelerated in the North America and Europe, resulting in solid sales growth to 9 million units amounting to 15.5 billion yen, an increase of 42.2% compared to digital download sales in the previous year.

As a result, package and full-game download sales totaled 19.4 million units (up 29.3% from the previous year). Package sales were 33.7 billion yen, and digital download sales were 15.5 billion yen. Together, they resulted in Consumer sales of 49.2 billion yen (up 16.8% from the previous year), with operating margins in the mid 20% range. [\[Diagram 19\]](#)

### Market Forecast and Outlook for the Next Fiscal Year

#### Projecting an 11.8% Increase in Net Sales from the Global Launch of Core Titles

In 2017, the consumer market is forecast to grow to 21.6 billion dollars (up 1.9% from the previous year) due to favorable conditions for current-generation game consoles and the arrival of the Nintendo Switch, and despite a substantial drop in sales of games for previous generation game consoles. [\[Diagram 18\]](#)

For Capcom, we consider Consumer business growth as one of the major keys to achieving our medium-term business goals. Our initiatives are to (1) strengthen digital downloads, (2) bolster our title lineup through the full-scale execution of our 60-month title development plan and 52-week map and (3) awaken dormant

intellectual properties.

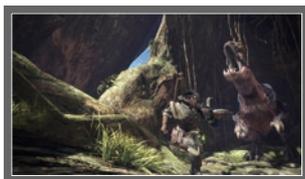
➔ Please refer to "Growth Strategy 1: Consumer Business Expansion" on page 31

Efforts within (1) include growing unit sales by strategically releasing major titles and additional content. Also, as one method of utilizing our existing intellectual properties, we will rerelease titles digitally on current-generation hardware in order to create sales opportunities and increase the digital download sales ratio. In terms of (2), we will promote multi-platform development and release a new title within a major franchise every 2.5 years in-line with our 60-month map title portfolio. Finally, for (3) we will work to expand

## Business Activity Achievements



**MARVEL VS. CAPCOM: INFINITE**  
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*Monster Hunter: World*



*Monster Hunter Explore*



*Otomon Drop  
Monster Hunter Stories*

profitability by revitalizing dormant intellectual properties for which we have not recently released new titles.

Next fiscal year, in addition to new titles in core global series such as *MARVEL VS. CAPCOM: INFINITE* and *Monster Hunter: World*, we will work to increase sales with catalog sales of *Resident Evil 7 biohazard*,

which was released the previous year. We will also strengthen digital download sales to increase unit sales to 23 million units (up 18.6% compared to the previous year), forecasting net sales of 55 billion yen (up 11.8% from the previous year) and a level of operating income about the same as the fiscal year under review.

Diagram 20

**Mobile Contents Market** (Billions of dollars)

**59.8 billion dollars**

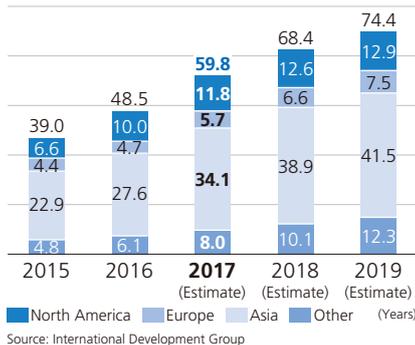
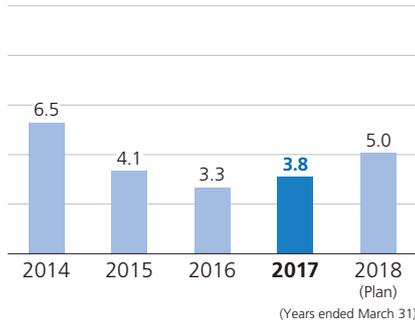


Diagram 21

**Capcom Mobile Contents Sales** (Billions of yen)

**3.8 billion yen**



## Mobile Contents Sub-segment

Market Trends and Operating Results for This Fiscal Year

### Market Grew up 24%; Profit Increased in Conjunction with 15% Increase in Sales

In 2016, the mobile contents market was worth 48.5 billion dollars (up 24.4% from the previous year), expanding to twice the size of the consumer market. The main reasons for this were (1) the ongoing adoption of smartphones throughout the world and (2) the increase of popular native app games particularly in Japan and Asia that continue to attract game users. By region, the North American market was worth 10 billion dollars (up 51.5% from the previous year), Eastern European, developing countries and other regional markets were worth 6.1 billion dollars (up 27.1% from the previous year), and the Asian market including Japan was worth 27.6 billion dollars (up 20.5% from the previous year), all showing continued growth.

The freemium (virtual item purchases/ in-game purchases) model, where users download a game for free, then purchase access to additional items and other game content as needed, has predominated the market since about 2010. With freemium games, the key success factors are IP (brand/game content) coupled with operating know-how, which includes offering the appropriate services in conjunction with monetization. Because of

this, the opportunity to improve earnings is growing for game companies with many popular titles as well as mobile development companies with operational expertise.

In April 2016, we unified our mobile development structure group-wide and launched our new Mobile Business Division. We combined the organizations of the Capcom and Beeline brands (which up to that point had promoted independent strategies) to concentrate both development and management knowhow, and to enable quick decision-making.

Under this restructured organization, we began distributing *Otomon Drop Monster Hunter Stories* in November 2016, which, along with the existing *Monster Hunter: Explore*, contributed to full-year profits. We also broke new ground with *Toraware no Paruma*, a romance game that was developed primarily by female staff, and which captured the number one paid app spot in the App Store rankings the day it was launched.

As a result, net sales increased to 3.8 billion yen (up 15.2% from the previous year). Profits were also up despite the recording of a loss on valuation of unprofitable titles. [Diagram 21]



Dragon's Dogma Online



Monster Hunter Online

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Market Forecast and Outlook for the Next Fiscal Year

Projecting a 31.6% Increase in Net Sales from Both In-house and Collaborative Titles

In 2017, the annual shipment of smartphones continued to outperform the previous year at 1.53 billion units (up 4.2% from the previous year). Moreover, for the next five years, the average annual growth rate is expected to be 3.8%, with shipments reaching 1.77 billion units by 2021. As a result by 2021, we expect the 2017 mobile market to increase to 59.8 billion dollars (up 23.3% from the previous year) and grow to 81 billion dollars (up 67.0% from 2016). [Diagram 20]

We will continue to develop new

titles using our intellectual properties and localize existing titles for Asia. At the same time, we will explore a wide range of possibilities, including alliances with companies in Japan and other countries to create the next hit title.

Next fiscal year we expect net sales of 5 billion yen (up 31.6% from the previous year) thanks primarily to license royalty revenue from an alliance, strengthening of existing titles and the distribution of the Android version of *Phoenix Wright: Ace Attorney – Dual Destinies*.

Diagram 22

PC Online Market (Billions of dollars)

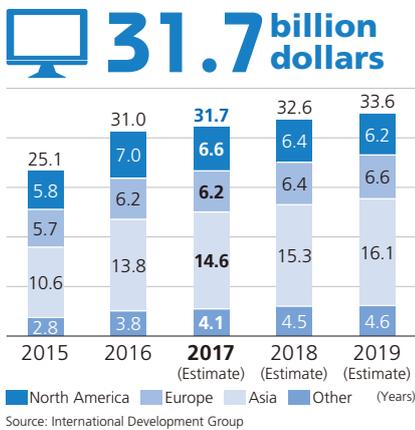
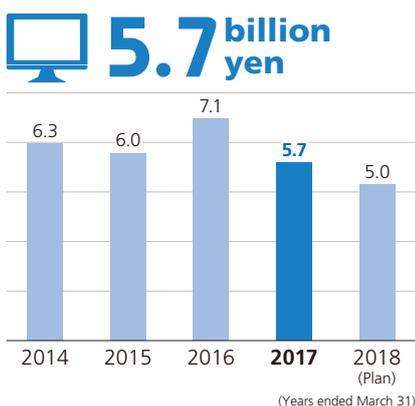


Diagram 23

Capcom PC Online Sales (Billions of yen)



PC Online Sub-segment

Market Trends and Operating Results for This Fiscal Year

The Asian Market Grew Substantially, but Decreased Revenue from Licensing Resulted in a 19.7% Decrease in Net Sales

In 2016, the PC online market grew substantially to 31 billion dollars (up 23.5% from the previous year) owing to worldwide growth, especially in China and Asia, which account for more than 40% of the market. [Diagram 22]

For Capcom, in addition to stable earnings contributions from domestic favorite *Monster Hunter Frontier Z (MHFZ)*, sales of *Dragon's Dogma Online (DDON)* were on track. However, due to a downturn

in license revenue from *Monster Hunter Online (MHO)*, which was launched last year in cooperation with China's Tencent Holdings, net sales dropped to 5.7 billion yen (down 19.7% from the previous year). Profitability was down due to amortization costs for *DDON* and other titles being up from the previous year and the recording of a loss on valuation for some titles. [Diagram 23]

Market Forecast and Outlook for the Next Fiscal Year

Aiming to Reduce Loss by Revitalizing Existing Titles and Streamlining Management

In 2017, we expect the market to increase slightly to 31.7 billion dollars (up 2.3% from the previous year), but with the shift to mobile among leading game companies, it will peak at 32.8 billion dollars by 2021 (up 5.8% from 2016), so growth will slow in the future. [Diagram 22]

Capcom will continue working to

improve our revenue base through ongoing updates to existing titles such as *MHFZ*, *DDON* and *MHO* and by reducing overhead by streamlining management.

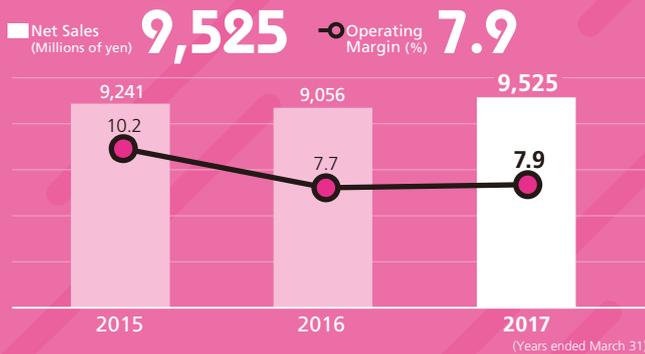
As a result of these measures, next fiscal year we expect the operating loss to shrink despite net sales falling to 5 billion yen (down 12.3% from the previous year).



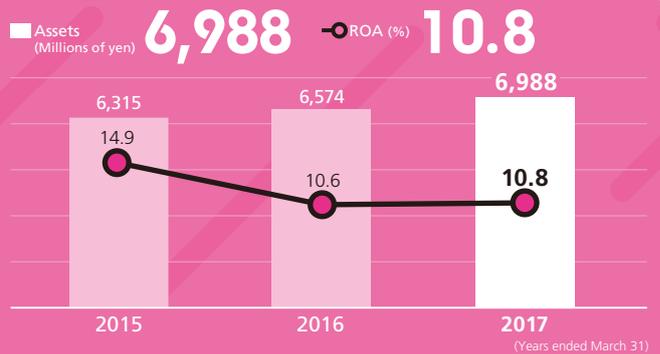
# Arcade Operations

We operate amusement facilities, primarily Plaza Capcom arcades, in Japan. These arcades are predominantly in large commercial complexes. We have diligently followed a scrap-and-build policy to maximize our efficiency in arcade operations, and have been hosting various events designed to attract families and female customers.

## Net Sales/Operating Margins



## Assets/ROA



## SWOT Analysis

S: Strengths    W: Weaknesses    O: Opportunities    T: Threats

- Specialize in opening stores in large shopping centers to secure a stable customer base
- Thorough scrap-and-build strategy focused on investment efficiency to ensure sustainable earnings



- Expand new customer segments, including senior citizens and children
- Cultivate market, including merchandise sales and restaurants utilizing our intellectual properties

- Low sales growth rate due to small number of carefully selected facilities
- Little synergy with proprietary contents

- Potential customer segment shrinking due to falling birth rate
- Entertainment diversification due to rapid growth of games for smartphones

## Utilization of Non-Financial Capital

### Human Capital

- Internal store management staff
- Part-time workers hired locally

### Production Capital

- High foot traffic of large shopping centers
- Developers that design and construct facilities

### Intellectual Capital

- Store management know-how cultivated over 33 years
- Intellectual properties (characters and worlds) that can be rolled out to food, drinks and prizes

### Social Capital

- Our relationships with local residents
- Arcade game makers around the world



Plaza Capcom Ishinomaki



Chara Cap Morioka



you me PARK Tokuyama



GAMELAND Shin-Sapporo

Diagram 24

## Arcade Operations Market (Billions of yen)

**433.8 billion yen**

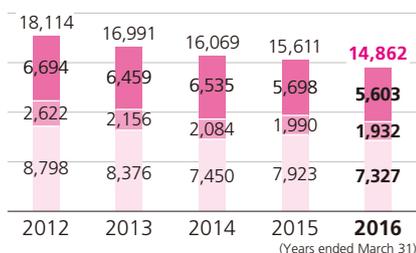


Source: JAMMA "Survey on the Amusement Industry"

Diagram 25

## Number of Amusement Arcades (by number of machines) (Stores)

**14,862 stores**



Source: JAMMA "Survey on the Amusement Industry"

Diagram 26

## Comparison of Arcade Operations Performance (Year ended March 31, 2017)

	Net sales (Billions of yen)	Operating income (Billions of yen)	Operating margin (%)
Capcom	9.5	0.7	7.9
Adores	11.5	0.7	6.5
Aeon Fantasy	65.0	3.7	5.8
Sega Sammy	37.2	2.2	5.9
Bandai Namco	60.9	Undisclosed	-

Source: Financial reports and earnings materials of each company (Aeon Fantasy fiscal year ended February 2017)  
Note: Segments include businesses other than arcade facilities operations and exclude corporate.

## Market Trends and Operating Results for This Fiscal Year

### The Market Bottomed Out Followed by a 2.7% Increase; Both Sales and Profits Were Up due to Improvements at Existing Stores Accompanying Deregulation

The domestic arcade facilities market grew during the previous fiscal year (ended March 31, 2016) for the first time in nine years to 433.8 billion yen (up 2.7% from the previous year). [Diagram 24] This was due to a slowing of the downturn in consumer spending following the consumption tax increase of April 2014. The total number of arcades decreased to 14,862 (down 4.8% from the previous year), but the number of units installed at each arcade increased to 33.6 (up 2.5 units from the previous year), and annual sales per facility increased to 29.19 million yen (up 7.9% from the previous year), demonstrating that the closing of unprofitable locations and streamlining of management by many companies has been successful. [Diagram 25] This fiscal year (ended March 31, 2017), the market showed a recovery with increased sales per customer due to restrictions on the time that minors can be in arcades while accompanied by a guardian being relaxed in the Entertainment and Amusement Trades Act (Entertainment and Amusement Trades Rationalizing Act). Capcom continued providing game

center tours and service days for middle-aged adults and senior citizens, allowing them to play games for free. Further, we created new earnings opportunities and expanded our customer base by opening themed Capcom Cafés that utilize Capcom characters and Chara Cap stores that specialize in character merchandise sales. We also launched a new VR attraction called *Tokusatsu Taikan VR Daikaijyu Capdon*.

During this fiscal year, three stores were opened, including GAMELAND Shin-Sapporo in Hokkaido, and one was closed, bringing the total number of stores to 36.

As a result, and with the relaxed restrictions of the Entertainment and Amusement Trades Act providing a boost, net sales at existing stores were up 2% from the previous year, bringing overall net sales to 9.525 billion yen (up 5.2% from the previous year) and operating income to 752 million yen (up 7.5% from the previous year), so that both sales and profits were up compared to the previous year. [Diagram 26]

## Market Forecast and Outlook for the Next Fiscal Year

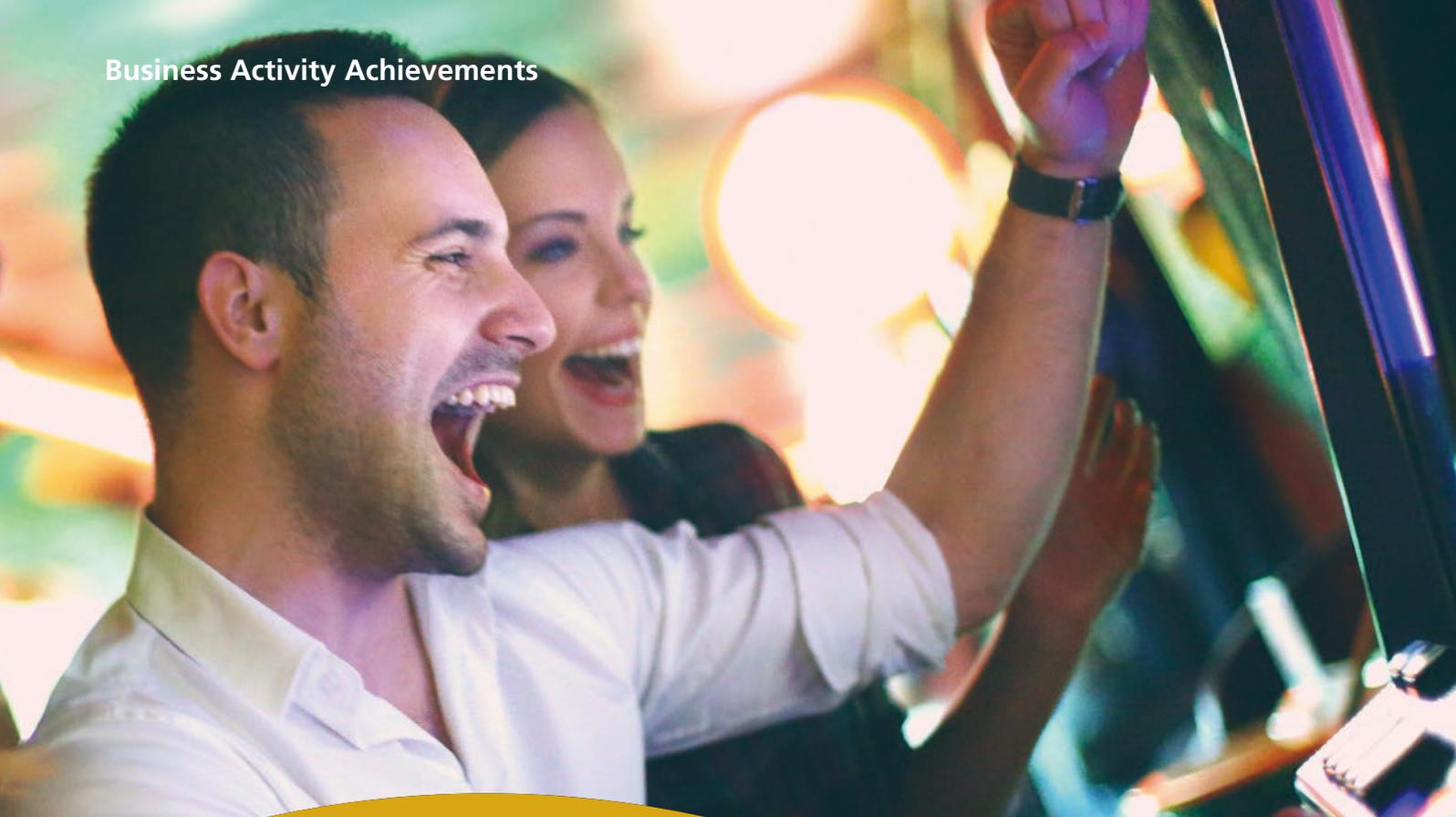
### Projecting a 5% Increase in Net Sales from Market Recovery and Opening Five New Stores

In terms of market outlook, we expect a continued recovery due to relaxed restrictions of the Entertainment and Amusement Trades Act. In the next fiscal year (ending March 31, 2018), Capcom will promote streamlining of management through its ongoing scrap and build policy and ensure earnings at the same level as the previous fiscal year through the creation of new earnings opportunities.

We will continue to hold events for seniors with the aim of attracting middle-aged and senior customers, while strengthening our business foundation by developing new business formats, such as Capcom Café and Chara Cap. In terms of

the opening and closing of facilities, in an attempt to further strengthen efficient arcade management operations, we will open new facilities in locations with high concentrations of customers to secure new revenue streams. In the next fiscal year, we plan to open five facilities and close one, bringing the total number of stores to 40.

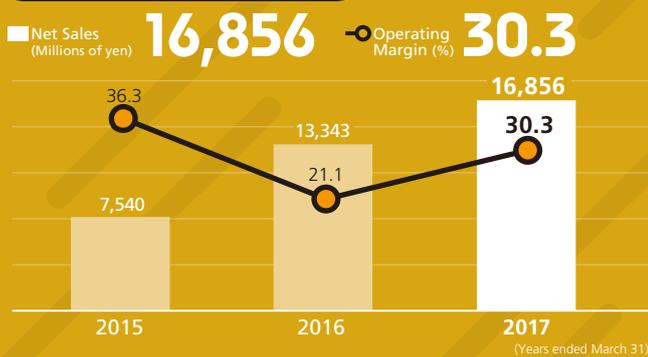
As a result of these measures, we expect year-over-year sales of existing stores to be up 3%, we forecast net sales of 10 billion yen (up 5.0% from the previous year) and operating income of 700 million yen (down 6.9% from the previous year).



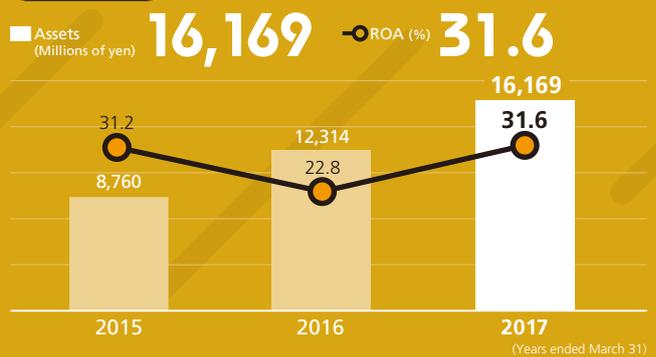
# Amusement Equipments

Here, we are engaged in two sub-segments that utilize the contents from our home video games. The Pachinko & Pachislo (PS) sub-segment is involved in the development, manufacture and sales of frames and LCD devices for gaming machines as well as software. The Arcade Games Sales sub-segment develops, produces and sells arcade games for amusement facilities, creating synergy between businesses.

## Net Sales/Operating Margins



## Assets/ROA



## SWOT Analysis

S: Strengths W: Weaknesses O: Opportunities T: Threats

- High quality development capabilities cultivated through home video games
- Cross-business leveraging of rich in-house contents
- Ability to observe real-time market trends through company-owned arcades

- Small title lineup (arcade game machines)



- Market recovery via introduction of popular machines
- Demand generated by installing new cabinets compliant with rule changes

- Declining operator and hall investment appetite
- Long-term market stagnation
- Market fluctuations resulting from changes to the Entertainment and Amusement Trades Act and certification rules

## Utilization of Non-Financial Capital

### Human Capital

- Internal developers in charge of planning and development

### Production Capital

- Manufacturing plant for arcade game machines
- Video game arcades and pachinko/pachislo parlors all over Japan

### Intellectual Capital

- Own many original popular titles (intellectual capital)
- Arcade game machine development expertise cultivated since founding
- Development technology supporting pachislo certification rules

### Social Capital

- Partnerships with major sales companies
- Administrative organ related to pachislo machine permits and licenses



Monster Hunter Kyoryu Sensen

Mario Party Fushigi no Challenge World  
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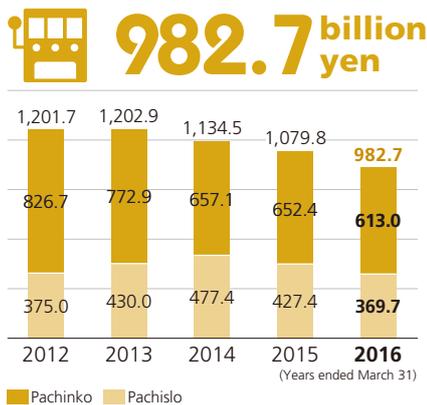
Ace Attorney



Resident Evil Revelations

Diagram 27

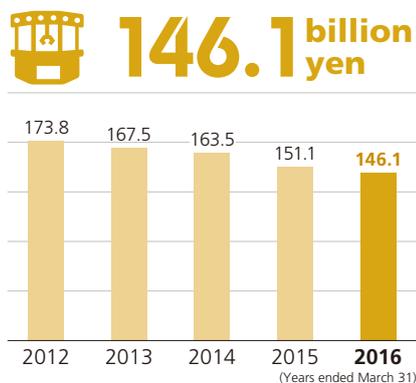
## Gaming Machines Market (Billions of yen)



Source: Manufacturer sales base compiled by Capcom using Pachinko Maker Trends (2014, 2015, 2016); Yano Research Institute Ltd.

Diagram 28

## Arcade Game Market (Billions of yen)



Source: JAMMA "Survey on the Amusement Industry"

\*1 Model certification: A public test to verify whether or not gaming machines are in accordance with regulations conducted by the Security Communications Association on behalf of public safety commissions in each of Japan's administrative divisions.

\*2 Changes to certification methods: Three self-imposed restraints implemented in stages. Up to November 2014 (1) guarantee a minimum (55%) ball dispensing ratio, (2) implement limits on penalty functions, and from December 2015 (3) implement functional limitations in sub-substrates.

