

FY2007 Presentation of Financial Results Q&A Summary

Q. What do you anticipate in regards to hardware platform market penetration? How has Capcom adapted to respond to this?

A. (1) That's a difficult question to answer, as the potential growth in terms of number of units, for each hardware platform is an important factor to consider. With currently available hardware, over 300 million units have been sold around the world as of the end of April 2007. From a population of 1 billion, the number of users, children and above, would be around 400 million, of which 300 million own the systems.

(2) The PSP hasn't achieved the numbers expected, and PlayStation 3 sales are currently sluggish. On the other hand, Nintendo is still making hard effort to keep up with demand in regards to their Wii console. Also of note, the PlayStation 2 still sold 14 million units last year. Last year, Capcom produced three, million selling titles, but cost factors heavily into any new product. Due to this, even when a title becomes a hit, it does not necessarily translate into instant profits. We always have to work to reduce costs. One method is to release popular past titles again at a discounted price. One example is Phoenix Wright 4, which is currently selling quite well. Our strategy has been to reduce the costs while increasing the number of titles sold from Phoenix Wright 1 to 3. As a result of this strategy, the fourth in the series has sold more than 500,000 copies in Japan alone.

(3) For the reasons given, it's important to try and figure out which platforms are excelling in the overall game market and to develop the most popular titles possible for those platforms to guarantee the continued success of our franchises.

Q. Despite the fact that the game software market is projected to expand, why have the projected number of titles released and units sold gone down?

A. For the software sales figure, the number does not reflect the full effect of the best price editions. Best price edition numbers can be difficult to project at the planning stage. In the end, despite the drop in new titles releases and units sold, financial results are likely to end up higher than projected.

Q. What is that status of Resident Evil 4: Wii edition orders in Japan and overseas?

A. We have not disclosed the order numbers for Resident Evil 4: Wii edition yet, but orders are proceeding as planned.

Q. Prices on game software are estimated to drop 4% this period. In the breakdown by titles, it doesn't appear that the ratio of titles for portable systems has been raised and the number of planned best price versions is about the same as last period. Could you explain the 4% drop?

A. The number of titles planned for sale this period is 12 million, using straightforward division yields 3,433 yen per title. The 4% drop is due to the lower retail prices likely to occur on the Wii.

Q. For your plans with the arcade operations business, even though current storefronts are projected to increase sales by 1%, the difference in revenue increase is quite large. Each storefront appears to currently average sales of about 400 million yen. Even if the 8 new storefronts are opened at the beginning of this period, it doesn't seem to match the projected figures. Can you explain how you calculated your projections?

A. There were 6 new storefronts opened in the last fiscal year and their effect to total sales was minimal. The effect on sales from these stores is projected to reach its full effect during this period.

Q. The Contents Expansion Business experienced negative operating profits in the fourth quarter last period. I imagine that this is due to the cost of setting up the business, but how much of that cost has been allocated? Also, can you explain your degree of certainty regarding the projected increase in profits for this period?

A. There are two factors behind the negative operating profits in the fourth quarter. One is that there was almost no revenue allocated for the Pachinko & Pachislo Business. The second is the increase in cost resulting from efforts to expand the Mobile Contents Business in North America. As a result of these efforts, our market share has leapt from 62nd to 9th in the region. There aren't as many special circumstances this period as last period, so the numbers should remain relatively stable across all four quarters.

Q. The SGA (Selling, General and Administrative Expenses) for this period seems to be growing more than sales with a 13% projected increase. Could you explain this?

A. In most cases, the SGA is set to keep pace with the change in sales. However, for this period, it is projected to grow more than sales. In order to meet the goal of growing sales by 10% over the previous period, it is necessary to have enough human and material resources to accomplish that goal. Currently, we are keeping the estimate high to reflect this need, but are continuing to revise the numbers as we go.

Q. For the R&D costs associated with the games business, your projections for FY2008 are 16.5 billion yen, an increase over the 13.0 billion yen from FY2007. Can you tell us the accrual base for the R&D expenses? Because there is a weaker lineup of titles this period compared to last period, does that mean the R&D expenses included in the cost of sales will go down?

A. (1) The main reasons for the increase in numbers with our investment in R&D are increases in the following areas: American development, online R&D and amusement machine R&D expenses. Please understand that we cannot disclose the P&L base for R&D expenses.

(2) As for the Home Video Game Business, now that we have a lighter load of software titles, it is easier to tell where we stand. In the past, if we developed 10 titles, 3 or 4 of those would have been in the red, but with our recent and significant improvements to the development process, we have lowered the cost rate and improved our cash flow.

Q. This is in regards to the Contents Expansion Business, but how many machines were released last period within the Pachinko & Pachislo Business?

A. There were a total of 3 titles released in the previous period.

Q. Within the Arcade Game Sales Business, the number of video game machines has been greatly increased to 9,500 projected units. You mentioned that your future strategy includes greater tying in of the Home Video Games Business and the Arcade Game Sales Business. Could you tell us whether or not you plan to re-enlarge the Video Games Business?

A. In the previous period, our only arcade game machine was Gundam, but we plan on investing in several titles this period. None of them have been announced, so I cannot give anymore details about them at this time.

Q. You've projected 1.2 million units in sales of other companies' titles, similar to the number for last period. Last period, you had large titles such as GTA San Andreas, do you have any big titles planned for this period? And if so, what are they?

A. We haven't made any official announcements yet, so I am unable to give details on specific titles at this point, but we have made arrangements with developers and publishers and plan to publish some hit titles. We feel that we are in an advantageous position due to the fact that there are not many companies in Japan that can publish in the three territories of Japan, America and Europe. Recently we have seen an increasing number of promising smaller or middle-sized developers who are interested in getting their titles published in Japan and overseas. There are also proposals for distributing American products here in Japan. We are making positive efforts to seek out products from other companies, so we expect this facet of our business to increase in the future.