

**Explanation Summary by Chairperson Tsujimoto  
of Full Year Results for the business term ended March 2009  
(May 11, 2009)**

**1. Greetings**

- (1) I am Tsujimoto, Chairperson I would like to thank you for attending this briefing of our financial results today, during this busy season of financial results announcements. Please allow me to extend my deepest gratitude.
- (2) Regarding business performance for the full year's financial results, we were basically able to achieve our initial earnings forecasts due to good home video game software sales, although we felt some impact from the worldwide recession and the appreciation of the yen.
- (3) Meanwhile, President Tsujimoto will explain the full year's financial results and business strategies by segment.
- (4) Therefore I would thus like to respond to investors' concerns about our company, reflecting our IR activities and studying perceptions at home and overseas.
- (5) We have four items on our agenda here. I will detail the first three management issues, while President Tsujimoto will handle the last executive issue.

[Concerns from the stock market]

- (1) Management issues
  - Isn't it difficult to achieve the medium-term target of "10% annual growth in net sales and 15% of operating margin" for a game software maker affected by the gaming console cycle?
  - Why does Capcom have to pursue businesses other than the Home Video Games business?
  - Is your company considering implementation of a shareholder's return?
- (2) Executive issue
  - Should Capcom focus further on products for Wii?

**2. Isn't it difficult to achieve the medium-term target of "10% annual growth in net sales and 15% of operating margin" for a game software maker affected by the gaming console cycle?**

- (1) In relation to our medium-term goal of "10% annual growth in net sales and 15% of operating margin," we hear your concerns that achieving such a target might be difficult as the business performance of game software makers is linked to the gaming platform cycle.
- (2) As regards Capcom's business performance so far, net sales growth for the business term ended March 2007 was 6.1% and the operating margin was 12.9%, while for the business term ended March 2008, net sales growth was 11.5% and the operating margin was 15.8%. For the business term ended March 2009, net sales growth was 10.6%, and the operating margin was 15.9%. Regarding our forecasts for the business term ending March 2010, net sales growth is 3.4%, and the operating margin is 16.3%, showing steady successful results.

- (3) However, according to such investors' interpretations, we achieved these successful results because we were in a period of expansion in the home video game software market. Therefore, they feel that Capcom won't be able to attain this mid-term goal if the home video game software market enters the transition to next model of gaming consoles—as we can't expect growth in our Home Video Games business in such circumstances.
- (4) In the first place, our overseas share of the Home Video Games business is about 2%, which is not a scale that is greatly influenced by market conditions such as whether the market is in a period of transition or maturity. Rather, we believe the key factor for improving our performance is how many million-seller titles we have.
- (5) Capcom has been producing new million-seller titles every year. These include “Dead Rising,” “Lost Planet” and “Monster Hunter Freedom 2nd” in FY 2006, “Resident Evil: The Umbrella Chronicles”—a derived title—in FY 2007, and the revival of “Street Fighter” in FY 2008. We assume our company can increase its sales volume and market share in the mid-term because we can broaden our product lineup by releasing those sequels periodically.
- (6) Moreover, regarding other business besides Home Video Games, the Arcade Operation business (arcade facility operation and arcade game sales) has adverse correlation with the Home Video Games business, so we anticipate this business contributing to our profits more in the long-run. Likewise, our Pachinko & Pachislo and Mobile Content businesses will be able to grow in independent markets.
- (7) More than anything, the essential factor for accomplishing long-term growth is whether we have a robust management system. Defining management and executive roles and having a global IT information system enables prompt managerial decision-making, which has contributed greatly to our performance in recent years.
- (8) In the end, it is true that achieving 10% growth will be difficult in the future as our sales increase. However, by improving our profit rate by one point even in the face of slowing sales growth, Capcom will realize sustainable growth and become a more profitable company.

### **3. Why does Capcom have to pursue businesses other than the Home Video Games business?**

- (1) Secondly, we have also received your opinions regarding our stand on businesses other than Home Video Games: namely, whether or not Capcom can truly expect to grow in businesses other than Home Video Games in the face of current market conditions and our performance, as growth in those businesses is essential for achieving our medium-term goals. For that matter, we have also heard the opinion voiced that we should withdraw from these businesses—including the Arcade Operation business, from which we can't expect to get any synergy with other businesses—because of their lower profit rates.
- (2) The reason our company pursues these businesses is that we are aware of the management risk of specializing in one business from the standpoint of long-term growth. In order to achieve the sustainable growth that we seek when we only have the Home Video Games business, we must create new hit titles every year. We of course continuously develop new titles, but clearing such hurdles is not easy. Moreover, our total investment in other businesses approximately equals the cost of developing a single game title in the Home Video Games business.