## Market Trends and Operating Results for This Fiscal Year

## Operating Income Increased 81.6% on Launch of Popular Pachislo Machines in the Midst of a Weak Market

In the previous fiscal year (ended March 31, 2016), the gaming machine market shrank to 982.7 billion yen (down 9.0% from the previous year). This was due to a temporary decline in the number of new machines launched resulting from changes to rules concerning pachislo machine model certification\*1 by the Security Electronics and Communications Technology Association that went into effect in September 2014 in the pachislo market, as well as the sixth straight year of declines in the Pachinko market. [Diagram 27] In the arcade game market, medal game and game card sales declined, resulting in the fourth consecutive year of negative growth, reaching 146.1 billion yen (down 3.3% from the previous year). [Diagram 28] This year (ended March 31, 2017), the gaming machine market remained weak on

the impact of pachislo machine operation rule changes. The arcade game machine market also continued to shrink due to a decline in the number of large cabinets sold, except for some hit products.

This fiscal year (ended March 31, 2017), in the Pachinko and Pachislo sub-segment, *Monster Hunter Kyoryu Sensen* was a big hit owing to synergies created with the home video game version. The result was sales of 37,000 units, driving sales beyond initial projections. In the Arcade Games Sales sub-segment, we focused on catalog sales and also released *Mario Party Fushigi no Challenge World*.

As a result, net sales were 16.856 billion yen (up 26.3% from the previous year) and operating income was 5.106 billion yen (up 81.6% from the previous year).

## Market Forecast and Outlook for the Next Fiscal Year

## Projecting an 8.0% Decrease in Net Sales and a 25.6% Decrease in Operating Income Due to an Uncertain Market and a Downturn from the Previous Year

In terms of the PS market outlook, the pachislo machine operation rules are scheduled to change in October 2017, so further restraints on gambling are expected. Moreover, legal regulations are also being considered as a measure against gambling addiction, thus the market environment is expected to become even more difficult. Additionally, we anticipate that the market conditions will continue to be difficult for pachinko machines as well, due to restrictions on ball dispensing as a measure against gambling addiction. Capcom aims to increase unit sales by continuing to (1) supply four proprietary cabinets per year, (2) secure a strong sales network and improve development quality through an alliance with major sales company Fields Corp., and (3) release proprietary pachislo machines not dependent on gambling and that feature a variety of clever video elements

and playing styles. Next fiscal year, we are projecting sales of 50,000 units comprised of four machines, including *Ace Attorney* and *Resident Evil Revelations*.

In the Arcade Games Sales sub-segment, we expect a continued decline due to diminished motivation to invest among facility operators and a decrease in large products. Under these circumstances, we plan to release *Monster Hunter: Medal Hunting G* as a new machine utilizing our popular intellectual property.

However, taking into account the difficult PS market environment and a downturn from the previous year's hit machines, we forecast lower sales and profits, with net sales of 15.5 billion yen (down 8.0% from the previous year) and operating income of 3.8 billion yen (down 25.6% from the previous year).

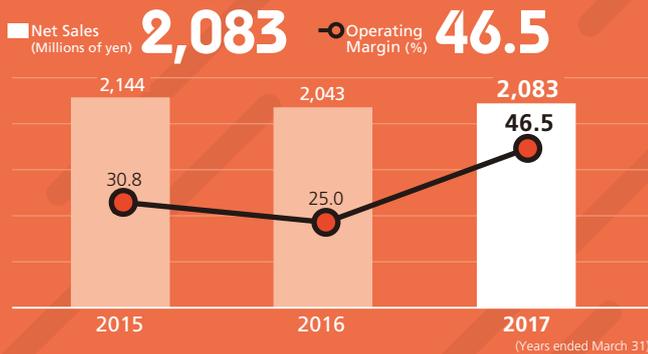


# Other Businesses

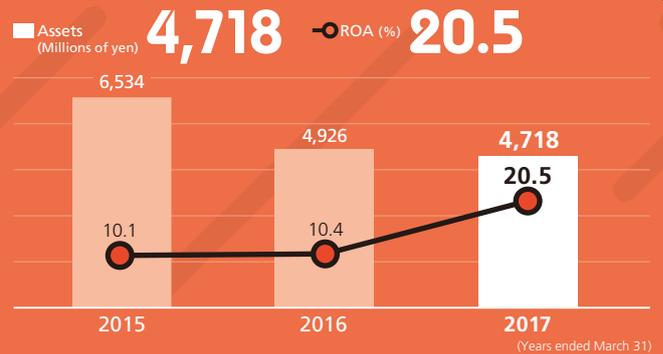
Photo by: Robert Paul

Based on our Single Content Multiple Usage strategy of developing game content for various media, we pursue a variety of copyright-related business opportunities including publishing (walkthrough and strategy guides as well as game art books) and licensing (music CDs and merchandise). Furthermore, we are concentrating on developing game content into movies and animated television programs.

## Net Sales/Operating Margins



## Assets/ROA



## SWOT Analysis

S: Strengths W: Weaknesses O: Opportunities T: Threats

- Synergetic effect from multifaceted use of rich contents
- Brand value increased through high exposure across various mediums
- High profitability

- Low return on sales from licensed products



- Expansion into film, animation, comics, stage productions, orchestral performances and other media
- Contents business demand area expansion

- Direct competition with other company's contents as a result of globalization

## Utilization of Non-Financial Capital

### Human Capital

- Planners skilled at content development
- Legal staff in charge of alliance agreements and other arrangements

### Production Capital

- Legal framework related to intellectual properties in Japan and other countries
- Merchandise manufacturing company

### Intellectual Capital

- Own many original popular titles (intellectual capital)
- Brand business (strategy for maximizing value of intellectual properties)

### Social Capital

- Event organizing companies that engages in joint planning
- Relationship with movie studios, including those in Hollywood



Resident Evil Vendetta

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Monster Hunter Stories RIDE ON

© CAPCOM/MHST Production Committee



Resident Evil: The Final Chapter

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CAPCOM LIVE!

Diagram 29

### Revenue Ranking of Japanese Game Contents that Have Been Adapted into Hollywood Movies



Title	IP holder	Box-office revenue (worldwide)
Resident Evil: The Final Chapter	Capcom	\$312,242,626
Resident Evil: Afterlife	Capcom	\$300,228,084
Resident Evil: Retribution	Capcom	\$240,004,424
Resident Evil: Extinction	Capcom	\$148,412,065
Resident Evil: Apocalypse	Capcom	\$129,342,769
Resident Evil	Capcom	\$102,984,862
Street Fighter	Capcom	\$99,423,521
Silent Hill	Konami	\$97,607,453
Final Fantasy: The Spirits Within	Square (now Square Enix)	\$85,131,830
Super Mario Bros.	Nintendo	\$20,915,465
House of the Dead	Sega	\$13,818,181

As of June 30, 2017 (Capcom figures)

Diagram 30

### List of Our Main Content that Has Been Adapted into Movies and Theatrical Productions



Movies		
Street Fighter II	Aug. 1994	Feature-length animated movie
Street Fighter	Dec. 1994	Hollywood movie
Resident Evil	Mar. 2002	Hollywood movie
Resident Evil: Apocalypse	Sep. 2004	Hollywood movie
Resident Evil: Extinction	Nov. 2007	Hollywood movie
Resident Evil: Degeneration	Oct. 2008	Feature-length CG movie
Resident Evil: Afterlife	Sep. 2010	Hollywood movie
Sengoku BASARA –The Last Party–	Jun. 2011	Feature-length animated movie
Ace Attorney	Feb. 2012	Movie
Resident Evil: Retribution	Sep. 2012	Hollywood movie
Resident Evil: Damnation	Oct. 2012	Feature-length CG movie
Resident Evil: The Final Chapter	Dec. 2016	Hollywood movie
Resident Evil: Vendetta	May 2017	Feature-length CG movie
TV animation		
Street Fighter II V	Apr. 1995	TV animation
Mega Man Battle Network	Mar. 2002	TV animation
Sengoku BASARA	Apr. 2009	TV animation
Gyakuten Saiban: Sono “Shinjitsu”, Igiari!	Apr. 2016	TV animation
Monster Hunter Stories RIDE ON	Oct. 2016	TV animation
Theatrical productions		
Phoenix Wright: Ace Attorney –The Truth Comes Back to Life	Feb. 2009	Takarazuka Revue Company
Sengoku BASARA	Jul. 2009	Theatrical production
Phoenix Wright: Ace Attorney 2	Aug. 2009	Takarazuka Revue Company
Prosecutor Miles Edgeworth: Ace Attorney 3	Jan. 2013	Takarazuka Revue Company
Sengoku BASARA	Jun. 2013	Takarazuka Revue Company
MUSICAL BIOHAZARD: Voice of Gaia	Oct. 2016	Theatrical production
TV dramas		
Sengoku BASARA –MOONLIGHT PARTY–	Jul. 2012	TV drama

## Operating Results for This Fiscal Year

### Slight Increase of 2.0% in Net Sales, but Substantial Increase of 89.8% in Operating Income

Capcom's strength is its ability to utilize its rich library of intellectual properties (content) across multiple mediums, reaping substantial synergetic benefits with the Digital Contents business. In particular, the brand value of our movie-related business has risen through extensive media exposure. This has led to greater sales of video game software and the long-term maintenance of content value, completing a virtuous sales cycle. These projects were implemented across the organization, with each division involved in the launch of arcade games, mobile contents, walkthrough and strategy guides and character merchandise, as well as movies, animated television programs, theatrical productions and other events in a variety of areas in connection with the release of our game software. [Diagram 29, 30]

➔ Please refer to “Capcom’s Business Model” on pages 3-4

This fiscal year, the Hollywood movie *Resident Evil: The Final Chapter* was released worldwide in January 2017 (Japan got an early release in December 2016) in conjunction with the release of *Resident Evil 7 biohazard*, and *Monster Hunter Stories RIDE ON* was developed as the first TV animation for the *Monster Hunter* series. These and other efforts were made to further cultivate existing users and acquire new fans. We also appealed to non-game users through experience-based events like *Monster Hunter the Real* at Universal Cool Japan 2017, which began in January 2017 at Universal Studios Japan, as well as several theatrical productions featuring our IP.

As a result, both sales and profits were up, with net sales at 2.083 billion yen (up 2.0% from the previous year) and operating income at 969 million yen (up 89.8% from the previous year).

## Outlook for the Next Fiscal Year

### Projecting Increased Sales and Profits, Further Bolstering Single Content Multiple Usage Strategy Developments

Capcom has aggressively promoted horizontal expansion of intellectual properties (contents) based on our Single Content Multiple Usage strategy.

We will continue to do so next fiscal year, with production of the popular animated TV show *Monster Hunter Stories RIDE ON*, *Monster Hunter the Real*, and with the release of the feature-length CG film *Resident Evil Vendetta* in May 2017.

We will also strengthen our merchandise sales by holding events and engaging in various cross-industry

collaborations. Moreover, we will work to improve brand value and expand licensing revenue on a global basis by utilizing fighting games such as *Street Fighter* in the eSports market, which is especially popular overseas.

As a result of these measures, the next fiscal year earnings forecast calls for net sales of 2.5 billion yen (up 22.4% from the previous year) and operating income of 1 billion yen (up 3.2% from the previous year).



## Sustainable Development Goals (SDGs)

Set by the United Nation's more than 150 member states at the UN Sustainable Development Summit 2015, held in September of the same year, the SDGs lay out 17 goals for the world to focus on with the aim of eliminating poverty and achieving global sustainability.

➔ For more information, please refer to the United Nations Sustainable Development Goals webpage below:  
<http://www.un.org/sustainabledevelopment/>

## SUSTAINABLE DEVELOPMENT GOALS

17 GOALS TO TRANSFORM OUR WORLD



	Initiatives	Contribution to Business	Future Challenges
<b>E</b> nvironmental	<ul style="list-style-type: none"> <li>● Reduced CO<sub>2</sub> emissions by switching to LED lighting</li> <li>● Constructed new environmentally-friendly buildings</li> <li>● Reduced exhaust gas and resources used via distribution network sharing with other companies in the industry</li> <li>● Reduced paper resources used through the digitization of instruction manuals</li> </ul>	<ul style="list-style-type: none"> <li>● Reduced costs (used less electricity, cut distribution costs)</li> </ul>	<ul style="list-style-type: none"> <li>● Increasing energy conservation at existing buildings through renovation</li> <li>● Further conserving energy in amusement facility operations</li> </ul>
<b>S</b> ocial	<p><b>Relationship with Customers</b></p> <ul style="list-style-type: none"> <li>● Compliance with the CERO ratings system</li> <li>● Formulated guidelines with industry groups</li> </ul> <p><b>Relationship with the Regional Community</b></p> <ul style="list-style-type: none"> <li>● Regional revitalization making use of Capcom content</li> <li>● Supported senior citizen community formation with video game arcade tours</li> </ul> <p><b>Relationship with Employees</b></p> <ul style="list-style-type: none"> <li>● Actively employed non-Japanese citizens</li> <li>● Increased number of women in management positions</li> <li>● Held Health and Safety Committee meetings</li> <li>● Implemented staff training</li> <li>● Implemented discretionary work system</li> </ul> <p><b>Relationship with Shareholders and Investors</b></p> <ul style="list-style-type: none"> <li>● Increased dialogue with shareholders</li> </ul>	<ul style="list-style-type: none"> <li>● Improved customer satisfaction by creating stress-free environments for play</li> <li>● Reduced social risks posed by games</li> <li>● Expanded profit opportunities by improving company and IP name recognition</li> <li>● Expanded global reach through game development based on a diverse set of values</li> <li>● Acquired competent creators</li> <li>● Improved creator productivity</li> <li>● Fostered a commitment to legal compliance</li> <li>● Evaluated proper corporate value on both financial and nonfinancial bases</li> </ul>	<ul style="list-style-type: none"> <li>● Education of manufacturers, users, consumer groups, government entities, etc.</li> <li>● Further promotion of regional revitalization using Capcom content</li> <li>● Increasing the percentage of women in management positions</li> <li>● Training of human resources globally</li> <li>● Increasing the number of opportunities for persons in charge of development to converse with the market</li> </ul>
<b>G</b> overnance	<ul style="list-style-type: none"> <li>● Transitioned to a company with an audit and supervisory committee</li> <li>● Raised the ratio of external directors</li> <li>● Established a nominating committee (voluntary)</li> </ul>	<ul style="list-style-type: none"> <li>● Avoided managerial decision-making risk through better management monitoring</li> <li>● Ensured the appropriateness of growth strategies by having the Board of Directors consider a range of views</li> <li>● Perpetuated the founder's business know-how</li> </ul>	<ul style="list-style-type: none"> <li>● The effective operation of the audit and supervisory committee company system</li> <li>● Board of Directors effectiveness assessments and their utilization</li> <li>● The setting of director remuneration with regards to medium- to long-term growth</li> </ul>

# Environmental



Capcom's Digital Contents business accounts for over 65% of the Group's consolidated net sales and entails the development and sale of software. This gives Capcom an environmental impact that is lower than general manufacturers. Because our environmental impact comes largely from the power used for office work and at amusement facilities, as well as from distributing our products, we are focused on saving energy.

## Reducing Power Usage

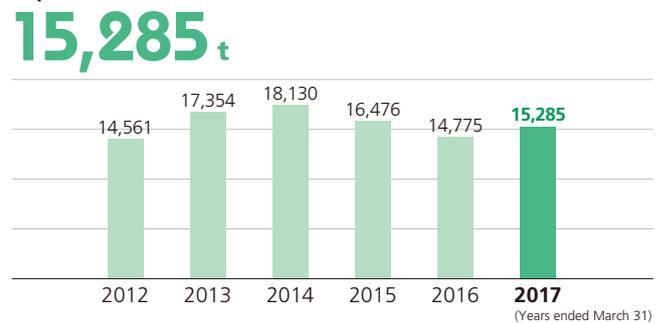
### Reducing CO<sub>2</sub> Emissions by Promoting Energy Saving Measures Companywide

Capcom has worked to cut power usage through efforts that include ongoing power saving at all of its places of business, saving energy at its amusement facilities, and implementing peak shifting for the power used by PCs and other electrical equipment. In the fiscal year ended March 2012 and March 2014, energy usage trended upward at our amusement facilities in particular due to attempts to restore normal operations following shortened business hours necessitated by the Great East Japan Earthquake. However, since the fiscal year ended March 2014, we have cut CO<sub>2</sub> emissions by implementing energy-saving gaming machines and switching to LED lighting. The fiscal year ended March 2017 saw our CO<sub>2</sub> emissions increase compared to the previous fiscal year due to the construction of the R&D Building #2 and Capcom Technical Center. However, as a result of having a range of energy-saving equipment, the CO<sub>2</sub>

emissions from these buildings have been reduced by approximately 10%\* compared to the original plan.

\* Assumes energy consumption of 100% without introduction of this equipment.

Capcom's CO<sub>2</sub> Emissions (Non-consolidated) (t)



### Rated "S Class" Two Years in a Row by the Business Operator Class-Based Assessment System

2014 revisions to the Act on Rationalizing Energy Use, also known as the Revised Energy Conservation Act, require that companies improve energy efficiency\* by at least 1% every year. Capcom has reduced its energy intensity by at least 1% for two years in a row. For these efforts, Capcom has been awarded S Class (out of classes S, A, B, and C) status for two years running under the Business Operator Class-Based Assessment System that has been administered since

2016 by the Agency of Natural Resources and Energy in accordance with the Act on Rationalizing Energy Use (Measures Pertaining to Factories).

\* Either electricity demand based on a uniform measure in basic units or energy intensity.

FY	Energy Intensity*	Vs. Previous FY
2012	0.07412	95.9%
2013	0.07090	95.7%
2014	0.06663	94.0%
2015	0.06193	92.9%
2016	0.06018	97.2%

\* Calculated using method defined by the Agency of Natural Resources and Energy. The Agency of Natural Resources and Energy website: <http://www.enecho.meti.go.jp/en/>

**Innovations in Product Distribution**

**Sharing Distribution Networks with Other Companies in the Industry**

Sharing distribution networks with other companies in the same industry when shipping products enables the efficient supply of products. As a result, we are able to realize reductions in packing materials, fuel and emissions.

**Paperless Instruction Manuals**

Older game consoles included a printed instruction manual inside the package, but with current game consoles, manuals are now included as data within the software as a way to save paper. This enables us to eliminate approximately 10.4 million game units' worth of paper manuals shipped annually.

**Development and Manufacturing Initiatives**

**Reducing the Environmental Impact of Pachislo Machines**

In solidarity with the efforts of the Japan Pachislot Machine Industry Association (Nichidenkyo), Capcom manufactures and sells pachislo machines partially made from recycled parts and equipped with standardized "eco functions" aimed at controlling power usage.

**Reducing the Environmental Impact of Business Machines**

In addition to ensuring that we make products which are easy to recycle while using durable materials and components beginning at the design stage, we actively provide version upgrade kits to allow customers to use the same machines for the long term, simply adding or upgrading game data as they go.



Relationship with Customers

**For the Healthy Development of Young People**

**Compliance with the CERO Rating System and Endorsement of Guidelines**

The NPO Computer Entertainment Rating Organization (CERO) was created to provide age-appropriate ratings for video games. Capcom complies with the CERO rating system and rules.

The rating system is an initiative for the healthy development of young people that calls for voluntary restrictions on home video game content and sales methods to limit access by young people to sexual and violent content. In addition, recent home video game consoles include a parental control function that enables parents to limit the online purchase and use of certain games according to their ratings.

**Guidelines Issued by the Computer Entertainment Suppliers' Association (CESA)**

Name of Guidelines	Implementation Date
Guidelines for Real Money Trade Measures	May 11, 2017
Guidelines for the Protection of Minors	January 5, 2017
Operating Guidelines for Random Item Distribution in Network Games	April 27, 2016
Guidelines for Advertisements, Etc. in Home Video Game Software Targeting Only Those 18 and Over	April 1, 2008 Revised June 20, 2012
Code of Ethics Concerning Computer Entertainment Software, 2nd Revision	Revised October 1, 2002

Please refer to CESA's website for the content of each set of guidelines. [https://www.cesa.or.jp/index\\_e.html](https://www.cesa.or.jp/index_e.html)

**Community Building Support for Senior Citizens**

**Regular Video Game Arcade Tours**

Today, amusement facilities are becoming increasingly popular among retired senior citizens as spaces for communication with other people. Since 2012, Capcom has held video game arcade tours on long public holidays and Respect-for-the-Aged Day for senior citizens where they can try out coin-operated games and crane games so that more people can make use of such facilities. In addition, as part of efforts to create arcades where senior citizens can comfortably enjoy themselves, since 2012 Capcom has encouraged arcade staff to get the Service Assistant certification. Currently, 27 staff have received this certification.

# Relationship with Regional Communities



## Contributions to Regional Revitalization

### Social Contribution Activities Using Popular Games' Appeal and Recognition

Utilizing the power of our content to capture the attention of people, Capcom is engaged in the following four regional revitalization activities: 1) Economic promotion that supports the local tourism industries; 2) cultural promotion that supports education concerning local history and culture; 3) the improvement of public order through coordination with the police; and 4) raising awareness about voting in elections in coordination with the Committee for Election Administration.

In 2016 Capcom provided support for a digital stamp rally in Kofu (Yamanashi Prefecture), a city with which Capcom entered into a Comprehensive Agreement to Promote Vitalization of the Local Economy. The rally used Capcom's characters while utilizing the city's free Wi-Fi, and was part of Capcom's efforts to help achieve regional development by 2019. We also committed energy to being a force for regional revitalization. In Wakayama Prefecture, which is working to boost tourism while drawing inspiration from a historical drama series on NHK TV, we provided a character for inclusion in a pamphlet containing Wakayama sightseeing and gourmet dining information. We also helped to develop a sightseeing guide app using a Capcom character in Hamamatsu, Shizuoka Prefecture, among other efforts. In October 2016, *Monster Hunter* series characters

#### Message from a Capcom Stakeholder

#### Yoshihiko Mochizuki

Kofu City Hall, Industry Department,  
Industrial Development Office,  
Sightseeing Section, Manager



2019 and 2021 will mark 500 years since the founding of Kofu and 500 years since the birth of Takeda Shingen (a feudal lord of the region in the Sengoku period), and will provide golden opportunities for Kofu to boost tourism. In its search for new ways to accomplish this, the city found the *Sengoku BASARA* series, in which Takeda Shingen appears as a character.

Following the comprehensive partnership agreement signed between Capcom and the city in 2015, we have held a stamp rally and launched a treasure hunting game using free Wi-Fi, opened a special website, and appointed the Shingen character as the local mascot for tourism promotion. Seeing how much fun was being had by the participants gave a real sense of the power of popular games. Both returning participants and people new to the event came in droves, with many of them asking us to do it again. The next event will see us also working with other businesses as we work to revitalize communities.

Felyne and MelynX were used for the first time in materials to promote efforts by the Osaka Prefectural Police Department to prevent the theft of valuables from unattended cars. Non-slip vehicle mats featuring the characters were distributed to promote the campaign.

## Educational Assistance as a Game Company

### Company Visits for Children and On-site Classes at Schools

Video games are a comparatively new cultural phenomenon about which there is little academic research. Rather than examining the educational aspects, discussions tend to focus on the detrimental effects of violent content. For example, some local municipalities have designated certain games to be harmful to the healthy development of young people. At the same time, the idea of a future career as a video game creator is very popular among children, and some schools have even begun to incorporate handheld video game consoles into the classroom in recent years.

As part of its social responsibility (CSR) efforts as a video game software producer and based around a desire to promote understanding in society of video games, Capcom accepts student visits to its offices, with a focus on elementary and junior high school students, and also actively conducts on-site classes at schools. At these events, Capcom conducts a program with two sessions: one is a career education support session which introduces the work done in a game software company and the difficulty and rewards of that work, and the other is a game literacy education support session which helps students use their own judgement to establish a healthy relationship with games. These programs have in turn been well-received in educational environments. Capcom has also incorporated opinions from educators to improve its educational efforts. In fiscal 2011, Capcom launched its second educational program, focused on the educational theme of career education support. In fiscal 2013, Capcom started a new class program on work and mathematics targeted towards elementary and junior high school students to help prevent children from losing interest in math, a challenge in recent years.

As a result of these efforts, Capcom has welcomed 2,722 children as part of 343 different field trips into its offices (as of the end of March 2017). Capcom has also held 119 on-site classes for 10,948 students at schools (as of March 2017) such as Ritsumeikan Primary School in Kyoto.

