

Keynotes by Kazuhiko Abe, Director and Managing Corporate Officer at March 2007 Fiscal Year Results Meeting

Fiscal Year 2006 Supplementary Document: Overview

- I would like to present the details regarding our 2006 fiscal year results. One of the largest contributions to our 2006 results comes from the three, million selling titles, “Dead Rising”, “Lost Planet”, and “Monster Hunter Freedom 2”. I feel that this is a result of the changes to our company’s structure that began in 2002.
- Capcom has made significant changes to the structure of its R&D, marketing and overseas business divisions. For R&D, we have done away with the internal company structure of the division and have made clear the responsibilities of the production and planning as well as the development departments involved in game creation.
- We have also reformed our development approval process for both the prototype and full production phases to help avoid lower quality games. In addition, the development process itself has been redesigned to improve sharing across projects with the new Framework tool, improving efficiency.
- Our marketing process has been changed to allow more input on titles for release overseas from our subsidiary branches in America and Europe to tailor the games better to the audiences in those territories. Checks are performed at regular intervals throughout development as well, to help improve game quality. At Capcom’s North American branch, a corporate renewal, a shift in sales structure to direct sales and other changes to marketing have taken place, helping to quickly revitalize results in the territory. These changes have all had a positive impact on our consumer game business results.

P.3-7 Consolidated Income Statement

- Now I will go into more detail regarding our results and start off by comparing the results for this fiscal year with the results from the previous fiscal year. Net sales, operating income and ordinary income have all greatly exceeded those of the previous fiscal year, while net income has declined from the previous year.
- As for how the results fared against our initial projections; net sales, operating income, ordinary income, and net income have all exceeded our initial projections.
- Capcom’s net sales for fiscal year 2007 were 74.5 billion yen, compared with 70.3 billion yen in fiscal year 2006, for an increase of 4.3 billion yen. This increase was influenced by the contributions of the million-selling “Dead Rising”, “Lost Planet” and “Monster Hunter Freedom 2” mentioned earlier. In addition, the new storefronts in the Arcade Operations Business have also helped spur this increase.
- Our operating income for fiscal year 2007 was 9.6 billion yen compared with 6.6 billion yen in fiscal year 2006, for an increase of 3 billion yen. The three, million-selling titles played a large part in this increase and the elimination of unprofitable titles also contributed greatly to the increased operating income.
- Our ordinary income for fiscal year 2007 was 10.6 billion yen compared with 7 billion yen in fiscal year 2006, for an increase of 3.6 billion yen. Interest revenue of 900 million yen resulting from foreign currency

capital management helped to support the increase.

- Our net profit for fiscal year 2007 was 5.9 billion yen compared with 6.9 billion yen in fiscal year 2006, for a decrease of 1.1 billion yen. The decrease is due to an adjustment being made in fiscal year 2006 when we reviewed the valuation reserve for deferred tax assets. We are continuing to normalize this from fiscal year 2007 on words.

P.8-12 Overview by Business Segment

- The next part of my presentation concerns the individual business segments of Capcom. As can be seen by the figures, all of the business segments have experienced an increase in income. With the Home Video Game Business division and other business divisions, improved sales have helped contribute to this increase.
- Capcom of Japan experienced a growth in domestic sales from 48.6 billion yen in fiscal year 2006 to 50 billion yen in fiscal year 2007. Profits also increased by 1.3 billion yen. Sales and profits have benefited from a strong Home Video Game Business and have helped result in more than a 20% operating margin.
- For the North American branch, we experienced a large growth in revenue and profit thanks to the popularity of “Dead Rising” and “Lost Planet”, two games designed with the North American and European markets in mind. The effect of value editions, such as for “Resident Evil”, have also helped to increase the profit margin. The operating margin of 9.3% is a 7.8% increase over the same period for fiscal year 2006.
- The European branch experienced a decrease in revenue, but an increase in profit. Although sales were down, the operating margin dramatically increased. In the previous period, there were unprofitable titles developed in Europe with disappointing sales that pulled the results down. For the European region in fiscal year 2007, Capcom boasts a high operating margin of 12.6%.

P.13-16 Consolidated Balance Sheet

- Now I would like to turn to the consolidated balance sheet. Capcom’s assets have decreased by about 6 billion yen, our liabilities are decreased by 12.7 billion yen, and our net assets are up by 5.7 billion yen.
- More specifically, cash and cash equivalents have dropped by about 5.4 billion yen due to the fourth redemption of convertible bonds, which totaled about 10 billion yen. The improved approval process for prototypes and full games has reduced the game software products in progress figure. Our intangible asset figure has increased due to the goodwill expense incurred during the acquisition of the North American mobile content company, Cosmic Infinity.
- As for details regarding Capcom’s liabilities, about 10 billion yen of convertible bonds repayable within one year were redeemed. Advanced payments from customers increased, resulting in a 3 billion yen increase in liabilities. As for warrant bonds, they have decreased by roughly 5 billion yen. The conversion to stock continues and the number of shares has increased by about 4 million.