- (3) Hence, Capcom is pursuing a philosophy of “single content multiple usage.” I.e. we utilize the contents of our core business for peripheral businesses as a basic strategy. The popular contents developed for the Home Video Games business are utilized to develop other businesses that exploit the brand name. This method enables us not only to add profits in each business, but also to create a synergy whereby customers acquired in other businesses become customers in the Home Video Games business.
- (4) Furthermore, it is said that, unlike normal cases, by diversifying from the core business to those in associated fields, and also diversifying the parent company, which depends only lightly on its consolidated subsidiaries, reduces capital cost.
- (5) Next, I would like to mention the synergy and profitability in each business. I suppose there is no problem in pointing out the synergies between the Arcade Games Sales, Mobile Contents, and Licensing businesses because their business models carry a certain level of profits. We assume that you are concerned about is the following points: 1) Capcom can’t exploit the benefit of “single content multiple usage” in the Arcade Operation business, and its profitability is low, and 2) Capcom doesn’t need to manufacture its own machines in the Pachislo business, but should remain in the form of an contracted business that brings higher profits.
- (6) Regarding the Arcade Operation business, the synergetic effects this business receives are surely lower than with other businesses. Nevertheless, we believe that 1) it is possible to appeal to customers by decorating shop interiors with gaming characters and exploiting goods related to popular game characters, 2) the Arcade Operation business creates a more continuous cash flow than other businesses, thus stabilizing our management, and 3), an economic recovery, plus each company closing stores will bring an easing competition effects, thus producing medium term profit rates in the double digits. Consequently, we hold that our Arcade Operations have value as a business.
- (7) With respect to the Pachislo business, we entered the market because 1) it is difficult to ensure stable earnings in contracted businesses in the fiscal year, as such businesses are influenced by the opinions of pachinko & pachislo machine manufacturers, and 2) by combining Capcom’s popular contents with the development technologies and know-how for building good machines brought to Capcom from the companies we have acquired, we can develop competitive products. However, Capcom’s first pachislo machine did not succeed. Our analysis on the causes of this and countermeasures for the future will be outlined later by President Tsujimoto.
- (8) In the Pachislo market, gaining the confidence of pachinko & pachislo parlors has a large impact on sales, but we can’t create such a relationship overnight and must continue our efforts by continuing to provide high quality products. Nevertheless, we plan to achieve a double-digit profit rate in this fiscal term. And if we can hereafter establish a relationship of trust with pachinko & pachislo parlors, we can record stable earnings in the medium-term.
- (9) The market sizes of these periphery businesses are JPY 700 billion in the Arcade Operation business, JPY 200 billion in the Arcade Game Sales business, JPY 500 billion in the Pachinko & Pachislo business, and JPY 500 billion in the Mobile Content business. Thus the total market size of these periphery businesses is comparable with that of the Home Video Games business, which is JPY 2,500 billion.

- (10) Our company's core business—where 80% of our investment is concentrated—is the Home Video Games business, while the remaining 20% is allocated to investment in relevant markets. With respect to achieving synergies and profitability and balancing our investments and business risks, it is reasonable to aim for around 5% of the market share in the same size market as that of Home Video Games with this investment. Hence, we conclude there is business value in these fields.

#### **4. Is Capcom considering implementing shareholder returns?**

- (1) The final topic is the stockholder return. On the subject of our basic dividend policy, Capcom regards returning profits to our shareholders as one of our most essential management tasks. Thus, we will continue to provide stable dividends in accordance with our basic policy, taking into account the financial situation and future business developments.
- (2) The next point is our position on distributing business investment results—in other words, the proportion of dividends and internal reserves. Our company is currently formulating or pursuing growth strategies in each business with the goal of achieving steady growth in the medium-to-long term. We are particularly aware that ensuring sufficient investment in the Home Video Games business—a market that is in a period of maturity— remains a priority. Moreover, nurturing our future core businesses such as the Pachinko & Pachislo and Mobile Content businesses requires a certain level of investment. Therefore, we would like to prioritize business investment for the future and improve our financial strength by using the free cash flow derived from this fiscal year's business. Hence, our approach to shareholder returns will be to maintain stable dividends while increasing our corporate value by investing in business growth.
- (3) Regarding dividends for this term, we plan to pay 35 yen for the year. This is because our efforts to grow have borne fruit, and we have steadily increased profit for these years. In the future, we will continue to reinforce our profit returns to shareholders by gradually increasing dividends or acquiring treasury stock.
- (4) We greatly appreciate your continued understanding and encouragement, as we strive for a significant leap forward toward further business growth in the following 10 to 20 years.
- (5) On that note, I will end my remarks. President Tsujimoto will explain the specific strategies of each business.