#### Capcom School Visit Feedback (for Part of the Fiscal Year)

- The gaming theme was met with great acclaim among students. The use of worksheets in every class would have further heightened the experience. (Middle school instructor)
- I learned that it's not good to play games too much. This is something I want to talk to my sister about because she's always playing with her cell phone at home. (Elementary school student)
- There was a different sort of twinkle in their eyes, and even children who rarely ask questions spoke up. This is something children are interested in, so it was actually a good learning experience for me, too. (After-school childcare worker)
- This was an excellent program not only because primary and middle school children of all ages were interested in the topic but also because it prompted them to talk about what they would need to do for their futures. (City hall employee)

# Relationship with Employees

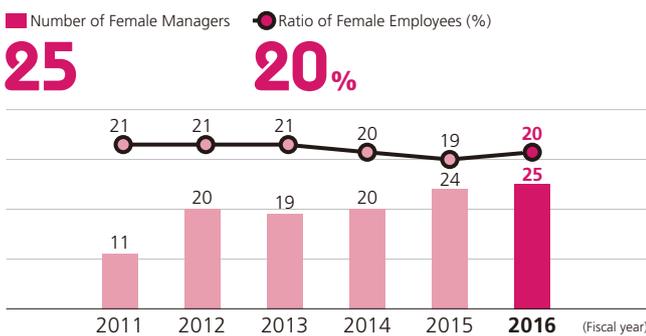


## Promotion of Diversity

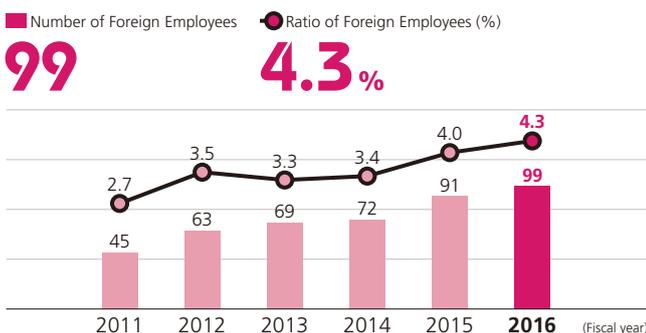
### Initiatives Aimed at Promoting an Environment for Women's Success and Proactively Hiring Non-Japanese

In terms of the environment for women's success, we introduced systems enabling women to take a leave of absence before and after giving birth, childcare leave and shortened working hours, and promote their use throughout the company. In fiscal 2016, 26 employees took childcare leave, three of whom were men, and 100% of women took childcare leave (fiscal 2015: 0 men and 100% of 24 women took leave). A high percentage of women returned to work afterwards: 22 returned in fiscal 2016 — 95.6% if those still on leave are excluded. This is an increase over last fiscal year (94.4%, or 17 women, returned to work in fiscal 2015). As a result, despite it being said that Japan's gaming industry is generally dominated by men, women account for roughly 20% of Capcom's workforce, and 25 (11.4%) of Capcom's managers are women. Furthermore, in accordance with the execution of the Act on Promotion of Women's Participation and Advancement in the Workplace, in 2016 we formulated the General Employer Action Plan which seeks to achieve two things: (1) having women comprise at least 20% of all regular employees, and (2) having women comprise at least 15% of managers.

#### Number of Female Managers and Ratio of Female Employees (Capcom Co., Ltd.)



#### Number and Ratio of Foreign Employees (Capcom Co., Ltd.)



As a further measure to maximize female workplace participation, we opened "Capcom Juku" as an internal daycare facility in April 2017. In recognition of Capcom's efforts toward improving the workplace environment for women, since 2014 we have earned the "Kurumin" mark, the symbol of a "company supporting childcare," from the Ministry of Health, Labor and Welfare. In terms of the proactive employment of non-Japanese citizens, Capcom is making efforts to strengthen overseas expansion capabilities including creating an English hiring website. We currently employ 99 non-Japanese workers (representing 4.3% of our employees). Going forward, we will create a system for improving motivation in an attempt to increase the ratio of foreign employees, including support for career advancement and the promotion of non-Japanese individuals to management positions.



### Delivering New Games Developed Primarily by Women

Fiscal year 2016 saw the launch of *Toraware no Paruma*, a romance game for women developed primarily by female Capcom employees. Chosen from among 150 proposals solicited within the company, the title carries a distinctiveness among our games, which are primarily action-orientated games for men. It was ultimately selected for development by virtue of tenacious presentations given by female Capcom staff. The game is imbued with the team's unique sensibilities, which can be seen in things like the characters' 3D models and gestures. It also captured the top spot in the paid App Store's app ranking, evidence of the high acclaim it received from many users as a new Capcom IP.



Toraware no Paruma

**Message from a Capcom Developer**



**Miwa Hara**

Senior Manager  
Section 3, Department 1,  
Consumer Games Development Division 1

About 20% of Capcom’s developers are women. Although I believe this will increase even more in the future, it still feels quite low. As our users diversify, there are benefits to having many women working for the company, not the least of which is shining the spotlight on minority views.

When my children were little, I made use of the company’s shortened working hour program. It is difficult to work under time or other constraints when you are raising children. But even then, it is motivating to be recognized for making a contribution, regardless of your personal situation. The important thing is working within your own circumstances and figuring out how to achieve something.

**Providing Career Paths for Employees and Improving the Work Environment**

**Company-wide Training and Level-based Training**

To provide career paths and improve the work environment, Capcom offers the following training.

**Major Training Programs**

Level-based training	Grade-based training	<ul style="list-style-type: none"> <li>● Training for new hires</li> <li>● Training for first year of employment</li> <li>● Training for third year of employment</li> <li>● Mentor training</li> </ul>
	Mid-level	<ul style="list-style-type: none"> <li>● Training for management candidates</li> </ul>
	Management-level	<ul style="list-style-type: none"> <li>● Management by Objectives (MBO)</li> </ul>
Company-wide training	Compulsory	<ul style="list-style-type: none"> <li>● Mental healthcare</li> <li>● Compliance training</li> <li>● Personal information training</li> </ul>
	Optional	<ul style="list-style-type: none"> <li>● English instruction</li> </ul>

**Proactive personnel hiring**

**Boosting Jobs by Hiring 100 or More New Graduates Every Year**

With a view to developing ever higher quality game software, Capcom places an emphasis on in-house development. We are hiring at least 100 new graduates every year to expand development resources from 1,500 development staff members in fiscal 2011 to 2,500 in fiscal 2021, and thereby contribute to job growth. We also help developers find greater satisfaction in their work by providing a state-of-the-art game development environment that features a 3D scanning studio and Foley stage. ➔ Please refer to page 37

**Corporate Governance and CSR**

**Action Criteria and Compliance-related Employee Education**

The Capcom Code of Conduct calls for “free competition and fair trade,” “respect for human rights and individuality and the prohibition of discrimination” and “environmental conservation and protection.” To ensure an understanding of these concepts, we created the Capcom Group Code of Conduct Handbook, which is available on the company intranet and contains illustrated case studies in an easily understandable Q&A format.

We also conduct e-learning compliance training and Personal Information Protection Act compliance training for all employees.

Action criteria and compliance are the lynchpin of corporate governance and the foundation of our CSR. Capcom will continue to instill this understanding in all its officers and employees.

**Occupational Health and Safety**

**Monthly Health and Safety Committee Meetings in Order to Build a Comfortable Work Environment**

Monthly Health and Safety Committee meetings include the attendance of an employee representative, an observer and a company representative. Participants discuss employee overtime, workload optimization workplace injuries and the state of each business site. This helps make our workplaces more pleasant.

**Promoting better utilization of paid leave**

**Establishment of the Paid Leave Promotion Day**

Capcom has established a Paid Leave Promotion Day. This company-led effort to encourage the taking of long-term paid leave promotes richer private lives for our employees. This initiative has helped us beat the paid leave utilization target (70% of annual paid leave taken by all employees by fiscal 2020) set by the government.

**Relationship with Business Partners**

**Basic Policies Regarding Business Transactions**

**Promotion of Fair Business Transactions Based on Regulations**

Capcom has established its own “Regulations Concerning the Management of Purchasing Transactions” and “Regulations Concerning the Management of Outsourced Transactions” in order to carry out free competition and fair business transactions. Capcom fairly evaluates conditions such as capability and cost to select suppliers and outsourcers. In addition, for business transactions with specified involved parties such as subsidiaries, Capcom compares such transactions with standard conditions and does not engage in those which would be disadvantageous to Capcom or which would unfairly profit the specified involved party.

# Relationship with Shareholders and Investors

## Initiatives for the General Shareholders' Meeting

### Making Shareholders' Meetings Lively and Facilitating the Exercise of Voting Rights

To ensure our General Shareholders' Meetings are lively, we hold our meeting about 10 days before the period when most Japanese companies typically hold their meetings in an attempt to encourage the attendance of as many shareholders as possible.

Also, voting rights can be exercised via computer, smartphone, mobile phone and the Internet. In addition, we have participated from an early stage in a platform for the digital exercise of voting rights, so institutional investors are ensured a sufficient amount of time to consider proposals starting on the day the convocation notices are distributed. We also post convocation notices in English on our corporate website to promote the exercise of voting rights by shareholders in Japan and overseas.

## Basic Policies Regarding IR Activities

### 1. Disclosure Policies

Capcom believes that the timely and appropriate disclosure of information is the duty of every listed company, and that accountability to our shareholders and investors is indispensable from the perspective of corporate governance.

To this end, Capcom is promoting highly transparent management via the implementation of a basic policy for IR activities which involves (1) the establishment of a responsible investor relations framework, (2) the thorough disclosure of information, and (3) the creation of a system for the timely disclosure of information.

### 2. Disclosure Criteria

Capcom provides timely disclosure in accordance with the Securities and Exchange Law and other regulations including the "Rules on Timely Disclosure of Corporate Information" by Issuer of Listed Security (hereinafter Timely Disclosure Rules) stipulated by the Financial Instruments and Exchange Act and the Tokyo Stock Exchange.

It is our policy to disclose as much information as possible, including the disclosure of information not required by the Timely Disclosure Rules and other regulations, to accommodate our investors' needs. We also disclose information through our corporate website in an attempt to provide quick and fair disclosure. Shareholders are informed of operating results and business conditions through shareholder letters.

### 3. Quiet Period

To prevent the unauthorized disclosure of quarterly earnings information prior to official announcements, Capcom has established a quiet period starting the day following the end of a fiscal period and ending on the day that financial information for that period is announced. During this period, we refuse all inquiries relating to

our business performance. However, if significant changes to our earnings outlook are anticipated during the quiet period, we will disclose this information pursuant to the Timely Disclosure Rules and other regulations.

## Third-Party Assessment of IR Activities

### High Praise for Proactive IR Initiatives

In recognition of our ongoing pursuit of timely and appropriate information disclosure, our IR activities and various IR tools have received a number of awards from third-party organizations. In addition to receiving the Excellence Prize at the Nikkei Annual Report Awards 2016 in the fiscal year ended March 2017, our IR website was selected by Daiwa Investor Relations for the 2016 Internet IR Grand Prize and we ranked first overall in the Fiscal 2016 Listed Company Website Quality Ranking. With an awareness of the importance of accountability, we will continue our efforts to earn the trust of investors and provide timely disclosure.

### Fiscal 2016 Third Party Evaluations

Integrated Reports	Capcom's integrated report chosen for excellence by asset management companies contracted with GPIF
	19th Nikkei Annual Report Awards, Excellence Prize
IR Website	LACP 2015 Vision Awards Bronze Award, Technology/Software category
	Daiwa Investor Relations Co., Ltd. 2016 Internet IR Grand Prize
	Morningstar Inc./Gómez Consulting Ranked 2nd overall in Gomez IR Website Ranking 2016
	Nikko Investor Relations Co., Ltd. Ranked 1st overall in the Fiscal 2016 Listed Company Website Quality Ranking

## Making Use of Shareholder and Investor Opinions

### Reflecting Results of Dialogues with Investors and Analysts in Management

Through meetings with investors and analysts, Capcom's IR Department attempts to promote an understanding of management policies, strategies and future outlook with them. Furthermore, their opinions are gathered and provided to management, and are utilized for corporate management going forward. As a company based in Osaka, proactive IR meetings with these parties enables us to minimize asymmetric information as we strive to achieve appropriate corporate value. This fiscal year, meetings with investors in Japan and overseas and conference calls amounted to 362 points of contact with investors.

In fiscal 2016, we set up a small meeting between external directors and investors where candid discussions were held concerning the necessity of transitioning to being a company with an audit and supervisory committee, the role of outside directors under the new system, and other matters concerning governance. We also had interested investors experience our virtual reality technologies during individual meetings to give them a better idea of Capcom's technical prowess. Furthermore, in contrast to the kinds of briefings that are often held in Tokyo, we held an online individual investor briefing to allow all investors to take part—regardless of where they live—as one of a variety of new pursuits informed by stock

market views and demands. In addition, Capcom conducts a perception gap study every year targeting investors and analysts in Japan and overseas. Being aware of investor perception gaps with regard to management objectives, business strategy and shareholder's return enables us to fine-tune corporate management and IR activities. Questionnaires are also given to attendees at our semiannual Presentation of Financial Results and individual investor briefing sessions, allowing us to make proactive use of market opinions as one criterion in management decisions. Specific examples of how this information is used include: (1) medium-term business goal and KPI revisions, (2) enhanced business strategies, (3) shareholder return methods and levels, and (4) reviews of the content and timing of information disclosures.



Our earnings presentation



A dialogue with overseas investors

#### Fiscal 2016 IR Measures

By category	Frequency
Visited domestic investors	99
Visited overseas investors	94
Other meetings	169
<b>Total</b>	<b>362</b>

#### IR Events

Event	Details
External director small meetings	Speaker: Takayuki Morinaga, External Director
Supplementary explanatory earnings administrative officer conference call	Conference call before/after earnings announcement to explain the results
Online individual investor briefing	Posted information sessions online for individual investors
Latest technology experience-based event	Conducted experience-based demonstration of latest VR technologies, promoted understanding of Capcom development technologies
Showed developer interviews during earnings presentation	Used developer videos to explain development status of latest titles of high interest to the market
Conducted perception gap study	Conducted assessment survey targeting investors and analysts in Japan and overseas regarding Capcom's management targets, strategies and IR activities, provided feedback to management

#### Perception Gap Study Investor Feedback (Excerpts)

- Since I see sales of catalog titles increase when new entries in a series are released, I have a positive impression of how Capcom has strengthened its digital download sales. Additional DLC is a recurring model, and it will be interesting to see how much this content will improve sales.
- It may be a good idea to also use outside help when developing mobile games. Partnering with other companies can teach Capcom how to improve earnings in the mobile space, which could help it produce hits in-house.
- With Capcom's numerous popular IPs, the company should seek out new partnerships in order to aggressively monetize its products in Asia, and China in particular.
- Although dividend yield currently stands at around 2%, a solid balance sheet suggests there may be room for an increase.
- Some of the company's shares need to be retired. This would send a strong message that Capcom values achieving shareholder returns.

#### IR Activities on Our Website

##### Utilizing a Website That Anyone Can Access

Since 2001, Capcom has made proactive use of its corporate website as a tool for disseminating information pertaining to IR activities. The main reasons for this are to ensure fairness for a wide range of stakeholders, including investors, analysts, the mass media and job-seekers, and because it easily ensures information is available for inspection immediately in about 200 countries worldwide. Capcom's corporate website is also positioned as our most cost-effective tool.

#### IR Team

##### Full-Time Staff Engaged in a Wide Variety of Activities

Capcom IR activities are conducted by four full-time staff members in addition to the chairman, the president, and the director overseeing IR for shareholders and investors in Japan and overseas. For earnings information and other IR-related inquiries, please use the contact information below.



#### Public Relations & Investor Relations Section

Phone: +81-6-6920-3623

E-mail: ir@capcom.co.jp

Business Hours:

9:00–12:00,

13:00–17:30 (JST)

(excluding weekends and public holidays)

## Directors

(As of September 30, 2017)



Makoto Matsuo

Yoichi Egawa

Toru Muranaka

Kenzo Tsujimoto

Kenkichi Nomura

Masao Sato

Haruhiro Tsujimoto

Yoshihiko Iwasaki

Takayuki Morinaga

Kazushi Hirao

Hiroshi Yasuda

## Kenzo Tsujimoto

### Chairman and Chief Executive Officer (CEO)

Jul. 1985	President and Representative Director of the Company
Apr. 2001	Chief Executive Officer (CEO) of the Company (to present)
Jul. 2007	Chairman and Representative Director of the Company (to present)

## Haruhiro Tsujimoto

### President and Chief Operating Officer (COO)

Apr. 1987	Entered into the Company
Jun. 1997	Director of the Company
Feb. 1999	Managing Director of the Company
Apr. 2001	Senior Managing Director of the Company
Jul. 2004	Director and Executive Corporate Officer of the Company
Apr. 2006	Director and Executive Vice President of the Company
Jul. 2007	Representative Director, President and Chief Operating Officer (COO) of the Company (to present)
Feb. 2015	Representative Director, in charge of Consumer Games Business of the Company
Jul. 2016	Representative Director, in charge of Global Marketing Business of the Company
Aug. 2016	Representative Director, in charge of Global Marketing Business and Arcade Operations Business of the Company (to present)

## Yoichi Egawa

### Director and Executive Corporate Officer

Apr. 1985	Entered into the Company
Apr. 1999	General Manager of Creative Division 5 of the Company
Aug. 1999	Corporate Officer, General Manager of Creative Division 5 of the Company
Apr. 2005	Corporate Officer, Head of Contents Expansion Business Division of the Company
Apr. 2006	Corporate Officer, Head of Pachinko & Pachislo Business Division of the Company
Apr. 2011	Managing Corporate Officer of the Company
Apr. 2013	Executive Corporate Officer of the Company (to present)
Jun. 2013	Director, in charge of Arcade Business and Pachinko & Pachislo Business of the Company
Apr. 2015	Director, in charge of Amusement Equipments Business and Arcade Operation Business of the Company
Jul. 2016	Director, in charge of Amusement Equipments Business, Arcade Operations Business and Consumer Games Development of the Company
Aug. 2016	Director, in charge of Consumer Games Development and Amusement Equipment Business of the Company
Apr. 2017	Director, in charge of Consumer Games Development and Pachinko & Pachislo - Amusement Equipment Business Division of the Company (to present)

## Kenkichi Nomura

### Director and Executive Corporate Officer, Chief Financial Officer (CFO)

Apr. 1979	Entered into Fuji Bank Ltd. (Currently Mizuho Bank Ltd.)
Apr. 2007	Corporate Officer and Division Manager of Finance and Foreign Exchange Administration Service Division of Mizuho Bank Ltd.
Apr. 2009	Corporate Officer in charge of Internal Control of the Company
Jul. 2010	Managing Corporate Officer in charge of Financial and Accounting Division of the Company
Jun. 2015	Managing Corporate Officer in charge of Financial and Accounting Division and Secretarial Affairs, PR and IR Division of the Company
Apr. 2016	Executive Corporate Officer and Head of Finance, Accounting and Public Relations Division (to present)
Jun. 2016	Director, Chief Financial Officer (CFO) and in charge of Corporate Management of the Company (to present)

## Hiroshi Yasuda

### Director External Independent Director

Apr. 1957	Entered into the Ministry of Finance
Nov. 1973	Personal Secretary to the Minister of Finance
Jan. 1977	Executive Secretary to the Prime Minister
Jun. 1988	Deputy Vice Minister of Finance
Jun. 1990	Director-General of the Budget Bureau of the Ministry of Finance
Jun. 1991	Administrative Vice Minister of Finance
May 1994	Governor of the Export-Import Bank of Japan
Oct. 1999	Governor of Japan Bank for International Cooperation
Sep. 2001	Advisor of the Kansai Electric Power Co., Inc.
Jan. 2002	Chairman of Yomiuri International Economic Society (to present)
Jul. 2002	President of Japan Investor Protection Fund
Jun. 2004	External Corporate Auditor of Shiseido Co., Ltd.
Aug. 2004	President of Capital Market Promotion Foundation (Currently Capital Market Promotion Public Interest Incorporated Foundation)
Jun. 2007	External Director of the Company (to present)
Jan. 2014	Advisor of Capital Market Promotion Public Interest Incorporated Foundation (to present)

## Masao Sato

### Director External Independent Director

Apr. 1975	Entered into the National Police Agency
Nov. 1995	Chief of Ehime Prefectural Police Headquarters
Jan. 2001	Chief of Miyagi Prefectural Police Headquarters
Aug. 2005	Chief of Chiba Prefectural Police Headquarters
Jan. 2007	Director General of Kanto Regional Police Bureau
Mar. 2008	Resigned from the National Police Agency
Jun. 2008	External Corporate Auditor of the Chugoku Electric Power Co., Inc.
Jun. 2016	External Director of the Company (to present)

## Toru Muranaka

### Director External Independent Director

Apr. 1995	Registered Lawyer (Osaka Bar Association) Entered into Daiichi Law Office (Currently Daiichi Law Office, P.C.)
Dec. 2007	Partner of Daiichi Law Office, P.C. (to present)
May 2014	External Corporate Auditor of Furuno Electric Co., Ltd. (to present)
Jun. 2015	External Corporate Auditor of Suzuken Co., Ltd. (to present)
Jun. 2016	External Director of the Company (to present)

## Kazushi Hirao

### Director

#### <Full-time member of the Audit and Supervisory Committee>

Jun. 1988	Entered into the Company
Apr. 1997	General Manager of Overseas Business Dept. of the Company
Jul. 1999	Corporate Officer, General Manager of Overseas Business Dept. of the Company
Oct. 2002	General Manager of General Affairs Dept. of the Company
Apr. 2004	Senior Manager of Investor Relations Section of the Company
Jun. 2004	Corporate Auditor of the Company (full-time)
Jun. 2016	Director (Full-time member of the Audit and Supervisory Committee) of the Company (to present)

## Yoshihiko Iwasaki

### Director External Independent Director

#### <Full-time member of the Audit and Supervisory Committee>

Apr. 1979	Entered into National Tax Agency
Jul. 1986	District Director of Ijuin Tax Office
Jul. 1997	Deputy Commissioner (Revenue Management and Collection) of Hiroshima Regional Taxation Bureau
Jul. 1999	Deputy Commissioner (Large Enterprise Examination and Criminal Investigation) of Hiroshima Regional Taxation Bureau
Jul. 2003	Director of Commissioner's Secretariat, the National Tax Agency
Jul. 2007	Assistant Regional Commissioner (Management and Co-ordination) of Nagoya Regional Taxation Bureau
Jul. 2008	Executive Director of National Tax College
Jul. 2009	Director-General of Kanazawa Regional Tax Tribunal
Jul. 2010	Director-General of Sapporo Regional Tax Tribunal
Jul. 2011	Vice President of National Tax College
Jun. 2012	External Corporate Auditor of the Company (full-time)
Jun. 2016	Director (Full-time member of the Audit and Supervisory Committee) of the Company (to present)

## Makoto Matsuo

### Director External Independent Director

#### <A member of the Audit and Supervisory Committee>

Apr. 1975	Admitted to Japanese Bar (The Dai-ichi Tokyo Bar Association) Ozaki & Momo-o
Aug. 1978	Weil, Gotshal & Manges in New York
Mar. 1979	Admitted to New York Bar
Apr. 1989	Partner of Momo-o, Matsuo & Namba (to present)
Apr. 1997	Lecturer of Nihon University, Faculty of Law: International Transaction Law
Jun. 1999	External Corporate Auditor of Victor Company of Japan, Limited
Jun. 2000	External Corporate Auditor of Billing System Corporation
Jun. 2003	External Corporate Auditor of Yamanouchi Pharmaceutical, Co., Ltd.
Jun. 2004	External Director of the said Company
Apr. 2005	External Director of Astellas Pharma Inc. Lecturer of Hitotsubashi University Faculty and Graduate School of Law: World Business Law
Jun. 2007	External Director of the Company
Oct. 2008	External Director of JVC KENWOOD Holdings, Inc.
Jun. 2009	External Corporate Auditor of Toray Industries, Inc.
Mar. 2014	External Corporate Auditor of Solasia Pharma K.K. (to present)
Mar. 2015	External Director of TonenGeneral Sekiyu K.K.
Jun. 2016	External Director (Audit and Supervisory Committee) of the Company (to present)

## Takayuki Morinaga

### Director External Independent Director

#### <A member of the Audit and Supervisory Committee>

Apr. 1964	Entered into The Export-Import Bank of Japan
Apr. 1992	General Manager of Personnel Division of the said Bank
Apr. 1994	General Manager, Osaka Branch of the said Bank
Apr. 1996	Senior General Manager of the said Bank
Sep. 1998	Managing Director of Yazaki Corporation
Sep. 2000	Senior Managing Director of the said Company
Jun. 2006	Vice Chairman of the said Company
Jun. 2007	Director and Executive Councilor of the said Company
Jun. 2008	Advisor of the said Company
Jun. 2009	External Director of the Company
Jun. 2016	External Director (Audit and Supervisory Committee) of the Company (to present)



## Principal Discussions at Board of Directors Meetings Held in Fiscal 2016



The Capcom Board of Directors ensures management transparency and corporate health, with its six external directors taking the lead in proactively offering opinions and advice. In addition to addressing policies for shareholder returns, including dividend payments and share repurchases, they engage in lively discussion concerning Capcom's business risks and growth strategies, while promoting those strategies through corporate governance. While there were more than a few heated discussions with external directors, on this page, we will present an overview of several discussions on takeover defense measures.

(Light blue highlights indicate external director comments.)