P.17-18 Consolidated Cash Flow Statement

- The last figures I would like to cover are for the consolidated cash flow statement. Cash flow from operating

activities is at 16 billion yen. Cash flow from investing activities was affected by the increase of 6 arcade facilities.

- The capital used in the acquisition of the mobile content company, Cosmic Infinity, has resulted in a 6.7 billion yen drop in cash flow from investing activities. With regard to cash flow from financing activities, the 10 billion yen from convertible bond redemption and the 3.2 billion yen used in stock reacquisition have resulted in a 15.2 billion yen outward flow of cash.

P.2-5 Fiscal Year 2007 Business Division Strategies and Projections:

Consolidated Financial Statement Overview

- I would like to move on to explaining Capcom's future business plans. This chart describes Capcom's fundamental concept of having Home Video Game Business content as a core and using it as a base for other businesses. Home Video Game Business developed content can be applied to a wide range of businesses such as; creating arcade game machines, pachinko or pachislo devices, online content, mobile content, as well as becoming a springboard for the publishing of DVDs as well as movies and animated cartoons.
- Capcom's strengths lie in its possession of many popular game franchises that are well-known throughout the world. I would like to take this opportunity to further explain three points. The first point is with regards to our very strong lineup of titles. As mentioned earlier, this includes our two new million-selling titles "Dead Rising" and "Lost Planet", which have helped contribute to our growing title lineup.
- "Dead Rising" and "Lost Planet" join the ranks of other popular franchises such as "Resident Evil", "Street Fighter", "Mega Man", "Devil May Cry" and "Monster Hunter", contributing to Capcom's R&D pipeline. The second point I would like to make is that Capcom is one of the few Japanese companies that is able to compete on the global stage as evidenced by the sales that titles such as "Dead Rising" and "Lost Planet" have generated. The third and last point is that Capcom possesses some of the best development and technical expertise in the world.
- Capcom has always been known for their high quality games, but in addition to the ability to develop great, original game content, we also have demonstrated technical expertise with the successful creation of our newest development tool, MT Framework. This is something I feel makes us very unique among developers around the world.
- I would like to turn back to the materials and the one content, multiple use chart with the game "Resident Evil" as the example used. The original home console game branches out into the mobile game version, a DVD, and an online game and demonstrates Capcom's fundamental multiple use strategy.

P.6-16 Home Video Game Business

- At this point I would like to move into describing the various business divisions within Capcom as they stand now. The first business division I would like to discuss is the Home Video Game Business. The market in 2006 continued to experience strong growth despite being an off-season, thanks to the continued market penetration of portable game devices. In addition to software designed for new game console hardware, value

priced games designed for older hardware are also doing well. Capcom's value priced "Resident Evil 4" has done exceptionally well overseas in North America and Europe.

- For our domestic market share, despite market growth centering on portable game devices and higher retail prices for Capcom's games, our share has slightly dipped.
- For our share in the North American and European markets, due to "Lost Planet" not being included in the period used to calculate market share, "Dead Rising" was our only major title to be figured in and this resulted in a drop in market share.
- Our management strategy in the Home Video Game Business consists of three major strategies – hardware strategy, brand strategy, and regional strategy. In order to better coordinate our strategies, a 60 month map containing details on specific hardware platforms, the release regions and the timing of upcoming titles has been created. We are keeping the development pipeline balanced and also creating relationships with talented outsource development companies.
- As mentioned at the beginning of this presentation, over the past fiscal year Capcom has focused on three areas in particular - R&D, marketing and overseas business. The management reforms in our North American subsidiary as well as reforming our R&D structure are two major points to come out of this focus. It is felt that these reforms have resulted in the million selling titles, two overseas and one in Japan, which are clear evidence of Capcom's global competitiveness.
- Overseas, our original Xbox 360 titles have experienced great success, while a PSP title has become a top domestic PSP title. One of the Xbox 360 titles, "Lost Planet" has sold 1.37 million units worldwide as of the end of March. The other, "Dead Rising", has reached 1.22 million worldwide, while "Monster Hunter" for the PSP has also reached 1.22 million. Our value-priced "Resident Evil 4" is also doing quite well and has moved 660 thousand units globally.
- There are three plans in place for the current fiscal year. The first is multiplatform support. "Lost Planet" for the PC is one example, while "Devil May Cry 4" for PS3, Xbox 360 and the PC is another. We are also strengthening our Nintendo DS and Wii lineup with 6 titles planned for the Wii and 14 titles planned for the DS. We would like to avoid limiting our hardware choices and to design games based on what platforms suit the games and our audiences best.
- The second plan is to further strengthen our online business. Our online business is ready to go into full swing with the company, Daletto, co-founded with the Dwango Group, expected to offer "Monster Hunter Frontier" service some time this fiscal year. The site will also distribute past Capcom games and will also help Capcom to further strengthen its content lineup.
- The third plan is to join forces with overseas development companies to better create games designed with the overseas market in mind. We closed Capcom's internal overseas development company, Studio 8, and have shifted to an outsource model. Currently, we are working with overseas developers to create several titles such as the up-coming "MotoGP". Rather than trying to develop the content internally with limited resources, we have shifted strategies to working with talented outsource companies in order to create the best, high-quality games possible.