### Item

#### Proposal for Countermeasures (takeover defense) in response to a large-scale purchase of shares, etc. of the company (April 2017)

**Nomura** While continuation of the takeover defense measures was struck down at the 35th Ordinary General Meeting of Shareholders in June 2014, the same measures were reinstated in 2015. I think linking them to the medium-term strategy, changing the term for directors to one-year, and shifting the decision-making processes to the general assembly were well received, thus leading to a vote to approve. When the measures were reinstated two years ago, we explained to shareholders, including institutional investors, regarding our efforts to monetize our IP, which are off-balance-sheet assets, in light of our growth strategies. We received pro tem approval with the understanding that there would be a time limit for the policy. In leveraging our IP, we strove to strategically grow catalog sales. Since fiscal 2013, we have achieved four consecutive years of increased operating income, and have made steady progress toward increasing corporate value. In order to once again facilitate our growth strategies, we will raise the topic of continuing the takeover defense measures for discussion at the June 2017 Ordinary General Meeting of Shareholders, where we will report to shareholders on the progress of our new Medium-Term Business Goals. Considering the environment surrounding the takeover

defense measures, and in conjunction with the above strategic growth measures, we will be called upon to clearly specify time constraints, such as the "one-time only" provision, in order to receive majority approval.

**Muranaka** Because there is no precedent in our business for introducing take-over defense measures that include a one-time only stipulation, this would garner considerable attention. Also, a one-time only provision means that the measures must be discontinued once their period of validity ends. While the effect of such measures is limited, the resulting restraints they would place on the acquirer, in practical terms, are worth noting. In Capcom's case, it would be an unusual choice to place ourselves in a situation where we are forced to decide whether to discontinue the take-over defense after a given amount of time following its adoption. However, I also understand the necessity of proceeding carefully in bringing the matter up for discussion should we not specify that it is one-time only, and am conscious of the possibility of it being rejected. I would like to hear, in simpler terms, if anyone here has thoughts on how we should proceed and what we should emphasize as a company in proposing take-over defense measures that specify a one-time only stipulation.

**Matsuo** This one-time only provision is extremely unusual. The public will not support us if we cannot clearly show what we have done these past two years, and what our plan is for the coming two or three years. Also, considering that we are being told, ultimately, that the only solution for a takeover defense is to raise our stock



price through strong performance, the fact is that these measures will reflect negatively on our stock price. It may be a valid choice in this case to discontinue the measures.

**Oda** I realize that the circumstances surrounding the takeover defense measures of 2015 and those at present are fundamentally different. I have been reviewing matters regarding the contingency plan currently in place, including which departments will take charge, and have found that the plan will take time in some areas. I agree with bringing the matter up for discussion in that it would be favorable to specify, to a degree, a period of time in the takeover defense measures that would help us stave off an acquisition.

**Matsuo** I understand very well that the concept is to protect our content; however, given that it has been two years since the previous adoption of the measures, that the founder and his family hold more than 20% of shares, and that some investors are not in favor of the measures, if we do not have an explanation regarding what management is thinking and why the takeover defense measures are necessary, there is no benefit in us reviewing the matter as external directors. I would like to have the executives explain to external directors why the measures are needed from the standpoint of company strategy.

**Tsujimoto (Kenzo)** Relying on takeover defense measures is not necessarily a good thing. Furthermore, we must manage and execute with the awareness that emergencies are always possible. It is also necessary to be cognizant that, as a result of having takeover defense measures, there may be a tendency to neglect matters that have been in need of attention. If we are going to expend a large amount of time, effort and money deliberating takeover defense measures, we must be prepared to make decisions and respond during an emergency. Over the past several years, we have steadily increased earnings, which has led to a higher stock price and market capitalization. I believe that these are, in fact, primary takeover defense measures.

**Morinaga** I have no objection to takeover defense measures in and of themselves, but I feel that continuing them with the one-time only provision is not preferable. If we do use a one-time only provision,

we need to explain in detail to shareholders as to why we are doing so. Regardless of whether we have takeover defense measures or not, there are numerous other measures that we must have. As a company, we must always achieve our target ROE, which is a quantitative goal. However, we must consider if, for example, we were unable to achieve this goal, how we would hold ourselves responsible to shareholders.

**Muranaka** Preparing our response in the face of a takeover bid is vitally important, and I think it as an issue that must be addressed regardless of whether we adopt takeover defense measures. From my experience as an attorney involved with takeover cases, I feel that one's options for preparation and response become limited once faced with an emergency. In hostile takeover cases at other companies, the crisis management team failed to function and did not make preparations in times of tranquility. Therefore, I think we need to establish a crisis management team and develop, among other things, a manual based on simulation results now, while things are calm; further, I feel it's necessary that we consider the composition of our response structure, including advisors, attorneys, and others.

**Tsujimoto (Kenzo)** Our takeover defense measures are a framework stipulating steps that acquirers must adhere to. They allow management to secure some time for discussions if an acquirer makes a bid without following the prescribed steps. That said, it is natural in business for a stronger company to acquire a weaker one. It is a mistake for management to say this or that about being acquired while not understanding whether they are strong or weak. If our policy as a company is to not respond in the face of unreasonable methods, then takeover defense measures are important, but this "one-time only" provision goes against company policy. If a large number of shareholders are opposed, I think it would be good to discontinue the measures in this case. The Company would be best putting its efforts elsewhere.

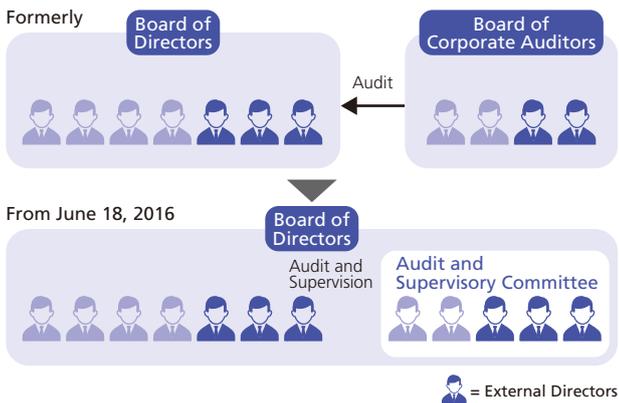
Please refer to the April 27, 2017 press release: Discontinuance (Abolishment) of Countermeasures (Takeover Defense) in Response to a Large-Scale Purchase of Shares, etc. of the Company  
<http://www.capcom.co.jp/ir/english/news/html/e170427c.html>

# Features of Capcom Corporate Governance

## Four Features of Capcom Corporate Governance

### 1 Transition into a company with an audit and supervisory committee to strengthen governance

Capcom established an Audit and Supervisory Committee and grants voting rights at Board of Directors' meetings to directors who are also Audit and Supervisory Committee members. In addition, Capcom aims to further strengthen supervisory functions across the entirety of management and further enhance corporate governance via the implementation of propriety audits together with conventional legal audits.



### 2 Proactive appointment of external directors

Capcom has reached our highest ever rate of external directors at 50% through proactively appointing external directors since June 2001. The advice, opinions, and scrutiny provided by external directors increases the transparency and credibility of Board of Directors' meetings and vitalizes the same, while also strengthening the function of the meetings to supervise management.



### 3 Full disclosure of 73 Corporate Governance Code items

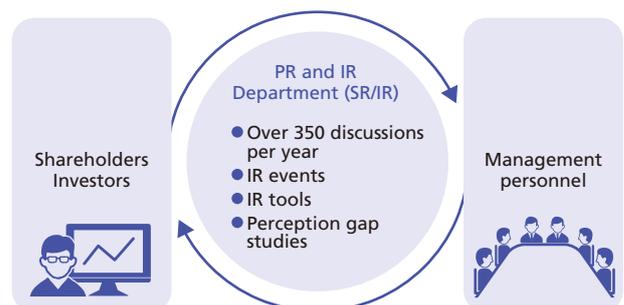
Capcom has disclosed all 73 of its Corporate Governance Code items in order to fulfil its responsibility to explain each item while reaffirming the current state of the company's governance system contrasted with its ideal state. Capcom attaches particular importance to 26 items, which are comprised of 10 items which contribute to our growth strategy, 3 items which contribute to our management system, and 13 items which serve as the base for achieving these, and provides greater detail concerning the same.

Items which contribute to our growth strategy	<ul style="list-style-type: none"> <li>• Ensure diversity within the Company, including promoting the activity of women.</li> <li>• Thorough disclosure of information.</li> <li>• Duties, etc. of the Board of Directors, etc.</li> </ul>
Items which contribute to our management system	<ul style="list-style-type: none"> <li>• So-called cross-shareholdings.</li> <li>• Selection and dismissal of key members of management staff.</li> <li>• Quality and standard of determining independence of independent external directors.</li> </ul>
Items which serve as a base for the above	<ul style="list-style-type: none"> <li>• Basic policy for capital policy.</li> <li>• Establishing an environment to support the risk-taking of the Board of Directors.</li> <li>• Role and duties of independent external directors, etc.</li> </ul>

➔ Please refer to the Corporate Governance page on Capcom's investor relations site: <http://www.capcom.co.jp/ir/english/president/governance.html>

### 4 Mechanism for reflecting investor and analyst opinions in management

Capcom's IR Department engages in discussions with analysts and investors over 350 times per year. In addition to promoting understanding of management policies and business strategies, the IR Department applies these activities to corporate management, summarizing market opinions and providing feedback to management personnel. Capcom is also further enhancing events and tools for investors, strengthening shareholder and investor relations activities.



### Message from an External Director



**Masao Sato**  
External Director  
(Independent Director)

## Focusing on controlling risks in order to further our growth strategies

I believe that discontinuing Capcom's takeover defense measures has been one of our tougher challenges for governance over the past year. Despite the pains taken in reintroducing the defense measures previously, I feel that the decision to discontinue them—which broke with convention—after taking into account all of our discussions with shareholders to date, and vigorously debating the issue from square one at the Board of Directors, was a very significant one. ➔Please refer to "Principal Discussions at Board of Directors Meetings Held in Fiscal 2016" on page 63.

In the drastically changing video game industry, Capcom sees boosting its corporate value and improving performance through sustained, stable growth as the best defense from takeovers. The importance of controlling risk in order to pursue our growth strategies is increasing even further.

In my work with police administration and electric power companies, I was involved with business oversight and crisis management, preparing for unforeseen events. I would like to bring this experience to bear on the game industry, where fluctuations in performance can be substantial, and would like to contribute to Capcom's increased corporate value through sustained, stable growth and more transparent operations.

Specifically, from a risk management (or, defensive) perspective, this year I have encouraged the Company to clarify the scope of the impact of the UK Modern Slavery Act 2015 and the Advance Pricing Agreement (APA).\* Additionally, as an offensive approach to governance, given the high level of accuracy of plans in the Amusement Equipments business, I have been advising that the Consumer business (which has large discrepancies between estimated results and actual results) should learn what it can from the Amusement Equipments business, and incorporate that into their marketing, sales, and other activities.

Going forward, we will remain keenly aware of the roles expected of our six external directors, while providing diverse opinions and carrying out roles that encompass both offense and defense in order to achieve our growth strategies.

\*A pre-determined agreement on transfer pricing methodology

### Message from the Chairman of the Audit and Supervisory Committee



**Takayuki Morinaga**  
External Director  
(Independent Director)  
Chairman of the Audit  
and Supervisory Committee

## Striving to overcome the challenges that have come to the fore one year after transitioning to a new corporate structure

In the year since transitioning into a company with an audit and supervisory committee, Capcom has strengthened its governance over previous levels, though some operating challenges have also become apparent. In terms of strengthening, having an Internal Audit Department that is an organization directly subordinate to the Audit and Supervisory Committee has allowed broader in-house monitoring of not only legal audits, but also propriety audits, which facilitates better understanding than we previously had of the status of each business segment. We are able to deepen our understanding of the current state of the business by receiving reports from the Internal Audit Department on issues identified during monitoring.

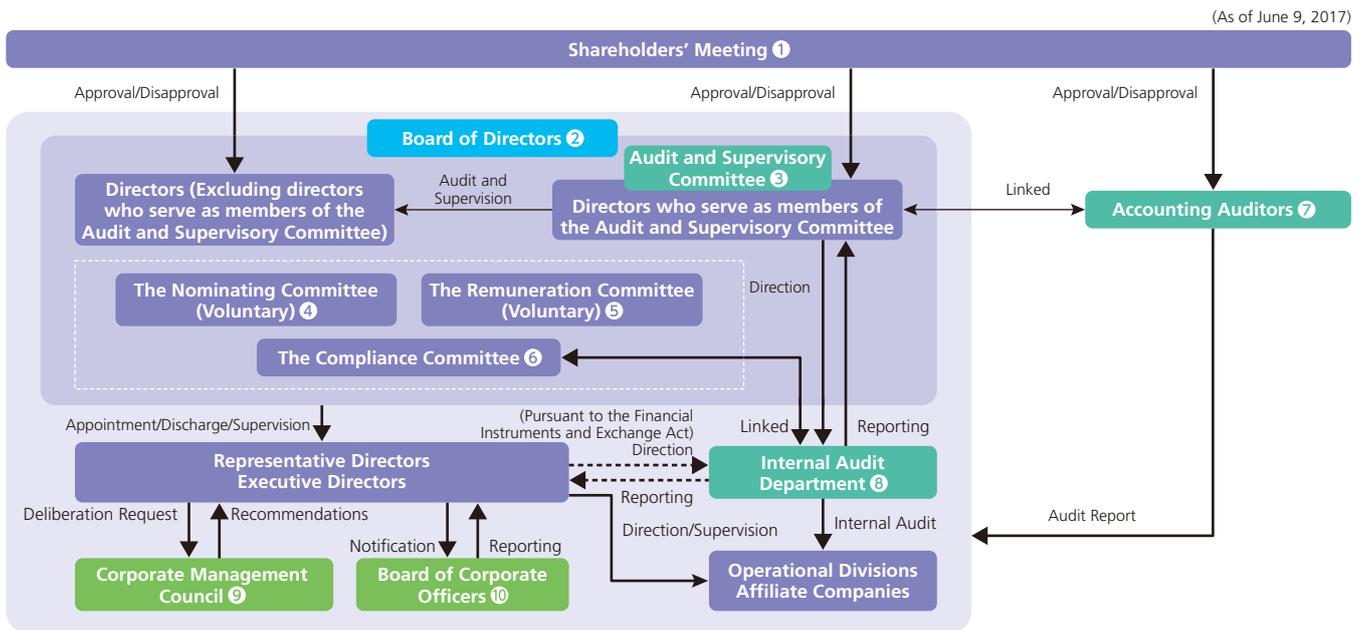
As a result, when taking decision-making steps regarding audits, we can offer instructions and advice after thoroughly understanding and discussing matters. For example, when we addressed a proposal for an interim dividend increase, we pointed out the imperative of adhering to our year-long plan, and received a commitment at the Board of Directors meeting. ➔Please refer to "CEO Commitment" on page 19.

Meanwhile, it is a challenge to translate issues identified in propriety audits into concrete actions for resolutions. This involves business policies and execution, which makes it clear that having proper agreement and understanding with top management and executive directors is now more important than ever.

In the drastically fluctuating video game industry, I firmly believe that having speedy decisions and execution by the founder are significant strengths. Consequently, I will do my part to overcome the above challenge and fulfill my role in an offensive approach to governance that accelerates our growth strategies.

# Corporate Governance Structure and Initiatives

Shareholders and investors have made the practical and effective functioning of internal control into a key issue amidst an epidemic of corporate misconduct in Japan and overseas. In this section, Capcom will explain the corporate governance structure and systems that it has initiated so far based on the key concepts of “effectiveness and visibility” in terms of the results of third party assessment. (Assessment areas are highlighted in yellow.)



## Corporate Governance Structure

### Enhancing Management Health and Transparency while Responding to Changes in the Environment

Capcom is aware that comprehensive corporate governance ranks among management’s most important priorities. Because of this, in addition to enhancing management soundness and transparency, we are increasing corporate value by building a trusting relationship with our stakeholders. These stakeholders include shareholders, business partners, employees and regional societies.

#### 1 Shareholders’ Meeting (Convened on June 9, 2017)

##### Determines Important Matters as the Highest Decision-Making Body

Our general shareholders’ meeting serves as its highest decision-making body and determines important matters as well as reports audit results of consolidated financial statements.

Invitations to the general shareholders’ meeting are issued approximately three weeks before convening the session and efforts are made to allow for greater attendance by having the session about 10 days before the date on which most other companies hold their meetings. We have also made it possible for shareholders to exercise their voting rights over the Internet using a computer or smartphone. In addition, we participate in an electronic voting rights exercise platform for institutional investors.

Two resolutions were brought up for discussion at the

shareholders’ meeting this year, all of which were approved and passed.

#### 2 Board of Directors

(Convened 15 times in the year ended March 31, 2017)

Supervision

##### Management Decisions that Incorporate Outside Opinions

In addition to the regular Board of Directors meeting being convened once every month, it is also convened when the need arises.

The Board of Directors is composed of a total of twelve directors. Of that total, five directors are Audit and Supervisory Committee members. Also, of the twelve directors, six are external directors. All six of the external directors have been registered with Tokyo Stock Exchange, Inc. as independent directors.

#### 3 Audit and Supervisory Committee

(Convened nine times in the year ended March 31, 2017)

Audit

##### Cooperating with Accounting Auditors and the Internal Audit Department to Audit and Supervise

The Audit and Supervisory Committee is composed of five directors (three of whom are external directors). We carry out organizational audits and supervision by selecting two full-time members of the Audit and Supervisory Committee to collect and share information, while also making use of our internal control system. In addition to formulating auditing policies and providing consultation regarding audit results, the Audit and Supervisory Committee cooperates

with the Internal Audit Department and gives advice to audited divisions regarding items to be improved, etc., working to see that internal control functions effectively in each division.

#### 4 The Nominating Committee

(Convened two times in the year ended March 31, 2017)

##### A Consulting Organization for Selecting Candidates for Director

Capcom has established a voluntary nominating committee with an external director as committee chairman. This committee functions as a consulting organization to the Board of Directors in order to ensure the objectivity and propriety of the decision process to select candidates for director.

#### 5 The Remuneration Committee

(Convened two times in the year ended March 31, 2017)

##### Recommending Details of Director Compensation

Capcom has established a voluntary remuneration committee with an external director as committee chairman. This committee functions as a consulting organization to the Board of Directors in order to ensure the objectivity and appropriateness of the decision process for setting compensation of directors (excluding directors who are members of the Audit and Supervisory Committee).

#### 6 The Compliance Committee

(Convened four times in the year ended March 31, 2017)

##### Focusing on Compliance as an Important Management Issue

In order to ensure compliance, the Compliance Committee meets quarterly and has an external director, who is also a certified attorney, as the chairman. In order to prevent illegal activities and misconduct, and so that all employees can directly report any instances of these, Capcom has established Compliance Hotline Rules and an internal hotline. Capcom also regularly monitors its compliance status with a compliance check sheet. To ensure effectiveness, Capcom properly disposes of problems confirmed by this committee and other issues that must be dealt with.

#### 7 Accounting Auditors

Audit

##### Ensuring and Verifying Accounting Transparency

Capcom has engaged KPMG AZSA LLC for financial audits as prescribed by the Companies Act and financial audits as prescribed by the Financial Instruments and Exchange Law. There is no relationship involving financial or other interests between Capcom and this audit corporation or the engagement partners at this firm who perform audits at Capcom.

#### Auditor Remuneration (Year ended March 31, 2017)

	Audit Operations	Non-Audit Operations
Delivery company	42 million yen	0 million yen
Consolidated subsidiary	2 million yen	–
Total	44 million yen	0 million yen

Auditing Company	Names of Certified Public Accountants	
KPMG AZSA LLC, a limited liability audit corporation	Designated Limited Liability and Managing Partner	Masaaki Doi
		Hiroshi Miura
		Takuya Obata

Note: Assistants to certified audit operations; Certified public accountants: 8; Others: 9 (those who have passed the certified public accountant exam and persons in charge of system audits)

#### 8 Internal Audit Department

Audit

##### Ensuring and Verifying Legal Compliance and Operating Efficiencies

We have established an Internal Audit Division to support the Audit and Supervisory Committee. This division primarily conducts regular monitoring of each division and Group companies from the standpoint of risk management. In addition, information is collected and analyzed from legal, propriety, and efficiency standpoints so internal operational risk and inefficiencies are properly understood, in order to prevent the occurrence of crises and improve operations. In addition, in the event of an unforeseen situation, the Audit and Supervisory Committee contributes to making appropriate management decisions by quickly giving a report examining and analyzing the causal factors to the Audit and Supervisory Board in order to minimize losses to the company.

#### 9 Corporate Management Council

(Convened 25 times in the year ended March 31, 2017)

Implementation

##### Supporting the Board of Directors' Decisions

The Chairman, President and Executive Corporate Officers participate in the Corporate Management Meeting, which is held the day before a meeting of the Board of Directors. At the Corporate Management Meeting, we ensure the fairness and transparency of the decision process with careful review of special items, items brought up to the Board of Directors and items delegated to executive corporate officers such as the President.

#### 10 Board of Corporate Officers

(Convened 11 times in the year ended March 31, 2017)

Implementation

##### Executing Operations Based on Clear Management Policy

In order to clarify monitoring and business operation functions, Capcom adopted the corporate officer system. The Board of Corporate Officers is convened once a month. At the Board of Corporate Officers, in addition to carrying out business based on Board of Directors' decisions, reports on business affairs policy are given and plans are formulated.

Status reports on business being carried out by Corporate Officers are given at the monthly meetings of the Board of Directors.

## External Directors

### Using External Perspectives to Ensure Effective Governance

External directors ensure the effectiveness of the corporate governance function by playing key roles in the Compliance, Nominating and Remuneration Committees. They also focus efforts on compliance and the prevention of corrupt or illegal activities, and **openly exchange opinions and provide counsel at Board of**

### Directors meetings in an effort to strengthen the management audit function.

The Secretariat staff helps with the work of the external directors who are not members of the Audit and Supervisory Committee. For external directors who are members of the Audit and Supervisory Committee, the full-time staff of the Internal Audit Task Force helps with their work.

### Board of Directors' Reason for Selection and Rate of Attendance (Year ended March 2017)

	Name	Independent director	Reasons for selection	Board of Directors/Audit and Supervisory Committee Rate of Attendance (Year ended March 2017)
External Directors	Hiroshi Yasuda	○	In overall consideration of his excellent insight, wealth of experience, and career holding positions of importance	Board of Directors Attended 14 of 15 meetings (93.3%)
	Masao Sato	○	Due to expectations for his ability to contribute to the auditing and supervision of the Board of Directors through his rich experience and knowledge from many years serving in the police administration	Board of Directors Attended 11 of 11 meetings (100%)
	Toru Muranaka	○	Due to expectations for his ability to contribute to the auditing and supervision of the Board of Directors through precise counsel and advice as a legal expert	Board of Directors Attended 10 of 11 meetings (90.9%)
External Directors (Audit and Supervisory Committee)	Yoshihiko Iwasaki	○	Due to the validity of his judgment, which will benefit the Company from his practical experience with tax administration	Board of Directors Attended 15 of 15 meetings (100%) Audit and Supervisory Committee Attended 9 of 9 meetings (100%)
	Makoto Matsuo	○	Due to his ability to enable effective corporate governance through precise counsel and advice as a legal expert	Board of Directors Attended 14 of 15 meetings (93.3%) Audit and Supervisory Committee Attended 9 of 9 meetings (100%)
	Takayuki Morinaga	○	Due to expectations for his ability to strengthen the auditing and supervision of the Board of Directors through management expertise, practical experience, and a track record that he has acquired at other companies	Board of Directors Attended 15 of 15 meetings (100%) Audit and Supervisory Committee Attended 9 of 9 meetings (100%)

## Officer Remuneration

### The Remuneration Committee Makes Recommendations to Ensure Fairness and Transparency

To ensure fairness and transparency, the compensation of Directors is consulted on with the voluntary Remuneration Committee, which has an external director as chairman. The Board of Directors sets remuneration based on this committee's recommendations. The current remuneration system is composed of set monthly remuneration and performance-based bonuses paid in cash, however the percentage of set remuneration is high. Because of this, we are looking into introducing a new remuneration system to increase the directors' incentive to increase corporate value over the medium- to long-term. Also, as part of an overall environment to support risk-taking, the remuneration linked to performance will be set to an appropriate percentage.

### Policy Regarding Deciding the Calculation Method and Amount of Directors' Remuneration

#### 1 Regarding Remuneration of Directors (excluding directors who are members of the Audit and Supervisory Committee)

To ensure fairness and transparency of Directors' remuneration, the Board of Directors consults the Remuneration Committee, which has an external director as chairman. The Remuneration Committee considers each board member's position, duties, tenure, full/part-time service, etc. as well as Capcom's earnings and individual job performance, and recommends an appropriate amount. The Board of Directors makes a decision based on this.

- Monthly remuneration is fixed.
- The bonuses are set within a reasonable range based on monthly remuneration and the Company's performance.
- In addition to the remunerations listed above, appropriate remuneration based on individual achievement may be paid within a set range.

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

In order to secure their independence, the remuneration of the directors who serve as members of the Audit and Supervisory Committee is not linked to performance; it is determined through discussions, taking the difference of full-time or part-time service into account, by the directors who serve as members of the Audit and Supervisory Committee.

### Officer Remuneration (Year ended March 31, 2017)

Total remuneration, etc. by type of director for delivery companies, total amount by type of remuneration, etc., and number of directors the remuneration was paid to

Type of director	Total Remuneration (million yen)	Total of remuneration, etc. by type (million yen)				Number of directors paid
		Basic remuneration	Stock options	Bonus	Severance	
Director (excluding Audit and Supervisory Committee) (excluding external directors)	278	228	-	50	-	5
Directors (Audit and Supervisory Committee) (excluding external directors)	25	25	-	-	-	2
Auditor (excluding external auditors)	5	5	-	-	-	1
External director	69	69	-	-	-	10

Notes 1: The above includes one director who left office due to their tenure ending at the conclusion of the 37th Regular General Meeting of Shareholders held on June 17, 2016.

2: As of the end of the 37th General Shareholders' Meeting on June 17, 2016, Capcom transitioned from a company with a board of corporate auditors into a company with an audit and supervisory committee. Consequently, remuneration amounts for corporate auditors correspond to the period before this transition, while remuneration amounts for directors who are Audit and Supervisory Committee members correspond to the period after this transition.

#### Total amount of consolidated remuneration, etc. by director of delivery company

Name	Total of consolidated remuneration, etc. (million yen)	Type of director	Type of company	Total of consolidated remuneration, etc. by type (million yen)			
				Basic remuneration	Stock options	Bonus	Severance
Kenzo Tsujimoto	101	Director	Delivery company	80	-	21	-

Note: Total consolidated remuneration, etc. is listed only for those with remuneration of 100 million yen or more.

## Third-Party Assessment

### Promoting More “Visible” Governance

An analysis of an assessment performed by a third-party organization into the validity and effectiveness of Capcom’s corporate governance shows that the company ranked 174th among 3,488 listed companies in Japan in the “NEEDS-Cges” assessment developed by Nikkei Digital Media, Inc.

NEEDS-Cges has an established reputation as a system that quantitatively assesses corporate governance using scores on a scale of 1 to 10 for eight categories, including capital efficiency, information disclosure, and shareholder and capital composition, among others, assigned based on some 150 indicators calculated from data of publicly released company documents, such as financial reports.

Accompanying the changes to the NEEDS-Cges assessment criteria, Capcom’s total score was 7.28 points, placing us in the top 5.0% of Japan’s listed companies. Our score also exceeded

the average for all listed companies and for the industry, at 4.91 points and 7.15 points, respectively. We also received the maximum score of 10 for “information disclosure.” Furthermore, accompanying our abolishment of takeover defense measures and our dividend increase, we improved our scores over the previous year for the two categories of external regulations and capital policies.

The main evaluation factors are given in the table below, but areas highlighted in yellow indicate measures that received particular notice. Additionally, we were awarded first place among the companies that comprise the TOPIX 1000 for the Nikko Governance Score, which was announced in August 2017. Going forward, we will continue making improvements based on consideration of external data to earn an even stronger assessment, and further promote the external visibility of our governance by posting this and other data on our IR web page.

### Third-Party Assessment Results of Capcom’s Corporate Governance

#### Details of Capcom’s Corporate Governance Assessment

Total Score	7.28
Rank	174
Categories	Score
Capital efficiency	5
Equity market’s assessment	7
External regulations	8
Board of Directors	8
Officer remuneration	8
Information disclosure	10
Capital policies	8
Effectiveness	4

#### Comparison of the Industry Average and the Average for All Listed Companies



#### Details of Highest Rated Categories

Highest Rated Categories	Score	Areas that Received Particular Notice
External regulations	8	Ratio of loyal long-term stockholders and presence (or absence) of takeover defense measures
Board of Directors	8	Matters related to independent external directors and the terms of members of the Board of Directors
Officer remuneration	8	President’s shareholding ratio and amount of Company shares held by directors
Information disclosure	10	Timing of the General Shareholders’ Meeting (overlap with other companies) and website-related matters
Capital policies	8	Shareholder return ratio

Source: NEEDS-Cges from Nikkei Digital Media Inc.

## Shareholders’ Meeting Resolutions

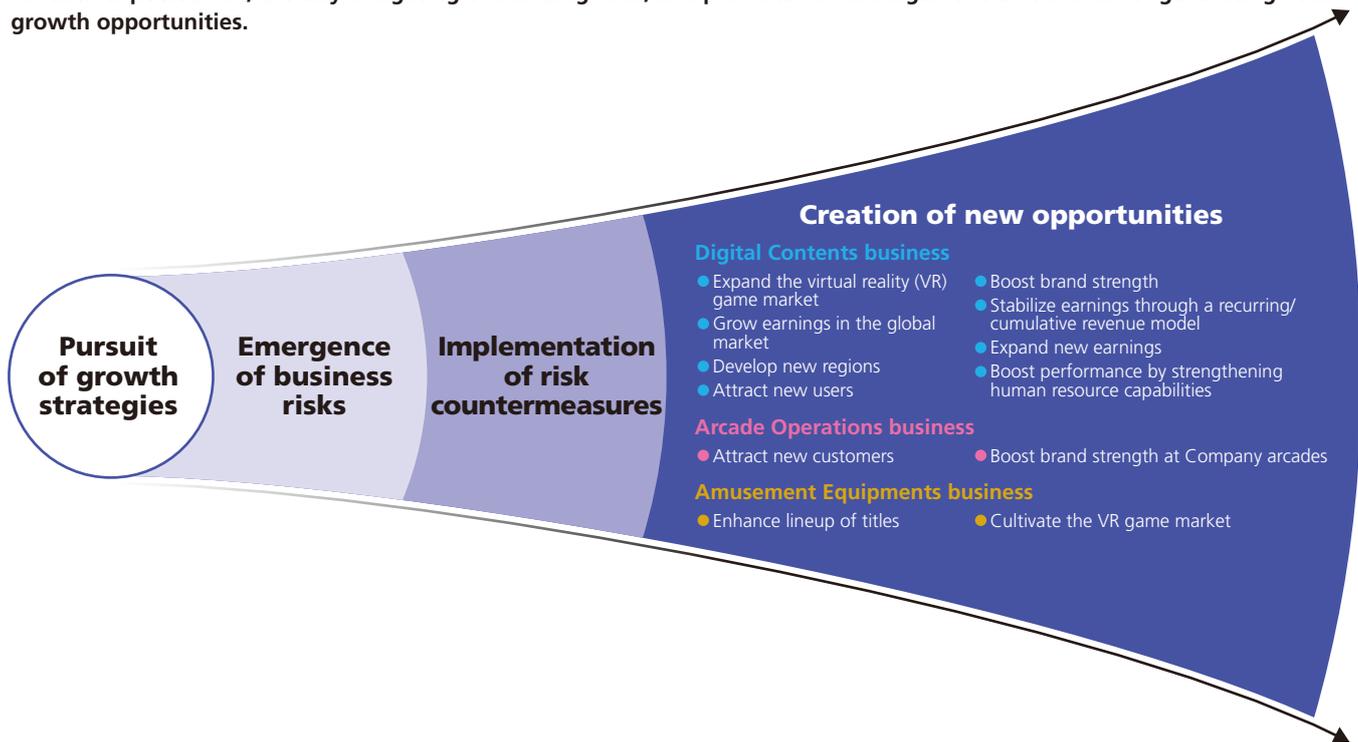
The following presents the number of votes in favor, opposed or abstained for the matters to be resolved at the year ended March 31, 2017, general shareholders’ meeting, and the results of voting.

Resolutions	Approval Votes	Votes Opposed	Abstained Votes	Approval Rate (%)	Voting results
First proposal: Proposed Appropriation of Retained Earnings	427,280	3,502	0	97.75	Approved
Second proposal: Election of Seven Directors (excluding Directors who are members of the audit and supervisory committee)					
Kenzo Tsujimoto	427,328	3,448	0	97.76	Approved
Haruhiro Tsujimoto	427,328	3,448	0	97.76	Approved
Yoichi Egawa	427,773	3,003	0	97.86	Approved
Kenkichi Nomura	427,558	3,218	0	97.81	Approved
Hiroshi Yasuda	425,013	5,764	0	97.23	Approved
Masao Sato	430,165	612	0	98.41	Approved
Toru Muranaka	408,304	22,473	0	93.41	Approved

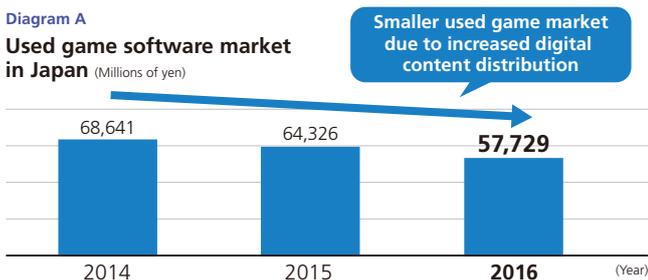
➡ Please refer to the “Shareholders Meeting Resolutions” section of our IR web page for information about the conditions for each proposal to be passed <http://www.capcom.co.jp/ir/english/stock/meeting.html>

# Risk Management

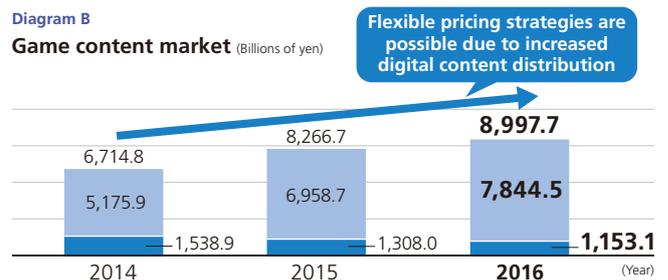
Capcom is driving its growth strategies forward in order to achieve our Medium-Term Business Goal of increased operating income every fiscal year. Pursuing our growth strategies, however, inevitably entails business risks. We implement measures for each expected risk, thereby mitigating or avoiding risks, and promote risk management that allows for generating new growth opportunities.



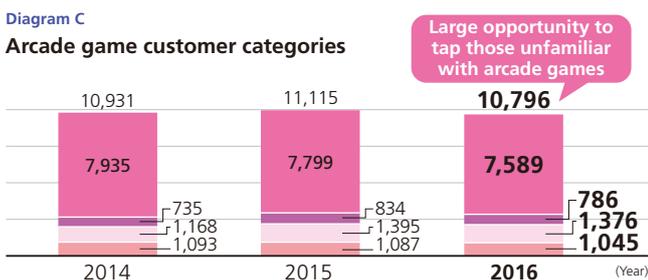
## Business opportunities shown in market data



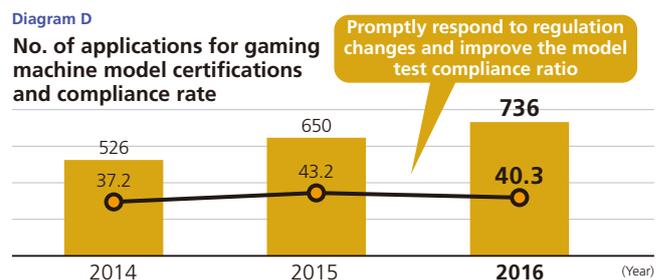
Source: Famitsu Game White Paper 2015, 2016, 2017



\*Source: Famitsu Game White Paper 2015, 2016, 2017



Source: 2017 CESA Consumer Survey Report --Survey of Japanese Game Users & Non-game Users--



Source: reference statistics from the Security Communications Association

## Major Risks, Countermeasures, and Opportunities

### Digital Contents business

Risks	Capcom's response measures	Opportunities
Surge in development costs due to increasingly complex/diverse functionality in CG and VR technologies as well as Internet operations	Build an in-house development engine and efficiently place development personnel to improve both quality and development efficiency, while focusing on containing development spending	<ul style="list-style-type: none"> <li>Expand the virtual reality (VR) game market</li> <li>Grow earnings in the global market</li> </ul>
Rapid obsolescence of game software	Remake previous titles and/or make derivative products from them in order to continue effectively utilizing IP, while securing long-term earnings	<ul style="list-style-type: none"> <li>Develop new regions</li> <li>Attract new users</li> <li>Boost brand strength</li> <li>Stabilize earnings through a recurring/cumulative revenue model</li> </ul>
Expansion of the used software market and a flood of pirated copies in Asian markets	Boost the DLC ratio in order to restrain supply to the used game market, suppress pirated copies, and expand sales of genuine products <a href="#">[Diagram A]</a>	
Loss of user interest in our popular IP due to changes in the market environment	Boost brand strength by rolling out products on multiple media platforms Allocate a certain percentage of development investment toward new IP development	
Arguments claiming a connection with/influence on violent incidents and other criminal cases due to depictions of violent scenes and similar content in games	Comply with rules on the age-based rating system for game software Educate schools and parents/guardians by conducting on-site classes	
Fluctuations in the proliferation of, or any problem with, home video game consoles	Use surveys and analysis of home game console market trends to predict future trends, while diversifying earnings risks by releasing products on multiple game platforms	
Fluctuations in supply and demand for games due to seasonal factors	Deliberate on optimal timing of launches based on market analysis Create more long-term sales through flexible pricing strategies	
Sluggish sales growth in the transition stage ahead of new-generation home video game console launches	Lengthen the duration of game sales and strengthen recurring sales by boosting the DLC ratio Increase sales units through flexible pricing strategies <a href="#">[Diagram B]</a>	
Inability to keep up with new technologies	Utilize a cutting-edge development environment and talented developers to continually strive for development that leverages new technologies	
Decrease in users due to diversifying entertainment options, diversifying consumer needs, etc.	Deliver mobile games, etc. that leverage our popular IP by releasing games on multiple platforms and thereby gaining new user segments	<ul style="list-style-type: none"> <li>Grow earnings in the global market</li> <li>Boost performance by strengthening human resource capabilities</li> </ul>
Market fluctuations outside Japan and intensification of competition among companies	Closely share information with overseas subsidiaries and sales companies; assess market trends in each country; respond to local needs	
Country risks outside Japan, including political, economic, legislative, cultural, religious, and custom risks	Have in-house specialist teams carry out localization without losing the perspective of the game world and while keeping regional politics, economics, laws, culture, religion, and custom in mind	
Unfavorable legal interpretations/rules by regulatory authorities addressing tax rates, customs duties, etc. accompanying expansion of overseas transactions	Collaborate with overseas subsidiaries and gather information related to legal systems in the countries of sale so that we can strive for preemptive measures	
Retirement/transfer of development personnel	Devote effort to aggressively hiring and training personnel so that we can secure talented developers Promote systems for shortened working hours and usage of paid leave, in addition to building daycare centers near our offices	

### Arcade Operations business

Risks	Capcom's response measures	Opportunities
Reliance on the popularity of installed machines	Roll out multi-faceted projects such as character-themed food shops, shops dedicated to selling character-themed products, and special corners targeting younger demographics, in order to attract customers without focusing on specific, popular machines <a href="#">[Diagram C]</a>	<ul style="list-style-type: none"> <li>Attract new customers</li> </ul>
Changes in the market environment, such as diversification of entertainment, falling birth rates, intensified competition	Create new earnings opportunities and customers by holding various events for families and women, and other events aimed at middle-aged to senior citizens	<ul style="list-style-type: none"> <li>Boost brand strength at Company arcades</li> </ul>

### Amusement Equipments business

Risks	Capcom's response measures	Opportunities
Only models that obtain Security Communications Association certification can be sold	By joining the Japan Pachislo Machine Industry Association (Nichidenkyo), get an understanding of trends with regulatory agencies and build a framework for immediately responding to regulatory changes <a href="#">[Diagram D]</a>	<ul style="list-style-type: none"> <li>Enhance lineup of titles</li> </ul>
A decline in facility operators' purchasing power, changes in the business environment, and uncertainties regarding growth	Develop cabinets that utilize our wealth of popular IP in multiple ways Grasp market trends by collaborating with company-owned arcades	<ul style="list-style-type: none"> <li>Cultivate the VR game market</li> <li>Enhance lineup of titles</li> </ul>

# 11-Year Summary of Consolidated Financial Indicators

## Financial Index

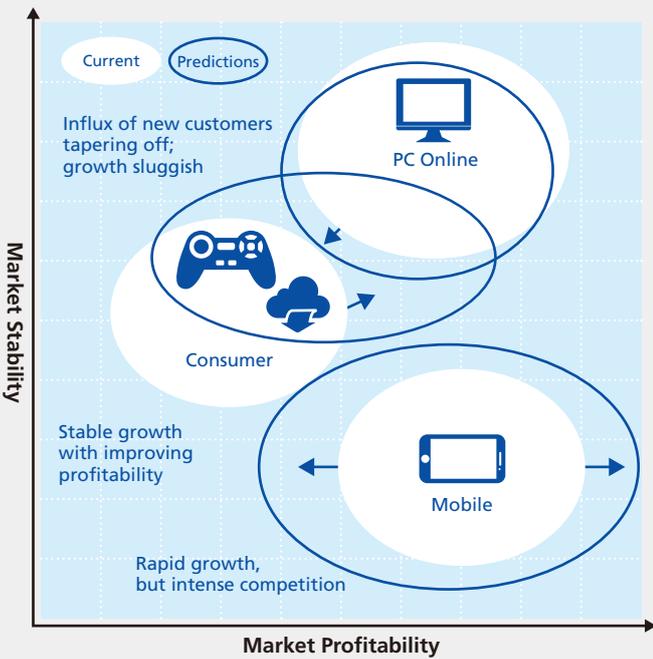
	2007	2008	2009	2010	2011
<b>For the Year:</b>					
	Millions of yen				
Net sales	¥ 74,542	¥ 83,097	¥ 91,878	¥ 66,837	¥ 97,716
Operating income	9,602	13,121	14,618	5,587	14,295
Net income (loss) before income taxes	9,986	11,962	12,448	1,124	10,807
Net income attributable to owners of the parent	5,852	7,807	8,063	2,167	7,750
Depreciation & amortization	2,774	3,393	4,143	3,368	3,315
Capital expenditures	4,495	4,503	2,906	2,205	2,758
R&D expenses	1,828	2,972	2,329	2,125	2,924
<b>At Year-End:</b>					
	Millions of yen				
Total assets	¥ 91,478	¥ 93,606	¥ 106,210	¥ 86,621	¥ 90,408
Net assets	45,144	53,660	59,349	53,956	58,007
Net cash	9,200	13,061	7,378	12,299	27,655
Developer numbers	728	809	1,047	1,132	1,339
<b>Cash Flows:</b>					
	Millions of yen				
Cash flows from operating activities	¥ 16,063	¥ 7,452	¥ (551)	¥ 14,320	¥ 22,392
Cash flows from investing activities	(6,715)	(3,374)	(2,715)	(1,618)	(2,046)
Cash flows from financing activities	(15,206)	(2,448)	(342)	(10,747)	(12,919)
Net increase (decrease) in cash and cash equivalents	(5,654)	(2,256)	(4,454)	1,203	5,196
Cash and cash equivalents at end of year	35,020	32,763	28,611	29,815	35,011
<b>Per Share Data:</b>					
	yen				
Net income (loss) per share	¥ 107.52	¥ 132.90	¥ 130.98	¥ 35.71	¥ 131.18
Dividend per share	30.00	30.00	35.00	35.00	40.00
Net assets per share	799.35	881.13	961.38	913.18	981.76
<b>Financial Index:</b>					
	%				
Operating margin	12.9	15.8	15.9	8.4	14.6
ROE	13.8	15.8	14.3	3.8	13.8
ROA	6.2	8.4	8.1	2.3	8.8
Net worth ratio	49.3	57.3	55.9	62.3	64.2
Interest coverage ratio (times)	237.3	103.7	–	86.9	155.8
Debt-equity ratio	102.6	74.4	79.0	60.5	55.9
<b>Stock Information:</b>					
Price earnings ratio (times)	15.7	25.6	13.3	49.5	12.1
Number of outstanding shares (thousands shares)	62,269	66,719	67,394	67,723	67,723
Foreign investors (%)	32.60	27.72	33.73	24.22	22.17
<b>Digital Contents Business:</b>					
	Billions of yen				
Consumer business net sales	¥ 43.8	¥ 51.6	¥ 60.0	¥ 38.7	¥ 63.6
Online business net sales	2.7	4.1	6.6	8.5	10.5
<b>Consumer Game Sales (Package Software and Full-game Digital Content)</b>					
	Thousands				
Total number of units	12,200	15,750	18,100	13,900	21,700
Sales of major titles	Lost Planet Extreme Condition 1,370 Dead Rising 1,220 Monster Hunter Freedom 2 1,220	Devil May Cry 4 2,320 Resident Evil 4 Wii edition 1,300 Resident Evil: The Umbrella Chronicles 1,060	Resident Evil 5 4,400 Street Fighter IV 2,500 Monster Hunter Freedom Unite (Best Price included) 2,200	Monster Hunter Freedom Unite (Best Price included) 1,350 Monster Hunter Tri 1,150 Resident Evil 5 950	Monster Hunter Freedom 3 4,600 Dead Rising 2 2,300 MARVEL VS. CAPCOM 3 Fate of Two Worlds 2,000

CAPCOM CO., LTD. AND ITS CONSOLIDATED SUBSIDIARIES. YEARS ENDED MARCH 31

	2012	2013	2014	2015	2016	2017	2017				
	Millions of yen						Thousands of U.S. dollars				
	¥ 82,065	¥ 94,075	¥ 102,200	¥ 64,277	¥ 77,021	¥ 87,170	\$ 778,306				
	12,318	10,151	10,299	10,582	12,029	13,650	121,882				
	11,425	3,719	5,315	10,701	11,150	12,489	111,513				
	6,723	2,973	3,444	6,616	7,745	8,879	79,279				
	3,123	3,406	4,638	3,535	5,712	5,980	53,396				
	4,153	8,724	8,064	10,177	8,274	3,767	33,642				
	2,236	1,982	2,002	823	1,073	695	6,212				
	Millions of yen						Thousands of U.S. dollars				
	¥ 98,247	¥ 104,365	¥ 96,611	¥ 100,773	¥ 113,057	¥ 118,897	\$ 1,061,586				
	59,352	62,828	63,875	71,331	75,168	77,774	694,417				
	11,348	14,327	22,670	21,212	15,821	8,426	75,237				
	1,455	1,623	1,808	1,902	2,052	1,994					
	Millions of yen						Thousands of U.S. dollars				
	¥ (7,672)	¥ 6,647	¥ 13,201	¥ 4,286	¥ 4,347	¥ 3,200	\$ 28,573				
	(4,794)	(1,375)	(6,155)	(5,496)	(1,639)	(3,628)	(32,392)				
	587	1,162	(15,099)	1,278	(1,115)	(3,130)	(27,950)				
	(12,724)	9,235	(5,404)	1,879	431	(4,091)	(36,533)				
	22,287	31,522	26,118	27,998	28,429	24,337	217,303				
	yen						U.S. dollars				
	¥ 116.10	¥ 51.64	¥ 61.11	¥ 117.67	¥ 137.75	¥ 160.35	\$ 1.43				
	40.00	40.00	40.00	40.00	40.00	50.00	0.45				
	1,030.70	1,091.08	1,135.91	1,268.56	1,336.86	1,420.64	12.68				
	%										
	15.0	10.8	10.1	16.5	15.6	15.7					
	11.5	4.9	5.4	9.8	10.6	11.6					
	7.1	2.9	3.4	6.7	7.2	7.7					
	60.4	60.2	66.1	70.8	66.5	65.4					
	–	62.4	136.8	50.2	36.5	22.8					
	65.5	66.1	51.2	41.3	50.4	52.9					
	16.3	28.6	32.0	20.3	19.9	13.5					
	67,723	67,723	67,723	67,723	67,723	67,723					
	27.05	32.37	37.29	36.87	39.35	31.19					
	Billions of yen										
	¥ 46.9	¥ 45.9	¥ 53.0	¥ 35.2	¥ 42.1	¥ 49.2					
	12.9	17.7	12.8	10.1	10.4	9.5					
	Thousands										
	17,000	16,700	17,500	13,000	15,000	19,400					
Resident Evil: Operation Raccoon City	1,700	Resident Evil 6	5,000	Monster Hunter 4	4,100	Monster Hunter 4 Ultimate	3,400	Monster Hunter X (Cross)	3,300	Resident Evil 7 biohazard	3,500
Monster Hunter 3 (Tri) G	1,600	Dragon's Dogma	1,300	Dead Rising 3	1,200	Resident Evil Revelations 2	1,100	Street Fighter V	1,400	Monster Hunter XX (Double Cross)	1,700
Street Fighter X Tekken	1,400	DmC Devil May Cry	1,200	Resident Evil Revelations	1,200	Resident Evil (HD Remastered)	900	Resident Evil Revelations 2	850	Monster Hunter X (Cross)	1,000

## Game Industry Characteristics

### Characteristics of Each Market



Source: Created by Capcom based on data from the International Development Group

### Consumer Market Characteristics (Package + Digital Download Contents)

Package and digital download contents are a 21.2 billion dollar market, forecast to grow 30% over the next five years to 27.2 billion dollars by 2021. The customer base is composed mainly of core users who are highly loyal to game titles. They have relatively high willingness to purchase sequels and remakes along with low sensitivity to price and economic conditions. This market is the lowest among the three in terms of margin, yet occupies a high position in the Japanese industry overall. Hereafter, we expect the digital sales ratio to increase, shrinking the gap between the other two markets' margins. [Please refer to page 44](#)