- For projected sales, we expect “Devil May Cry 4” across the Xbox 360 and PS3 platforms to sell a total of 1.8 million units worldwide this period. “Resident Evil 4 Wii edition” is expected to sell 420 thousand units worldwide and “Resident Evil: The Umbrella Chronicles”, 620 thousand units worldwide. Of course there are also many other titles in our lineup not included in this list.
- Compared to last period and the continued success of many hit titles, this period will likely experience lower revenues and profits, but more efficient development, stronger sales support, and stronger business management will help to support high profit margins. We are expecting a 15.8% operating margin for fiscal year 2007. In terms of total unit sales, we expect they will remain similar to those of the previous fiscal year.

P.17-21 Arcade Operations Business

- Now I will present an overview of Capcom’s Arcade Operations Business. The arcade operations market experienced mild growth, and while our number of storefronts has decreased, the size of storefronts has increased. The market grows at a steady rate of 4% per year, and the trend is shifting towards larger storefronts. As this chart shows, large storefronts only constituted 19.6% of the market five years ago, whereas now it is at 39.8%.
- In comparison with other companies, our market share may be small, but Capcom maintains a unique position with its high profit margin. This profit margin has fallen off from the preceding fiscal year, the reason for which I will explain shortly.
- We have three strategies for our Arcade Operations Business. The first is to continue to place storefronts within large shopping complexes, such as by operating arcade operations as a tenant in the Aeon Group managed shopping centers. Capcom is also rapidly expanding its larger, hybrid roadside arcade operations. We are following a scrap-and-build plan by closing down or selling off unprofitable storefronts.
- This year, Capcom projects a larger number of new storefronts than in a typical year in order to accelerate the growth of the business. We are planning to open 8 new storefronts this fiscal year compared with the 6 last year, while closing down 3 existing storefronts, the same as the previous year. This will bring the total number of operations up to 38 stores. The profit margin is projected to be 15.2%. While this is slightly lower than the previous fiscal year, this reflects the cost of opening new storefronts and is still well above the industry average.

P.22-25 Arcade Game Sales Business

- Turning to the Arcade Game Sales Business, the market has continued to grow, with prize and medal game genres combining to comprise the majority of the market. Although it isn’t currently experiencing much growth, the card game machine market has also become a viable genre within the market.
- As for the business strategies for this business, we are focusing on enacting reforms to help ensure stable growth. One reform is to include the arcade game development division within the overall R&D structure. This will help improve interaction between home video game development and arcade game development. A Manufacturing Quality Control Department has also been established to carefully monitor and improve the

quality of our arcade products.

- We believe that these reforms will put the Arcade Game Sales Business on track for stable growth. Our projected sales for fiscal year 2007 are 9.2 billion yen, with a profit margin of 16.3%.

P.26-28 Contents Expansion Business

- Within our Contents Expansion Business, there is the Pachinko and Pachislo Business and the Mobile Contents Business. The Contents Expansion Business actively seeks ways to expand the uses of Capcom's intellectual properties and game titles to improve overall profitability and efficiency.
- Our Pachinko and Pachislo Business is creating partnerships with arcade machine makers to achieve stable growth. The "Onimusha 3" machine sold by the Sega Sammy Group is an example of the titles we are continuing to provide to outside companies. In fiscal year 2007, we are planning to develop and sell a total of 5 machines, including the LCD "Devil May Cry 3" machine.
- Within the Mobile Contents Business, we are continuing to create mobile phone versions of popular game properties. In addition to the success of "Ace Attorney 4", released last month in Japan, our mobile phone version of "Phoenix Wright" has also been well-received. Our Mobile Contents Business in North America is also taking off. Although we were ranked #62 in North America for the period between January and March of 2006, by the period of October through December, we had climbed to #9.
- Capcom projects sales of 9 billion yen with an operating margin of 27.8%.

P.29-30 Other Businesses

- Our other businesses involve the lateral development of Capcom content with toys, movies and publishing. In particular, we are strengthening our movie and video efforts with a joint venture to create a new live-action "Street Fighter" movie. In addition, the third "Resident Evil" movie will be released in fall. We are continuing to work on other movie or animation adaptations of popular Capcom content as well.

P.31-32 Fiscal Year 2007 Forecast

- Although the Home Video Game Business is expected to experience a decrease in revenue and profit in fiscal year 2007, other businesses are expected to experience stable growth, resulting in increased revenue and profit overall. We expect net sales for fiscal year 2007 to be 78 billion yen, compared to 74.5 billion yen in 2006.
- Operating income is forecast at 10 billion yen, and ordinary income is forecast at 11 billion yen, a rise from the previous fiscal year. The expected net income per share of stock is 109.82 yen and dividends are planned to be 15 yen at the mid-term and 15 yen at the end of the fiscal year for a total of 30 yen over the fiscal year. Capcom will strive to meet our goals of maintaining 10% yearly growth and an operating margin of 15% this fiscal year.

This concludes my presentation on the financial results for the fiscal year ended March, 2007.