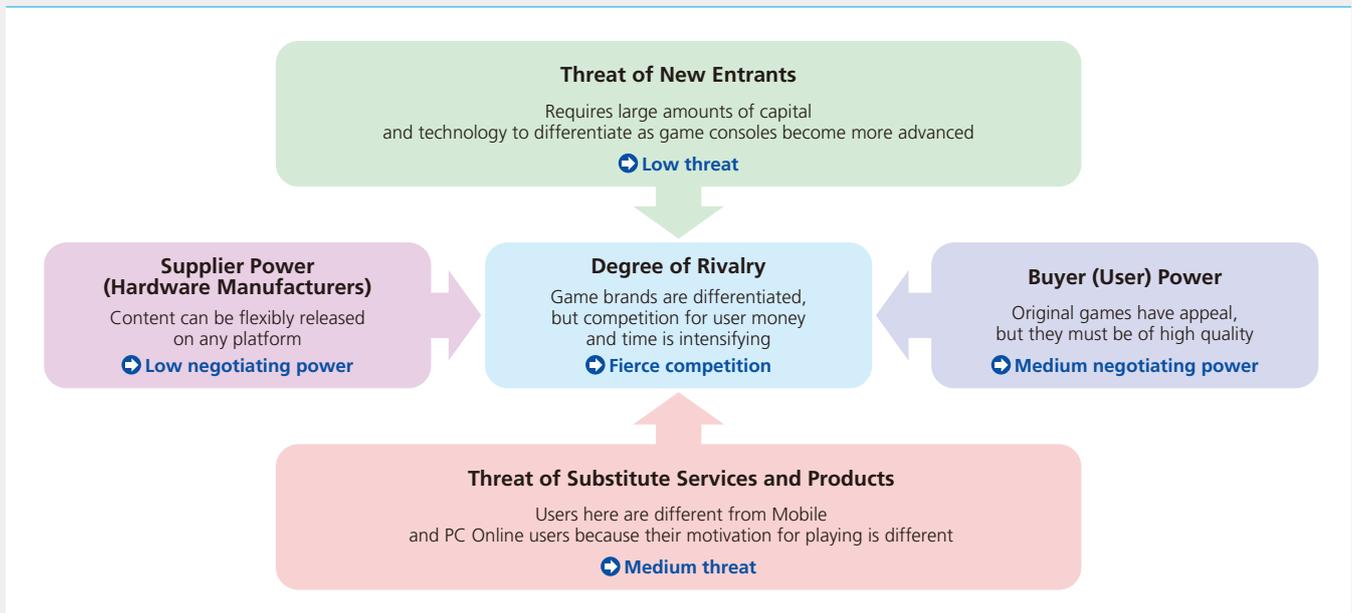
### Mobile Market Characteristics

This is a 48.5 billion dollar market, forecast to grow to 81 billion dollars in 2021. The customer segment is primarily composed of casual users, many of whom play games just to pass the time, thus they demonstrate the lowest loyalty toward game titles. They have a limited willingness to purchase games and have the highest sensitivity to price and economic conditions. Although this is the most profitable among the three markets, only a limited number of titles are able to generate stable earnings over the long term. Going forward, we expect smartphones will continue to grow rapidly as the most pervasive game device. [Please refer to page 45](#)

### PC Online Market Characteristics

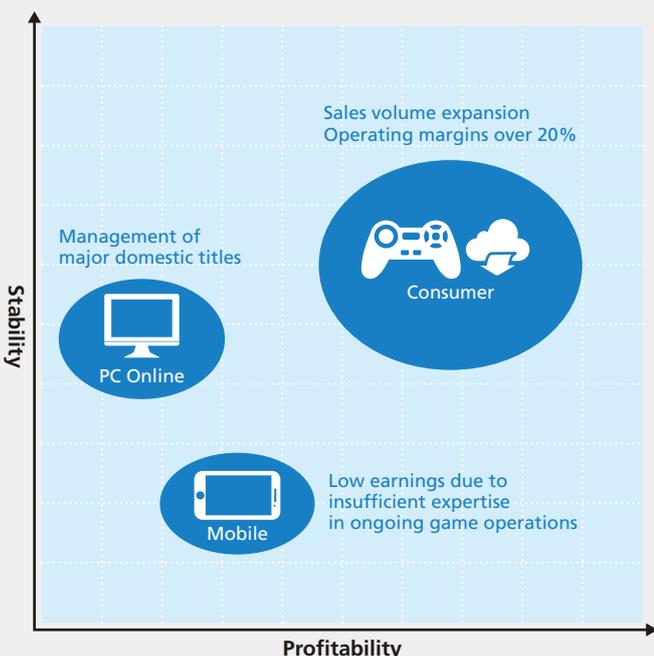
This is a 31 billion dollar market, forecast to peak at 32.8 billion dollars in 2021. The customer base is primarily composed of core users who demonstrate the highest loyalty toward game titles. They have a fairly strong willingness to engage in ongoing purchases, and are unique for having the lowest sensitivity to price and economic conditions. Among the three markets, profitability is comparatively high, and hit titles tend to generate stable earnings over the long term; however, the influx of new customers is expected to taper off, causing growth to be sluggish in the future. [Please refer to page 46](#)

### Five Competitive Factors Related to the Consumer Market (Five Forces Analysis)



Capcom Business Characteristics

Digital Contents Business Portfolio



Note: Calculations based on earnings in the fiscal year ended March 31, 2017

**Consumer Business (Proportion of Net Sales: 56%)**  
Package + Digital Download Contents

Capcom’s core business is to create a multitude of original content for home video game consoles. The regular release of sequels to popular IPs and an increased download sales ratio have, in recent years, led to a greater volume of sales and operating margins over 20%.

**Mobile Contents Business (Proportion of Net Sales: 4%)**

This business distributes games featuring popular Capcom content on smartphones, cultivating new markets such as the casual user segment to create new earnings opportunities. However, insufficient know-how in ongoing game operations, which differs from Consumer, has resulted in sales underperforming market growth.

**PC Online Business (Proportion of Net Sales: 7%)**

We are working to distribute PC Online games utilizing our popular content and ensure stable management of our existing content in Japan and Asia.

Capcom Management Resource VRIO Analysis and Evaluation/Measures

V: Value R: Rarity I: Inimitability O: Organization  
○: High △: Medium ×: Low

Area	Management Resource	V	R	I	O	Evaluation
Management	Top management with strong leadership dedicated to high-quality production and trusted by employees	○	○	○	○	Ongoing competitive advantage
Development/technology	Development capabilities to produce original titles of world class quality	○	○	○	○	Ongoing competitive advantage
	RE ENGINE for streamlined development and the technological prowess to create games with full-VR support	○	○	○	○	
Governance	Corporate culture of training younger employees	○	× <sub>+1</sub>	△	○	Other companies possess this strength as well
	Promotion of governance reforms (independent director ratio/company with an audit and supervisory committee)	○	△	×	○	Some companies are even more progressive
	Swift decision-making system	○	△	×	○	Strength seen at many founder-run companies
Brand	Many popular, global IPs	○	○	○	○	Ongoing competitive advantage
	Corporate brand known worldwide for action games	○	×	○	○	There are more widely recognized companies
Finances	Paid dividends for 26 consecutive years since listing	○	△	×	○	There are about 40 companies that have provided dividends for 10 consecutive years or more
Sales	Consumer digital sales ratio of more than 30%	○	△	× <sub>+2</sub>	○	Major overseas companies are ahead
Marketing	Bolstering of lineup through revival of dormant IP and catalog titles	○	△	△	○	Companies with popular IP can roll them out in other media
	Single Content Multiple Usage strategy of rolling out popular IP to multiple media	○	×	△	△ <sub>+3</sub>	
External partners	Trusted by hardware manufacturers	○	△	○	○	High rank compared to competitors

Note: Prepared in-house based on interviews of analysts.

Measures to address evaluation

\*1 With respect to the low evaluation of the originality of our system for training younger employees, we are working on system development that includes (1) providing an environment conducive to taking on new challenges through visualization of management, and (2) developing an environment of friendly rivalry through the promotion of younger employees and consolidation of offices. (Please refer to pages 26 and 37)

\*2 With respect to the low evaluation globally despite being ahead of other companies in

Japan, we are promoting measures such as (1) taking advantage of our many popular IPs by re-releasing past million-sellers (79 titles) in digital format and (2) extending the sales period with brand strategies for each IP. (Please refer to page 32)

\*3 With respect to the low evaluation of not successfully rolling out IPs to mobile platforms despite their relative strength, we are promoting measures such as (1) assigning capable creators to internal production and (2) forming alliances with mobile game companies possessing abundant game operations know-how. (Please refer to page 33)

# Financial Review

CAPCOM CO., LTD. AND ITS CONSOLIDATED SUBSIDIARIES. YEARS ENDED MARCH 31

## 1. Operating Results

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 in December 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.

## 2. Revenue and Profits

### (1) Net sales

In this fiscal year, net sales were 87,170 million yen (up 13.2% from the previous fiscal year). This increase was driven primarily by our core business, Digital Contents business as well as by the Amusement Equipments business. Digital Contents title *Resident*

*Evil 7 biohazard* sold 3.5 million units, while *Monster Hunter XX (Double Cross)* sold 1.7 million units. In addition, current-generation console re-releases, such as *Resident Evil 4, 5* and *6* performed well, as did sales of catalog titles, primarily in digital downloads. In the Amusement Equipments business, our *Monster Hunter Kyoryu Sensen* pachislo machine sold 37,000 units, surpassing unit sales in the previous fiscal year.

### (2) Operating income

Cost of sales increased to 56,438 million yen (up 19.6% from the previous fiscal year) and the cost of sales ratio was 64.7%, up 3.5 percentage points from the previous fiscal year. This increase was mainly due to (1) increased development costs associated with the expansion of our title lineup in Consumer Games and (2) an increased development cost amortization burden associated with titles released in the previous fiscal year for PC Others within the Digital Contents business.

Selling, general and administrative (SG&A) expenses were 17,080 million yen (down 4.1% from the previous fiscal year) and SG&A as a percentage of sales was 19.6%, down 3.5 percentage points compared with the previous fiscal year. As increased sales caused the fixed overhead rate to decline, the SG&A expenses ratio on a consolidated basis fell adequately within Capcom's assumed 25% range.

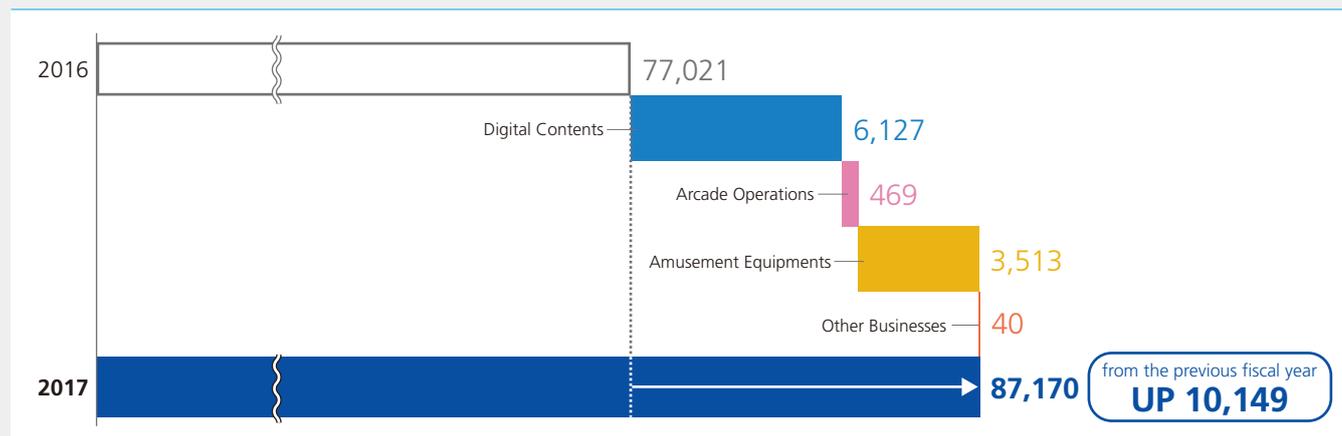
As a result, operating income was 13,650 million yen (up 13.5% from the previous fiscal year), the fourth consecutive year of income growth. Despite a minor decline in Digital Contents business profitability, the operating margin increased slightly to 15.7% (up 0.1% from the previous fiscal year).

### (3) Net income attributable to owners of the parent

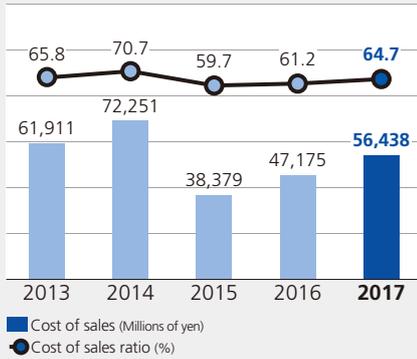
Despite exchange losses of 746 million yen due to the appreciating yen mainly in the first half of the fiscal year, ordinary income increased to 12,589 million yen (up 10.9% from the previous fiscal year), following the increase in operating income.

As a result of these increases in income, although we recorded an extraordinary loss of 99 million yen, net income attributable to

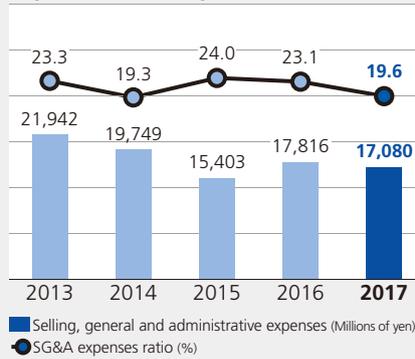
Net Sales (Millions of yen)



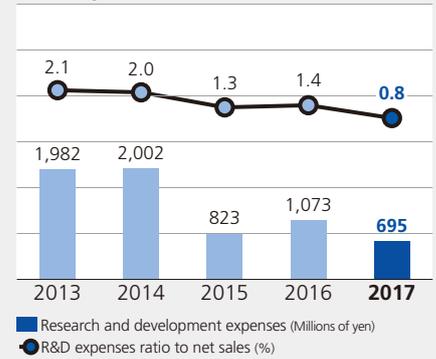
**Cost of sales/Cost of sales ratio**



**Selling, general and administrative expenses/SG&A expenses ratio**



**Research and development expenses/R&D expenses ratio to net sales**



owners of the parent amounted to 8,879 million yen (up 14.6% from the previous fiscal year) and the net margin was 10.2% (up 0.1 percentage points from the previous fiscal year).

**3. Status of Each Operational Department**

**(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 for current-generation console re-releases 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.

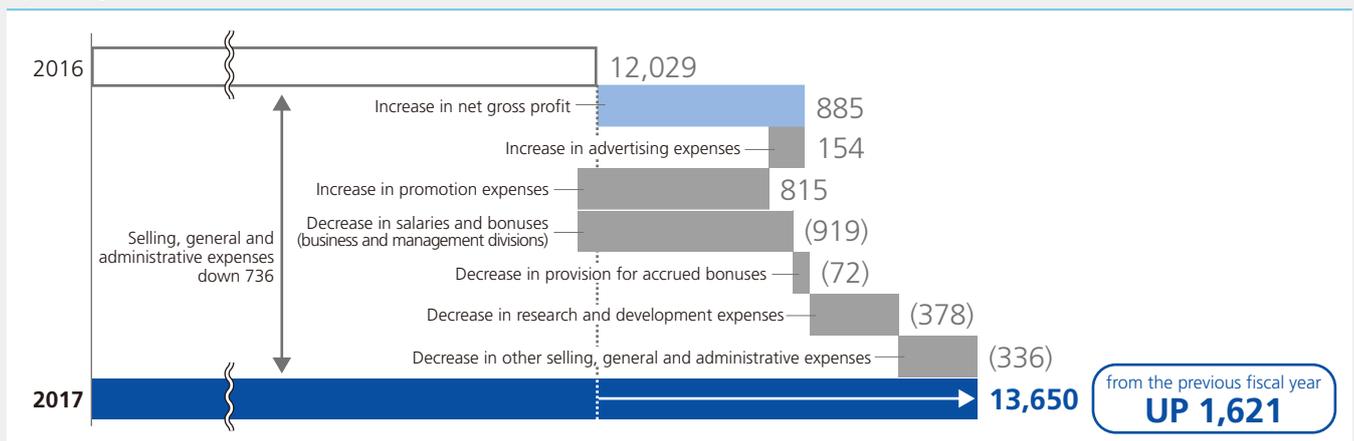
The resulting net sales were 58,704 million yen (up 11.7% from the previous fiscal year), and operating income was 11,096 million yen (down 8.8% from the previous fiscal year).

**(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 stores 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 stores that offer comfortable experiences to customers under the banner of "No. 1 arcade in the community."

To develop new business opportunities, the Company also

**Operating Income** (Millions of yen)



# Financial Review

CAPCOM CO., LTD. AND ITS CONSOLIDATED SUBSIDIARIES. YEARS ENDED MARCH 31

pushed forward innovative new business formulas, such as opening “Chara Cap” shops, which primarily sell character merchandise inside stores. During the period under review, three new stores were opened while one store was closed bringing the total number of stores 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 Sensei*, 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).

## 4. Analysis of Assets, Liabilities and Net Assets

### (1) Assets

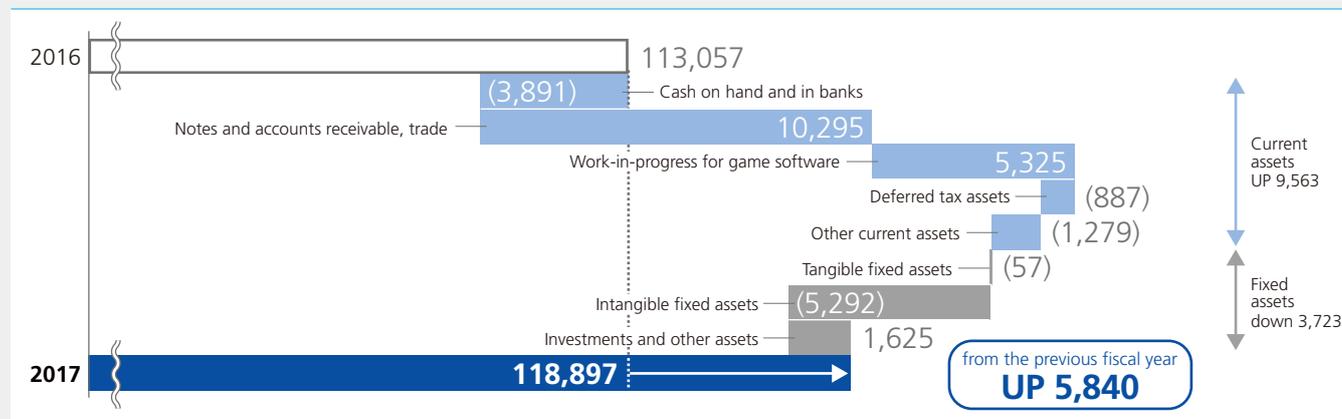
Total assets as of the end of the fiscal year ended March 31, 2017 increased by 5,840 million yen from the end of the previous fiscal year to 118,897 million yen.

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.

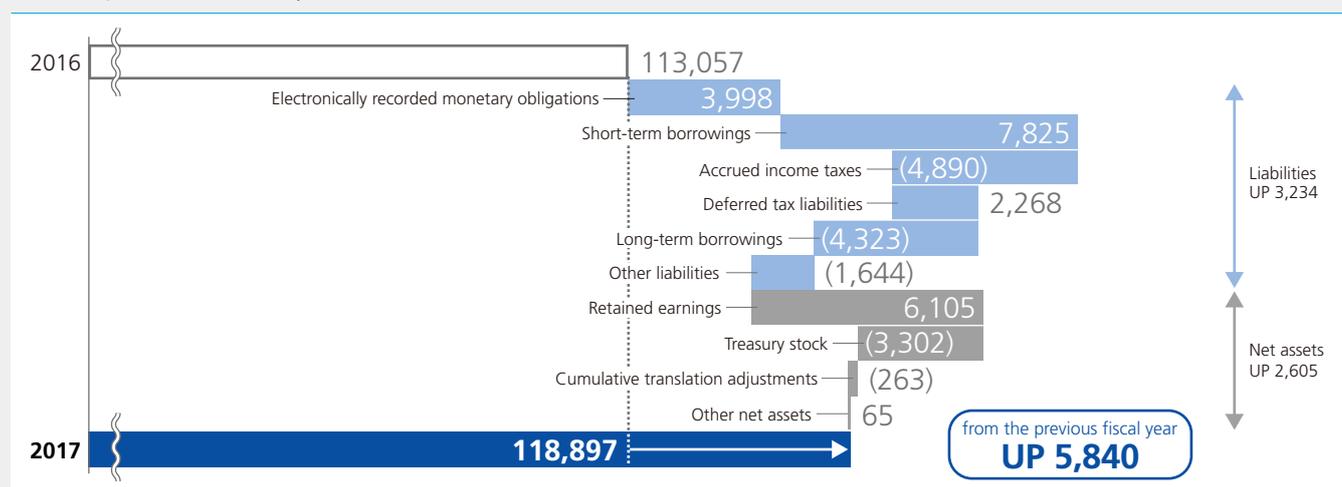
### (2) Liabilities

Total liabilities as of the end of the fiscal year ended March 31, 2017

Assets (Millions of yen)



Liabilities, Net Assets (Millions of yen)



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.

### (3) 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.

## 5. Analysis of Cash Flow

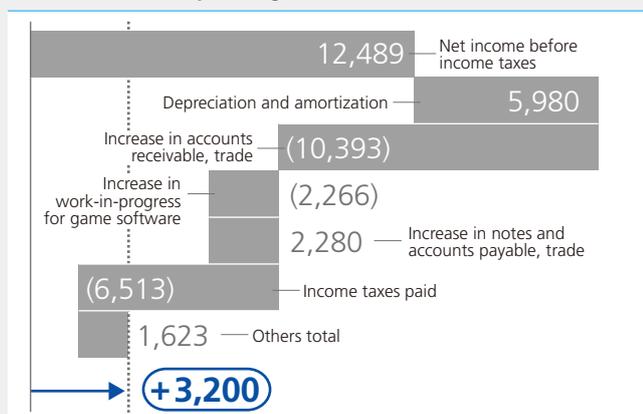
Cash and cash equivalents as of the end of the fiscal year ended March 31, 2017 decreased by 4,091 million yen from the end of the previous fiscal year to 24,337 million yen. Cash flow positions of each activity and their factors are described below.

### (1) 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), 5,980 million yen increase in depreciation and amortization (5,712 million yen in the previous fiscal year), and 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 Operating Activities (Millions of yen)

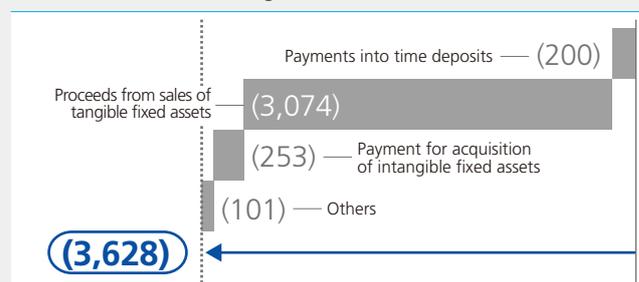


### (2) Cash flows from investing activities

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 Investing Activities (Millions of yen)

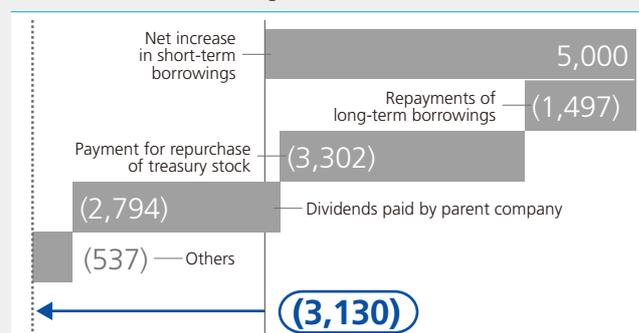


### (3) Cash flows from financing activities

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).

#### Cash Flows from Financing Activities (Millions of yen)



# Consolidated Financial Statement

## Consolidated Balance Sheets

	Previous fiscal year	Current fiscal year	Current fiscal year
	March 31, 2016	March 31, 2017	March 31, 2017
	Millions of yen	Millions of yen	Thousands of U.S. dollars
<b>Assets</b>			
<b>Current assets:</b>			
Cash on hand and in banks .....	¥ 28,429	¥ 24,537	\$ 219,088
Notes and accounts receivable - trade .....	9,879	20,175	180,135
Merchandise and finished goods .....	1,704	1,583	14,138
Work in progress .....	2,085	2,040	18,223
Raw materials and supplies .....	1,954	2,040	18,218
Work in progress for game software .....	24,825	30,150	269,199
Deferred tax assets .....	3,382	2,495	22,277
Other .....	3,673	2,478	22,126
Allowance for doubtful accounts .....	(18)	(21)	(190)
<b>Total current assets</b> .....	<b>75,917</b>	<b>85,480</b>	<b>763,217</b>
<b>Fixed assets:</b>			
Tangible fixed assets, net of accumulated depreciation			
Buildings and structures, net .....	11,297	11,004	98,255
Machinery and vehicles, net .....	23	16	146
Tools, fixtures and furniture, net .....	1,875	1,932	17,258
Equipment for amusement facilities, net .....	1,342	1,616	14,431
Land .....	5,234	5,234	46,738
Leased assets, net .....	1,042	835	7,458
Construction in progress .....	8	128	1,144
<b>Total tangible fixed assets</b> .....	<b>20,825</b>	<b>20,768</b>	<b>185,434</b>
Intangible assets			
Online contents in progress .....	2,395	—	—
Other .....	5,740	2,843	25,391
<b>Total intangible assets</b> .....	<b>8,135</b>	<b>2,843</b>	<b>25,391</b>
Investments and other assets			
Investments in securities .....	454	574	5,131
Claims in bankruptcy and reorganization .....	65	67	600
Lease deposits .....	3,867	3,920	35,003
Deferred tax assets .....	2,952	4,311	38,494
Other .....	916	1,003	8,962
Allowance for doubtful accounts .....	(78)	(72)	(648)
<b>Total investments and other assets</b> .....	<b>8,179</b>	<b>9,804</b>	<b>87,543</b>
<b>Total fixed assets</b> .....	<b>37,140</b>	<b>33,417</b>	<b>298,368</b>
<b>Total assets</b> .....	<b>¥ 113,057</b>	<b>¥ 118,897</b>	<b>\$ 1,061,586</b>

Please refer to Notes to Consolidated Financial Statements on our website at:  
[http://www.capcom.co.jp/ir/english/data/pdf/annual/2017/annual\\_2017\\_06.pdf](http://www.capcom.co.jp/ir/english/data/pdf/annual/2017/annual_2017_06.pdf)

	Previous fiscal year March 31, 2016 Millions of yen	Current fiscal year March 31, 2017 Millions of yen	Current fiscal year March 31, 2017 Thousands of U.S. dollars
<b>Liabilities</b>			
<b>Current liabilities:</b>			
Notes and accounts payable - trade .....	¥ 4,053	¥ 2,288	\$ 20,434
Electronically recorded monetary obligations .....	888	4,886	43,633
Short-term borrowings .....	1,497	9,323	83,242
Lease obligations .....	525	502	4,489
Accrued income taxes .....	6,470	1,580	14,111
Deferred tax liabilities .....	40	2,308	20,607
Accrued bonuses .....	2,080	2,263	20,211
Other .....	6,799	6,840	61,076
<b>Total current liabilities</b> .....	<b>22,355</b>	<b>29,994</b>	<b>267,806</b>
<b>Long-term liabilities:</b>			
Long-term borrowings .....	11,111	6,788	60,609
Lease obligations .....	601	399	3,566
Deferred tax liabilities .....	18	29	261
Liabilities for retirement benefits for employees .....	2,323	2,596	23,182
Asset retirement obligations .....	502	509	4,550
Other .....	975	805	7,191
<b>Total long-term liabilities</b> .....	<b>15,532</b>	<b>11,128</b>	<b>99,361</b>
<b>Total liabilities</b> .....	<b>37,888</b>	<b>41,122</b>	<b>367,168</b>
<b>Net assets</b>			
<b>Shareholders' equity:</b>			
Common stock .....	33,239	33,239	296,779
Capital surplus .....	21,328	21,328	190,436
Retained earnings .....	39,297	45,402	405,378
Treasury stock .....	(18,145)	(21,448)	(191,506)
<b>Total shareholders' equity</b> .....	<b>75,719</b>	<b>78,521</b>	<b>701,088</b>
<b>Accumulated other comprehensive income:</b>			
Net unrealized gain or loss on securities, net of tax .....	2	107	963
Cumulative translation adjustments .....	(278)	(541)	(4,833)
Accumulated adjustments for retirement benefits .....	(274)	(313)	(2,800)
<b>Total accumulated other comprehensive income</b> .....	<b>(550)</b>	<b>(747)</b>	<b>(6,670)</b>
<b>Total net assets</b> .....	<b>75,168</b>	<b>77,774</b>	<b>694,417</b>
<b>Total liabilities and net assets</b> .....	<b>¥ 113,057</b>	<b>¥ 118,897</b>	<b>\$ 1,061,586</b>

Please refer to Notes to Consolidated Financial Statements on our website at:  
[http://www.capcom.co.jp/ir/english/data/pdf/annual/2017/annual\\_2017\\_06.pdf](http://www.capcom.co.jp/ir/english/data/pdf/annual/2017/annual_2017_06.pdf)

# Consolidated Financial Statement

## Consolidated Statements of Income

	Previous fiscal year	Current fiscal year	Current fiscal year
	April 1, 2015 to March 31, 2016	April 1, 2016 to March 31, 2017	April 1, 2016 to March 31, 2017
	Millions of yen	Millions of yen	Thousands of U.S. dollars
<b>Net sales</b>	¥ 77,021	<b>¥ 87,170</b>	<b>\$ 778,306</b>
<b>Cost of sales</b>	47,175	<b>56,438</b>	<b>503,917</b>
<b>Gross profit</b>	29,846	<b>30,731</b>	<b>274,389</b>
<b>Selling, general and administrative expenses</b>	17,816	<b>17,080</b>	<b>152,506</b>
<b>Operating income</b>	12,029	<b>13,650</b>	<b>121,882</b>
<b>Non-operating income:</b>			
Interest income	95	<b>47</b>	<b>426</b>
Dividend income	13	<b>13</b>	<b>123</b>
Other	195	<b>130</b>	<b>1,165</b>
Total	304	<b>192</b>	<b>1,715</b>
<b>Non-operating expenses:</b>			
Interest expense	119	<b>141</b>	<b>1,259</b>
Commission fees	59	<b>44</b>	<b>393</b>
Exchange losses, net	752	<b>746</b>	<b>6,665</b>
Other	55	<b>322</b>	<b>2,875</b>
Total	985	<b>1,253</b>	<b>11,193</b>
<b>Ordinary income</b>	11,348	<b>12,589</b>	<b>112,404</b>
<b>Special losses:</b>			
Loss on sales and/or disposal of fixed assets	92	<b>99</b>	<b>891</b>
Impairment loss	105	–	–
Total	197	<b>99</b>	<b>891</b>
Net income before income taxes	11,150	<b>12,489</b>	<b>111,513</b>
Income taxes - current	6,377	<b>1,832</b>	<b>16,360</b>
Income taxes - deferred	(2,972)	<b>1,777</b>	<b>15,873</b>
Total	3,405	<b>3,610</b>	<b>32,234</b>
Net income	7,745	<b>8,879</b>	<b>79,279</b>
<b>Net income attributable to owners of the parent</b>	¥ 7,745	<b>¥ 8,879</b>	<b>\$ 79,279</b>

## Consolidated Statements of Comprehensive Income

	Previous fiscal year	Current fiscal year	Current fiscal year
	April 1, 2015 to March 31, 2016	April 1, 2016 to March 31, 2017	April 1, 2016 to March 31, 2017
	Millions of yen	Millions of yen	Thousands of U.S. dollars
<b>Net income</b>	¥ 7,745	<b>¥ 8,879</b>	<b>\$ 79,279</b>
Other comprehensive income			
Net unrealized gain or loss on securities, net of tax	(168)	<b>105</b>	<b>943</b>
Cumulative translation adjustments	(1,494)	<b>(262)</b>	<b>(2,348)</b>
Adjustments for retirement benefits	9	<b>(38)</b>	<b>(346)</b>
Total other comprehensive income	(1,653)	<b>(196)</b>	<b>(1,751)</b>
<b>Comprehensive income</b>	6,092	<b>8,683</b>	<b>77,527</b>
Comprehensive income attributable to:			
Owners of the parent	¥ 6,092	<b>¥ 8,683</b>	<b>\$ 77,527</b>
Non-controlling interests	–	–	–

Please refer to Notes to Consolidated Financial Statements on our website at:  
[http://www.capcom.co.jp/ir/english/data/pdf/annual/2017/annual\\_2017\\_06.pdf](http://www.capcom.co.jp/ir/english/data/pdf/annual/2017/annual_2017_06.pdf)

## Consolidated Statements of Changes in Net Assets

Previous fiscal year (April 1, 2015 to March 31, 2016) Millions of yen	Shareholders' equity				Total shareholders' equity
	Common stock	Capital surplus	Retained earnings	Treasury stock	
<b>Balance as of April 1, 2015</b>	¥ 33,239	¥ 21,328	¥ 33,801	¥ (18,140)	¥ 70,228
Changes of items during the fiscal year					
Cash dividends			(2,249)		(2,249)
Net income attributable to owners of the parent			7,745		7,745
Repurchase of treasury stock				(5)	(5)
Net changes of items other than shareholders' equity					
Total changes of items during the fiscal year	–	–	5,496	(5)	5,491
<b>Balance as of March 31, 2016</b>	¥ 33,239	¥ 21,328	¥ 39,297	¥ (18,145)	¥ 75,719
Previous fiscal year (April 1, 2015 to March 31, 2016) Millions of yen	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	
<b>Balance as of April 1, 2015</b>	¥ 170	¥ 1,215	¥ (283)	¥ 1,102	¥ 71,331
Changes of items during the fiscal year					
Cash dividends					(2,249)
Net income attributable to owners of the parent					7,745
Repurchase of treasury stock					(5)
Net changes of items other than shareholders' equity	(168)	(1,494)	9	(1,653)	(1,653)
Total changes of items during the fiscal year	(168)	(1,494)	9	(1,653)	3,837
<b>Balance as of March 31, 2016</b>	¥ 2	¥ (278)	¥ (274)	¥ (550)	¥ 75,168
Current fiscal year (April 1, 2016 to March 31, 2017) Millions of yen	Shareholders' equity				Total shareholders' equity
	Common stock	Capital surplus	Retained earnings	Treasury stock	
<b>Balance as of April 1, 2016</b>	¥ 33,239	¥ 21,328	¥ 39,297	¥ (18,145)	¥ 75,719
Changes of items during the fiscal year					
Cash dividends			(2,774)		(2,774)
Net income attributable to owners of the parent			8,879		8,879
Repurchase of treasury stock				(3,302)	(3,302)
Net changes of items other than shareholders' equity					
Total changes of items during the fiscal year	–	–	6,104	(3,302)	2,802
<b>Balance as of March 31, 2017</b>	¥ 33,239	¥ 21,328	¥ 45,402	¥ (21,448)	¥ 78,521
Current fiscal year (April 1, 2016 to March 31, 2017) Millions of yen	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	
<b>Balance as of April 1, 2016</b>	¥ 2	¥ (278)	¥ (274)	¥ (550)	¥ 75,168
Changes of items during the fiscal year					
Cash dividends					(2,774)
Net income attributable to owners of the parent					8,879
Repurchase of treasury stock					(3,302)
Net changes of items other than shareholders' equity	105	(262)	(38)	(196)	(196)
Total changes of items during the fiscal year	105	(262)	(38)	(196)	2,605
<b>Balance as of March 31, 2017</b>	¥ 107	¥ (541)	¥ (313)	¥ (747)	¥ 77,774
Current fiscal year (April 1, 2016 to March 31, 2017) Thousands of U.S. dollars	Shareholders' equity				Total shareholders' equity
	Common stock	Capital surplus	Retained earnings	Treasury stock	
<b>Balance as of April 1, 2016</b>	\$ 296,779	\$ 190,436	\$ 350,870	\$ (162,016)	\$ 676,069
Changes of items during the fiscal year					
Cash dividends			(24,771)		(24,771)
Net income attributable to owners of the parent			79,279		79,279
Repurchase of treasury stock				(29,489)	(29,489)
Net changes of items other than shareholders' equity					
Total changes of items during the fiscal year	–	–	54,508	(29,489)	25,018
<b>Balance as of March 31, 2017</b>	\$ 296,779	\$ 190,436	\$ 405,378	\$ (191,506)	\$ 701,088
Current fiscal year (April 1, 2016 to March 31, 2017) Thousands of U.S. dollars	Accumulated other comprehensive income				Total net assets
	Net unrealized gain or loss on securities, net of tax	Cumulative translation adjustments	Accumulated adjustments for retirement benefits	Total accumulated other comprehensive income	
<b>Balance as of April 1, 2016</b>	\$ 20	\$ (2,485)	\$ (2,453)	\$ (4,918)	\$ 671,150
Changes of items during the fiscal year					
Cash dividends					(24,771)
Net income attributable to owners of the parent					79,279
Repurchase of treasury stock					(29,489)
Net changes of items other than shareholders' equity	943	(2,348)	(346)	(1,751)	(1,751)
Total changes of items during the fiscal year	943	(2,348)	(346)	(1,751)	23,267
<b>Balance as of March 31, 2017</b>	\$ 963	\$ (4,833)	\$ (2,800)	\$ (6,670)	\$ 694,417

Please refer to Notes to Consolidated Financial Statements on our website at:  
[http://www.capcom.co.jp/ir/english/data/pdf/annual/2017/annual\\_2017\\_06.pdf](http://www.capcom.co.jp/ir/english/data/pdf/annual/2017/annual_2017_06.pdf)

## Consolidated Statements of Cash Flows

	Previous fiscal year April 1, 2015 to March 31, 2016	Current fiscal year April 1, 2016 to March 31, 2017	Current fiscal year April 1, 2016 to March 31, 2017
	Millions of yen	Millions of yen	Thousands of U.S. dollars
<b>Cash flows from operating activities:</b>			
Net income before income taxes	¥ 11,150	¥ 12,489	\$ 111,513
Depreciation and amortization	5,712	5,980	53,396
Impairment loss	105	-	-
Decrease in allowance for doubtful accounts	(38)	(1)	(15)
Increase in accrued bonuses	263	186	1,665
Increase in liabilities for retirement benefits for employees	264	204	1,829
Interest and dividend income	(109)	(61)	(549)
Interest expense	119	141	1,259
Exchange losses, net	60	18	163
Loss on sales and/or disposal of fixed assets	92	99	891
Increase in accounts receivable - trade	(2,208)	(10,393)	(92,802)
Decrease (increase) in inventories	(1,651)	158	1,410
Increase in work in progress for game software	(8,778)	(2,266)	(20,236)
(Increase) decrease in online contents in progress	1,479	(704)	(6,294)
Increase in notes and accounts payable - trade	935	2,280	20,365
Decrease (increase) in other current assets	(1,260)	875	7,817
Increase in other current liabilities	1,718	545	4,873
Other	(2,545)	239	2,141
Subtotal	5,309	9,792	87,429
Interest and dividends received	130	62	557
Interest paid	(120)	(140)	(1,257)
Income taxes paid	(972)	(6,513)	(58,156)
<b>Net cash provided by operating activities</b>	<b>4,347</b>	<b>3,200</b>	<b>28,573</b>
<b>Cash flows from investing activities:</b>			
Payments into time deposits	-	(200)	(1,785)
Proceeds from time deposits	4,205	-	-
Payments for acquisition of tangible fixed assets	(5,813)	(3,074)	(27,454)
Proceeds from sales of tangible fixed assets	4	5	46
Payments for acquisition of intangible assets	(290)	(253)	(2,261)
Payments for purchase of investments in securities	(13)	(13)	(119)
Payments for other investing activities	(113)	(222)	(1,987)
Proceeds from other investing activities	380	131	1,169
<b>Net cash used in investing activities</b>	<b>(1,639)</b>	<b>(3,628)</b>	<b>(32,392)</b>
<b>Cash flows from financing activities:</b>			
Net increase in short-term borrowings	-	5,000	44,642
Proceeds from long-term borrowings	2,500	-	-
Repayments of long-term borrowings	(883)	(1,497)	(13,367)
Repayments of lease obligations	(496)	(535)	(4,783)
Payments for repurchase of treasury stock	(5)	(3,302)	(29,489)
Dividends paid by parent company	(2,228)	(2,794)	(24,952)
<b>Net cash used in financing activities</b>	<b>(1,115)</b>	<b>(3,130)</b>	<b>(27,950)</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b>	<b>(1,160)</b>	<b>(533)</b>	<b>(4,762)</b>
<b>Net (decrease) increase in cash and cash equivalents</b>	<b>431</b>	<b>(4,091)</b>	<b>(36,533)</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>27,998</b>	<b>28,429</b>	<b>253,836</b>
<b>Cash and cash equivalents at end of year</b>	<b>¥ 28,429</b>	<b>¥ 24,337</b>	<b>\$ 217,303</b>

Please refer to Notes to Consolidated Financial Statements on our website at:  
[http://www.capcom.co.jp/ir/english/data/pdf/annual/2017/annual\\_2017\\_06.pdf](http://www.capcom.co.jp/ir/english/data/pdf/annual/2017/annual_2017_06.pdf)

### Stock Data

Number of Shares Authorized .....150,000,000 shares  
 Number of Shares Issued ..... 67,723,244 shares  
 Number of Shareholders ..... 15,211

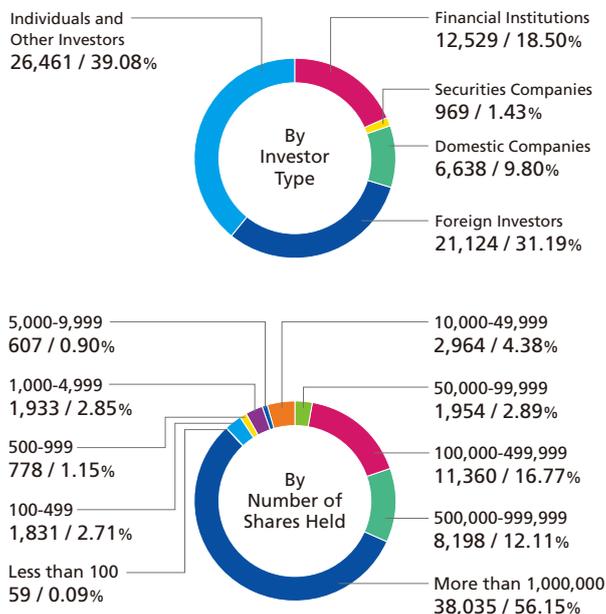
#### Major Shareholders (Top 10)

Major Shareholders	Number of Shares Held (in thousands)	Percentage of Shareholding (%)
Crossroad Co., Ltd.	6,374	11.64
Japan Trustee Services Bank, Ltd.(Trust Account)	4,200	7.67
The Master Trust Bank of Japan, Ltd. (Trust Account)	2,336	4.27
Ryozo Tsujimoto	2,019	3.69
Yoshiyuki Tsujimoto	2,019	3.69
Haruhiro Tsujimoto	2,018	3.69
Kenzo Tsujimoto	2,009	3.67
CREDIT SUISSE AG, DUBLIN BRANCH PRIME CLIENT ASSET EQUITY ACCOUNT	1,535	2.80
J.P. Morgan Chase Bank 380055	1,482	2.71
J.P. Morgan Chase Bank 385632	1,061	1.94

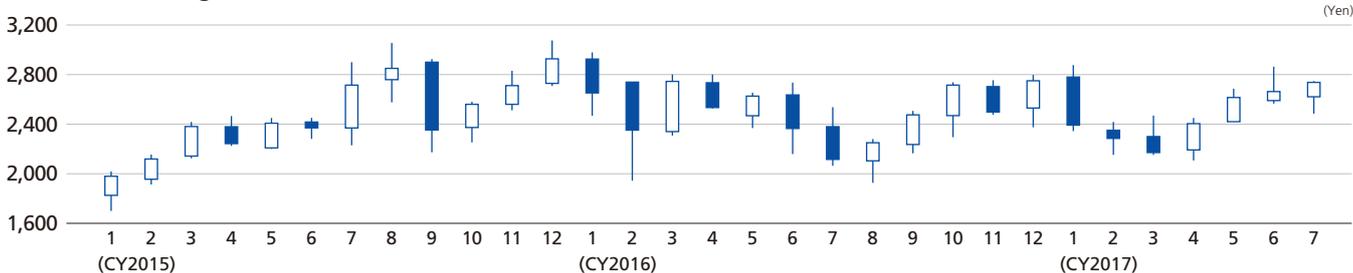
Note: Note: Capcom owns 12,977 thousand shares as treasury stocks.  
 The stocks owned by the company are excluded from the above list.

### Shareholders' Breakdown

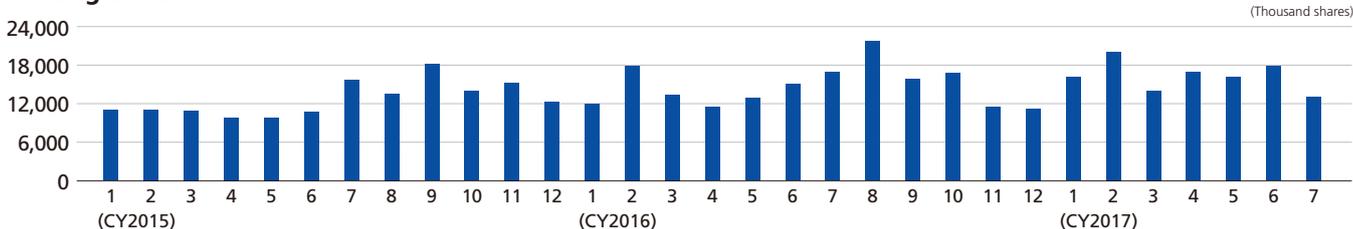
Number of shares held (in thousands) / (%)



### Stock Price Range



### Trading Volume



### 11 Year Trend of Stock Price and Trading Volume

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Stock Price	1,692	3,400	1,746	1,766	1,590	1,891	1,476	1,958	2,389	2,745	<b>2,171</b>
High	2,445	3,490	3,640	2,010	1,907	2,311	1,959	2,330	2,413	3,075	<b>2,877</b>
Low	1,102	1,660	1,475	1,297	1,145	1,473	1,250	1,396	1,541	1,944	<b>1,927</b>
Trading Volume	137,965,900	191,795,000	179,636,900	181,065,800	149,613,900	227,386,800	178,008,200	150,408,300	143,234,700	162,642,100	<b>183,455,500</b>

(Years Ended March 31)

**Corporate Profile**

**Name of Company** ..... CAPCOM CO., LTD.  
**Date of Establishment** ... May 30, 1979  
**Date of Initiation** ..... June 11, 1983  
**Business Segments** ..... Planning, development, manufacture, sale and distribution of home video games, online games, mobile games and arcade games as well as management of amusement arcades.  
**Paid-in Capital** ..... ¥ 33,239 million  
**End of Term** ..... March 31  
**Number of Employees** ... 2,811 (Including consolidated subsidiaries)  
 2,194 (Capcom CO., LTD.)

**Major Offices**

**Head Office** ..... 3-1-3 Uchihirano-machi, Chuo-ku, Osaka, 540-0037, Japan  
 PHONE: 81-6-6920-3600  
**R&D Building** ... 3-2-8 Uchihirano-machi, Chuo-ku, Osaka, 540-0037, Japan  
 PHONE: 81-6-6920-7600  
**R&D Building #2** ... 3-1-10 Uchihirano-machi, Chuo-ku, Osaka, 540-0037, Japan  
 PHONE: 81-6-6920-7750  
**Tokyo Branch** ... Shinjuku Mitsui Building 2-1-1 Nishi Shinjuku, Shinjuku-ku, Tokyo, 163-0448, Japan  
 PHONE: 81-3-3340-0710  
**Ueno Facility** ... 3902 Hatta, Iga, Mie, 518-1155, Japan  
 PHONE: 81-595-20-2030



Head Office



R&D Building



R&D Building #2

**Capcom's Subsidiaries** (As of Sep. 1, 2017)

CAPTRON CO., LTD. / K2 CO., LTD. / Enterrise CO., LTD. / CAPCOM U.S.A., INC. /  
 CAPCOM ASIA CO., LTD. / CE EUROPE LTD. / CAPCOM ENTERTAINMENT GERMANY GmbH /  
 BEELINE INTERACTIVE, INC. / BEELINE INTERACTIVE CANADA, INC. /  
 CAPCOM ENTERTAINMENT KOREA CO., LTD. / CAPCOM ENTERTAINMENT FRANCE, SAS /  
 CAPCOM GAME STUDIO VANCOUVER, INC. / BEELINE INTERACTIVE EUROPE LTD. /  
 CAPCOM TAIWAN CO., LTD.



Separate Volume The Latest Development Report 2017

# UNIVERSAL EXCITEMENT

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Taking the World by Storm: A New Challenge for Monster Hunter

**Ryozo Tsujimoto**

Corporate Officer, Head of Consumer Games Development  
Division 3 and Mobile Online Development Division

## P3 | Creative Minds—Voices from the Frontline of Development

Coupling Technological Capabilities with Teamwork to Maximize Monster Hunter's Appeal

**Ryozo Tsujimoto**, Producer

**Kaname Fujioka**, Executive Director/Art Director

**Yuya Tokuda**, Director

## P5 | Expanding Fighting Games' Infinite Potential

### MARVEL VS. CAPCOM: INFINITE

**Yoshinori Ono**, Corporate Officer

General Manager of Department 2  
Consumer Games Development Division 3



## P7 | Loved the World Over, the Gold Standard of Fighting Games The Street Fighter Series 30th Anniversary

## P9 | eSports Movement

Street Fighter: As Much Fun to Watch as it is to Play.  
The Spread of eSports and a New Horizon of Possibilities.

# CAPCOM CO., LTD.

3-1-3 Uchihirano-machi, Chuo-ku,  
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FAX: 81-6-6920-5100

<http://www.capcom.co.jp/>

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## Capcom Investor Relations Website

<http://www.capcom.co.jp/ir/english/>

We have been focusing on IR activities by providing our shareholders and investors with timely and updated information through our website.



## Smartphone Access

If you have a smartphone that reads QR codes (two-dimensional bar codes), scan the image on the right for easy access to the site.

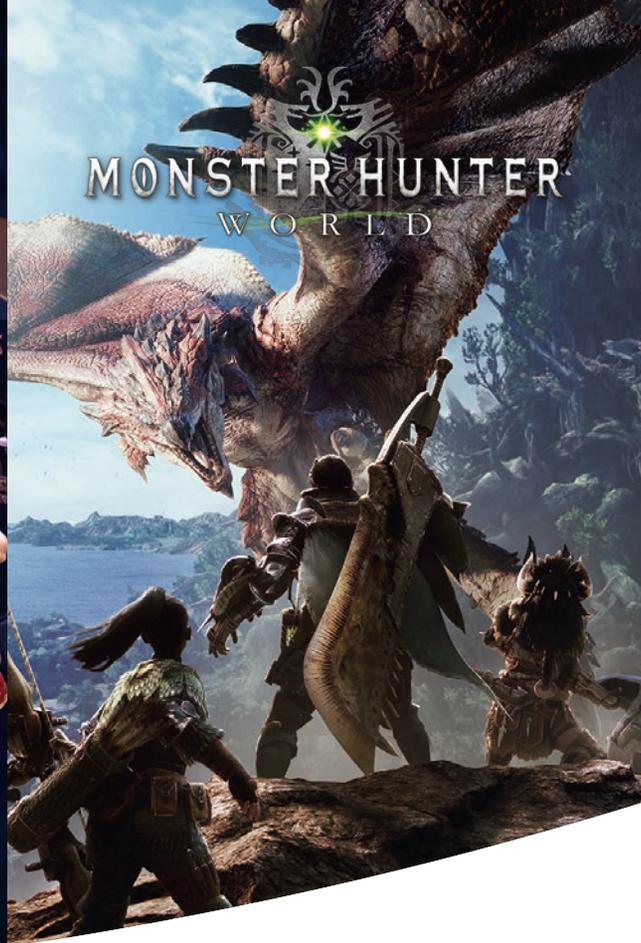


The print of this catalog uses environment-friendly vegetable oil ink.



## Cover Image

The year's cover features *Monster Hunter: World*. It is the latest game in a series that has been popular primarily in Japan. In line with Capcom's strategy to deliver stable corporate growth, however, we are developing our intellectual properties into global brands. As such, we plan to launch this title in January 2018, targeting both domestic and overseas markets.



# UNIVERSAL EXCITEMENT

The Latest Development Report 2017



# MONSTER HUNTER: WORLD

▶ Taking the World by Storm: A New Challenge for *Monster Hunter* ◀

As “World” Would Suggest,  
We’re Ready to Take on the Globe

“*Monster Hunter* is coming to consoles!”

“An early 2018 worldwide release! This is what we have been waiting for!”

This, along with an eruption of applause, is what we heard from our overseas fans at E3 2017 in Los Angeles (one of the world’s largest video game conferences), after officially announcing *Monster Hunter: World*, the latest title in the *Monster Hunter* series. Being the producer in charge of the franchise however, I couldn’t be complacent with this. We were only just beginning. However, it did renew my sense of determination to build an atmosphere of excitement with fans, all the while fine-tuning the game up until its release.

The *Monster Hunter* series features hunting action games in which players collaborate to hunt powerful monsters in majestic, natural settings. In 2007, *Monster Hunter Freedom 2* (developed for handhelds) ignited the popularity of the series. This gave rise to the *Monster Hunter* craze in Japan that firmly established the series’ place among other nationally popular games. As for the overseas market, *Monster Hunter 4 Ultimate* was launched in Europe and North America in 2015, and became the first title in the series to sell a combined one million units in those regions. As the global fan base grows, there has been a rising demand for a console version localized for each region. *Monster Hunter: World* is our answer to that need: a console title built using world-class, state-of-the-art technology that beautifully showcases the world of *Monster Hunter*. This also plays into our

## Ryozo Tsujimoto

Corporate Officer  
Head of Consumer Games Development  
Division 3 and Mobile Online  
Development Division

Tsujimoto worked as a planner in arcade game development before being put in charge of console title development. He has served as producer of the *Monster Hunter* Series since the 2007 launch of *Monster Hunter Freedom 2*. As producer of *Monster Hunter: World*, he oversees all aspects of the title.

MONSTER  
HUNTER  
WORLD

choice of incorporating “world” into the title, as we had the concept of expressing the world of *Monster Hunter* using cutting-edge technology while delivering *Monster Hunter* to fans around the world.

### Moving the Series Forward with Cutting-Edge Technology While Preserving *Monster Hunter's* Core Concepts

The setting for this title is a new continent featuring a diverse set of ecosystems. Players arrive on the continent as members of a research team tasked with studying and hunting unknown monsters. As the Japanese tagline says, “A place of new life. Hunt with your instincts!”

While the game makes the most of the performance capabilities of the PlayStation®4, Xbox One\*<sup>1</sup> and PC\*<sup>2</sup> in order to push the series forward, the core concepts that have been in place since the inception of the series remain unchanged. One of these is making the game a living, breathing ecosystem. The concept of playing inside this big circle of life is unique to *Monster Hunter*. Tokuda, the game’s director, explored how to use the ecosystem in the game, while Fujioka, the art director, expressed it visually. This was how we built the Ancient Forest, an area where a variety of ecosystems are



Experience an extreme world of hunting as you explore this living, breathing ecosystem.

woven together around magnificent, ancient trees. Amid dappled sunlight, filtered through the canopy and expressed in fine, natural detail, monsters compete for survival, as you would find in any real-world food chain. This natural competition can also be utilized as part of your hunting strategy, and offers more ways to enjoy the game.

What’s more, in previous titles, when moving from one area of the game to another there was a break between screens. Now, however, the game features seamless movement as well as action. This allows players to enjoy greater freedom in their hunting. The instinctive sense of excitement people feel is universal, whether in Japan or overseas. We’ve filled this game with that sense of excitement.

1. The Xbox One version will be available in North America and Europe only.
2. The release date of the PC version will be announced at a later date.

### Making a Game for the World to Enjoy, without Linguistic or Cultural Borders

This is the first time our team has developed a *Monster Hunter* title for simultaneous, global release. “Culturalizing” the game so that the hunt can be enjoyed in as many languages and countries as



To ensure players don’t get lost in this world (which is two to two-and-a-half times larger than before), scout flies guide hunters to the monsters they are tracking.



E3 2017, in Los Angeles. The official announcement and promotional video made a big splash at this event.

possible was a must. Because the slightest gesture or nuance can dramatically change your enjoyment of a game, we have in-house localization staff working side-by-side with the development team, assisting with the finer details and helping us move our development process forward. Also, we incorporated audio guidance into the game for the first time, so new users can easily grasp how to play while concentrating on the game itself. While this work does take time, we balanced our schedule accordingly and kept recordings on track.

*Monster Hunter* can be enjoyed alone or in multiplayer, with up to three additional players online. Starting with this title, you will now be able to drop in to quests already underway. You will also be able to fire a rescue signal to ask other online players for help. Players from around the world can overcome the language barrier and enjoy the game together.

We prepared a playable demo version of the game for Gamescom in Germany in August and for the Tokyo Game Show in September, and plan to announce new information as we move closer to the release date. All of this is an exciting challenge for us involved in creating the game too, as we strike out into an unknown world.



**Yuya Tokuda**  
Director

**Ryozo Tsujimoto**  
Producer

**Kaname Fujioka**  
Executive Director, Art Director

**Bringing to Life High-Definition Graphics and Advanced Gameplay via Team Coordination**

## Coupling Technological Capabilities with Teamwork to Maximize *Monster Hunter's* Appeal

**The Ultimate Hunting Action Driven by Cutting-edge Technology**

**Tsujimoto:** We began work on *Monster Hunter: World* about three and a half years ago. The industry environment

was in a state of flux, but we started with the idea of creating the ultimate in hunting action supported by cutting-edge tech on current-generation consoles.

**Tokuda:** When I heard about this project from the producer, Tsujimoto, I immediately thought of the very first *Monster Hunter*; it had a fresh, unique concept where monsters weren't treated as mere enemies, but as part of an ecosystem. Actually,

the original *Monster Hunter* was why I decided to join Capcom. Now, working for the first time as a director, I want to express this original concept through the lens of new technology.

**Fujioka:** How can we express this ecosystem on current-generation game consoles? If we don't create an environment where the movement and actions are seamless, we will be unable to portray an ecosystem that lives and breathes. That's why a major point for us was how to leverage the capabilities of the hardware.

**Tokuda:** When we got started, a lot of games featured big, open areas. I asked our art director, Fujioka, about how to approach development of a game that was both seamless and very dense.

**Fujioka:** Three dimensional, highly dense landscapes best suited us in terms of game design and expression. I decided to go ahead and create a landscape packed with all sorts of different elements. The first area I designed using this approach was the "Ancient Forest."

**Tsujimoto:** The Ancient Forest is a place where these age-old trees are clustered together into a massive forest at the center of a meadow. A variety of plants and animals live in this densely packed area, and we started by firming up an outline for the game where you can utilize every aspect of that environment while hunting.

**Fujioka:** First, I tried to make a model of the Ancient Forest by placing all the elements in the area and testing them, but it was just too much.

**Tokuda:** The landscape was too complicated, and we got lost trying to find the monster. I debated as to whether I should incorporate a guide for players, and Fujioka came up with the idea of scout flies—glowing insects that help players find their way. I also incorporated territory maps and voice guidance to allow players to smoothly get acquainted with the game.

**Fujioka:** In addition to elements of gameplay, we also put a lot of thought into how to present the world. Up until now, the screen changed from area to area, so we could design

each area with a light source that suited our needs in making a more enjoyable play experience. However, this time around all areas are connected, so that wasn't possible.

**Tsujimoto:** On top of that, we also incorporated the passage of time into this game.

**Fujioka:** So, we did things like adjusting the landscape to allow light to shine into darker areas, or setting up objects that produce light. The ones who supported all of our visual and game design efforts were our development engineers. We were able to make dark areas slightly brighter using secondary light reflection, as well as show light permeating monster wings and plants. They provided stacks of technical proposals that allowed us to produce natural, realistic light using physics-based calculations.

**Tsujimoto:** Our engineers had our backs with the tech, helping deliver an experience that is true to the *Monster Hunter* world. They really know their *Monster Hunter*, and I'm grateful!

**Fujioka:** It's the same with asset based development—with images and 3D models. Creating grass and trees with assets makes it easier to rearrange the landscape, so it's easier to engage in trial and error compared to conventional development.

**Tokuda:** One example of this is an area called the "Wildspire Waste," where we have all of these anthills of varying sizes. Creating the anthills on an asset basis made it easy to place and add variations of them.

**Tsujimoto:** Thanks to close communication with development engineers, we were able to make the game we wanted to make.

### Motivated Individuals and a Flexible Organization Made a More Interesting *Monster Hunter*

**Tsujimoto:** How's being director for the first time?

**Tokuda:** Compared to my experience as a planner, the biggest difference is that as director I must oversee the entire production process. In particular, it has been a challenge to keep everyone on the same page in terms of goals.

**Tsujimoto:** It was a fairly large team, so schedule management must be challenging, right?

**Tokuda:** I've really stayed focused on the schedule, directly communicating what needs to be done on a weekly and daily basis. I've gotten through by maintaining tight back-and-forth with our team, checking finished products and communicating which issues to tackle next.

**Fujioka:** To create a title able to compete not only in Japan, but also around the world, we could not compromise on quality. Thus, we adopted a flexible unit structure without barriers between sections. Once a unit's mission was complete, that unit would disband and people would flow into their next unit. This way, we could speed up development and maintain quality goals.

**Tsujimoto:** More than anything, the absolute motivation of everyone on the development team is heartening. It's great to see people constantly voicing ideas for improvements while striving to achieve some rather big goals.

### Maintaining *Monster Hunter's* Core while Delivering the Cutting-edge to Fans World-wide

**Fujioka:** Since this is our first simultaneous global launch for the series, we localized the game for each region while developing it. We want to deliver an experience fitted to the culture and customs of each country.

**Tokuda:** One major goal was to provide an enjoyable play experience for people around the world. We worked closely with our in-house localization team to localize the game into English as well as multiple other languages.

**Fujioka:** This title represents a significant crossroads for this series. While adding many series-first features, we also made it so you can enjoy every inch of the screen. You can have fun hunting, or just sit back and observe the ecosystem. The game can be played in so many ways, I hope players give them all a try!

**Tokuda:** We have the core of *Monster Hunter*, where you hunt in a living, breathing ecosystem, made all the more impressive on the big screen. We hope players enjoy!

**Tsujimoto:** It has all the excitement of the series, with even more freedom to hunt! As the name implies, we want to bring the "world" of *Monster Hunter* to everyone around the world. We hope everyone is looking forward to it!



Expressing the movement, filtering and reflection of light brought the Ancient Forest to life.



Music, visuals and sounds were woven together and meticulously scrutinized to create the very best *Monster Hunter* experience.



The team focused on localization for players around the world.

Expanding Fighting Games' Infinite Potential

# MARVEL VS. CAPCOM: INFINITE



## Yoshinori Ono

Corporate Officer

General Manager of Department 2  
Consumer Games Development Division 3  
Has worked on numerous fighting games,  
including the Street Fighter series.  
Currently the Executive Producer for all  
fighting game titles.



## The Latest Entry in the *MARVEL VS. CAPCOM* Series, Born from a Partnership that Spans More than 20 Years

We once again teamed up with Marvel, whose characters such as *Spider-Man* and the *Avengers* have garnered a passionate following around the world, to create *MARVEL VS. CAPCOM: INFINITE*. We released this latest installment in the series in September 2017, marking our first collaboration with Marvel in six years.

The first time Capcom and Marvel came together to pit our characters against each other in a fighting game was twenty-one years ago. This was a matter of strategic alignment, as Marvel wanted to introduce their characters to more Japanese fans and Capcom sought greater expansion in the global market, particularly North America. First, we launched an arcade game together, which would become the series archetype. From there we continued the partnership, learning from each other and being mindful to respect each other's IP, eventually growing *MARVEL VS. CAPCOM* into a cumulative 7.5 million unit-selling series (as of June 30, 2017).

## Gameplay that Satisfies Core Players Matched with a Story to Delight Marvel Fans

Our objective with this title goes beyond hitting our 2 million unit sales target; we want to cultivate a new fighting game fan base, primarily in the North American market where the Marvel brand absolutely dominates.

Actually, compared to the amount of buzz it generates, the size of the fighting game market is relatively small, leading some to call it a "closed market." This is because it demands training: you have to take time to study moves and master special techniques in order to defeat your opponents. Thus, since core users who practice every day are overwhelmingly strong, new users get crushed and end up quitting. This is why fighting games don't see the same explosive user growth of other genres.

However, watching other people play games on YouTube and attending eSports game competitions have

become popular, which has in turn begun to influence trends. Even if a player cannot compete on the battlefield, they can now watch someone else play and still enjoy the game. This is the key to future growth.

With this in mind, we developed this new title with an emphasis on capturing the hearts of two different user segments. For the first, we focused on game play that satisfies core users who love Capcom fighting games. For the second, we created a story that will feel familiar to Marvel fans who find the game to be challenging yet enjoyable. We have designed a game where you can both hone your skills for an exhilarating fighting experience, while also enjoying a cinematic story mode that links together your favorite characters. As a result, newcomers to the series can be entertained with the story while getting a chance to learn the fun and mechanics of fighting games.

## Generating Synergies by Leveraging the Strengths of Marvel and Capcom

As a strategy, IP collaboration can have numerous merits, including greater media exposure and an increased fan base for both parties. However, it can fail if there is poor communication or a lack of knowledge sharing. On this point, we have built a solid partnership with Marvel. During development, we held video conferences nearly every other day with Marvel to exchange ideas. These discussions focused on not only core story and game elements, but also involved tailoring the game to each market through meticulously fine-tuning the game's art, animations and other elements to better reflect North American trends that differ from those in Japan.

In *MARVEL VS. CAPCOM: INFINITE*, the word "infinite" in the title has a specific meaning. Not only is this in reference to Marvel's all-important "Infinity Stones," it is also meant to make the game more approachable for Marvel fans by consciously not attaching a number to the title. This allows us to invite Marvel fans to the Capcom world, effectively leveraging this series to energize the market.



Gorgeous CG graphics support the Cinematic Story Mode, a series first that provides players with an engaging story experience.



Creators on the project endeavoring to deliver the high quality expected of a collaboration between Marvel and Capcom.



As a global title, focus was put on optimal localization and understanding the needs of each region.



## Loved the World Over, the Gold Standard of Fighting Games

# The *Street Fighter* Series **30th** Anniversary

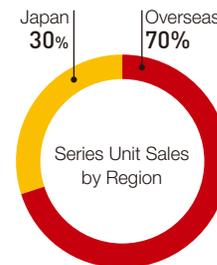
In 2017, the *Street Fighter* Series celebrates its 30th anniversary. It's the series that defined the fighting game genre while giving rise to numerous social trends. After 30 years, *Street Fighter* continues to provide users with fun, competitive fighting and is one of Capcom's flagship IPs.

## With Cumulative Sales of 39 Million Units, *Street Fighter* Is One of Capcom's Legendary Series

*Street Fighter* was launched as an arcade game in 1987, but it was the *Street Fighter II* arcade game, released in 1991, that established this series' popularity in Japan with the catchphrase "I'm looking for someone stronger than me." *Street Fighter II* defined the fighting game genre, allowing players to square off against each other by controlling characters that deliver punches, kicks and special moves. The game ignited a fighting game craze, and went on to record sales of 6.3 million units worldwide. Known affectionately as "SF II," this title sparked a major movement in gaming.

As with sports such as baseball and football, *Street*

*Fighter* demands that you sharpen your skills with practice and grow stronger; that you change tactics depending on the actions of your opponent. This game has captured the hearts of fans with its amazing special moves performed by a cast of unique characters, and its element of head-to-head combat where you try to defeat warriors stronger than yourself. As a result, the series has sold a cumulative total of 39 million units across 84 titles over its life. In commemoration of the 30th anniversary of *Street Fighter* in 2017, we released *Ultra Street Fighter II: The Final Challengers* and have a number of events planned.



*Street Fighter* becomes a social phenomenon

1987

1987



### *Street Fighter*

The first title and cornerstone of the *Street Fighter* Series.

1990

1992



### *Street Fighter II (Super NES)*

Boasting cumulative global sales of 6.3 million units, it set the record for the best-selling fighting game at the time. A megahit that launched the fighting game craze as a social phenomenon.

2000

1995



### *Street Fighter ZERO*

Switched to graphics based on animated cells rather than dot patterns, enabling more animation patterns.

# Providing New Enjoyment by Continuing to Advance Fighting Games

It is not easy to maintain popularity over a 30-year period. Capcom has carried out a variety of strategies in response to the changing gaming environment and market needs. For example, strategically releasing titles to continuously capture new users; now that kids who enjoyed the game growing up have become adults with children of their own, we release titles that parents and children can play together, and engage in collaborations with popular titles from other companies as well. We

foresaw the coming era of internet-connected games early on, and advanced production of games with network features while building online communities. Further, in line with our Single Content Multiple Usage strategy, we delighted fans with comics, animation, live-action movies, books and merchandise.

Even with these strategies, it goes without saying that our unique and interesting characters are the basis for the popularity of the series. The *hadouken* thrown by Ryu is

well known even among people unfamiliar with the game, due to the popularity of the “hadoukening” photo fad from 2013, where people posted pictures of themselves being blown back by this fireball on social media.

At present, *Street Fighter* is gaining popularity as a key title at eSports game competitions, especially overseas. While keeping pace with the times, we will aim to be at the pinnacle of fighting games.



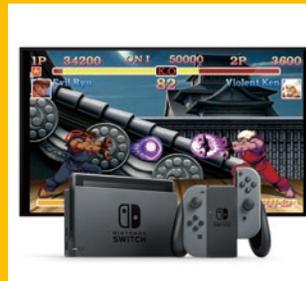
The Hollywood *Street Fighter* movie  
© CAPCOM U.S.A., INC.



The *Street Fighter II* feature-length animated movie  
© CAPCOM U.S.A., INC. 1994 ALL RIGHTS RESERVED.

## Movies and Animation

A number of animated and Hollywood movies have been made featuring *Street Fighter*'s distinctive characters. The Japanese song *Itoshisa to Setsunasa to Kokorozuyosa* to was featured in the 1994 *Street Fighter II* animated movie, and will be used as the Japanese theme song for the 30th anniversary.



Nintendo Switch is a registered trademark of Nintendo.

## Now on the New Nintendo Switch™

Our latest title in the series, *Ultra Street Fighter II: The Final Challengers*, includes new elements added to the legendary SF II and is available for the Nintendo Switch™. The design enables users to switch between classic and contemporary graphics, providing fun with a sense of nostalgia as well as fresh surprises.



Cumulative sales of 39 million units

# 2017

1997



## Street Fighter III

The next numbered title in the series following *Street Fighter II*. In addition to a major revamp to the roster, Alex inherited the role of main character from Ryu.

2010

2009



## Street Fighter IV

The third best-selling title in the series gained popularity thanks in part to its advanced 3D graphics.

2016



## Street Fighter V

Featured gameplay that enabled both experienced players and newcomers alike to play together, based around a development concept of “reboot.”

# Street Fighter: As Much Fun to Watch as It Is to Play. The



## Exploring the Potential for Domestic eSports Businesses with the Street Fighter Model

*The contestants face each other on a lit stage as fighters appear on a giant video screen, eliciting a surge of cheers from the crowd. Here and now, the battle to decide the Street Fighter V champion begins.*

This is just one scene from the final rounds of the CAPCOM CUP, a global tournament operated by CAPCOM U.S.A. and held in the United States.

As we enter the era of eSports we see that games are not only fun to play, they are fun to watch. However, many people may not know exactly what eSports entail. ESports (short for “electronic sports”) are sporting events for competitive games, and have been rapidly gaining popularity in countries throughout the world, especially the United States, China and South Korea. Some world championships for popular titles offer prize money totaling up to \$10 million. Fans purchase tickets to enjoy competitions live at a venue, or watch them online or on television. Professional gamers and gaming teams are sponsored, and in the United States this has already become a sports business on par with professional soccer and baseball.

At the same time, in Japan, where there is a strong association between sports and exercise (and video games are not considered sports), the eSports culture has yet to gain a foothold. However, the Olympic Council of Asia decided to recognize eSports as an official event at the 2022 Asian Games, thus Japan—a video gaming world power—can ill afford to ignore these developments. As game-related companies step up their activities to invigorate the market, Capcom will also explore the



Fans around the world share the excitement of the venue through online video streaming.



eSports is just as exciting for the fans as it is for the competitors.

Photos by: Robert Paul

# Spread of eSports and a New Horizon of Possibilities.

potential for eSports businesses, including the domestic eSports RAGE League for *Street Fighter V*, operated by CyberZ Inc., and launched in 2016.



RAGE League for *Street Fighter V* is the first Japanese eSports league to feature a Capcom title.

Image provided by: RAGE

selected for competition numerous times, with the catch-phrase "I'm looking for someone stronger than me," drawing fighters from around the world to engage in fierce battle. In 2016, a U.S. sports network broadcasted the final round live on television to an audience of 1.9 million viewers.

Since 2013, the CAPCOM CUP, the official world-championship tournament, has been held as an exclusive CAPCOM U.S.A. event. CAPCOM CUP entrants are chosen via qualifiers on the CAPCOM Pro Tour, held in cooperation with sponsors in various countries around the world. The tournament is shown live on video streaming sites, primarily the game streaming platform Twitch, which spreads the appeal of fighting games, and is very positive for our titles. As *Street Fighter* is considered to be the gold standard of competitive fighting games, this enables fans throughout the world to continue enjoying the game.

## Social Media, Video Streams, Broadcasting and Other Forms of Media Amplify the Appeal of Head-to-Head Competition in eSports

The number of eSports competitors has risen rapidly since 2000, growing into a massive market of nearly 100 million people. Compared to soccer, which has a market of approximately 250 million people, it is easy to imagine the growing fan base of eSports. Amid a number of genres, including shooting games and simulators, Capcom's *Street Fighter* stands tall within the fighting game genre. At the Evolution Championship Series (EVO), the world's largest fighting game competition held annually in the United States, *Street Fighter* has been

### ESPORTS MARKET GROWTH

GLOBAL 2015, 2016, 2017, 2020

TOTAL REVENUES

(MEDIA RIGHTS, ADVERTISING, SPONSORSHIP, MERCHANDISE & TICKETS, GAME PUBLISHER FEES)



**The CAPCOM CUP official world championship tournament determines who is the strongest**

The CAPCOM CUP, organized by CAPCOM U.S.A., is the official world championship tournament for the *Street Fighter* series. Only select players who win regional competitions in North America, Europe, Latin America and Asia, and who are qualified in the CAPCOM Pro Tour can compete in this tournament that decides the world's best. Since the first tournament held in December 2013, the participants' skills have improved each year.

The fun of watching eSports lies in not only the brilliant player techniques or the wins and losses. The secret to its popularity is the drama of the fight leading up to victory, such as when a player who had been on the defensive, battles back to K.O. an opponent with all the excitement of a bottom-of-the-ninth grand slam. This brings the player-athletes to life, on the stage and live on the air. Seeing these white-hot bouts coupled with the smile of the victor helps inspire the next generation of competitors.



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