

## **Kenzo Tsujimoto, Chairman and CEO Statement at November 2007 Mid-Term Results Meeting**

### **1. Greetings**

- (1) My name is Kenzo Tsujimoto, Chairman and CEO of Capcom Co., Ltd.. I appreciate your participation in this presentation of our mid-term results for FY2007 during this busy financial season.
- (2) As you may already be aware, our consumer game sales have greatly exceeded our sales expectations. Thusly, our forecast was revised upward taking into account such factors. The second quarter also showed smooth sales and our mid-term results are beyond the revised forecast presented on August 3rd.
- (3) Specific details on mid-term results will be presented later by our managing corporate officer, Mr. Kazuhiko Abe, and future business prospects for each business segment will be presented by our President, Mr. Haruhiro Tsujimoto.
- (4) For my part of the presentation, I will cover some of the questions that have been raised by our investors in the course of our investor relations activities, as well as our recent management decisions.

### **2. Distinction between Management and Operation**

- (1) First, I would like to begin by explaining the management structure we are aiming at. As of July 1, 2007 a structural change for management was made. I assumed the position of Chairman and CEO, and Mr. Haruhiro Tsujimoto assumed the position of President and COO.
- (2) In order for us to spur growth in this game industry with rapid changes, we have been implementing structural changes in our company to meet with next-generation hardware market requirements. These structural reforms entailed various aspects of our company, such as streamlining the financial structure, fundamental reform of the development structure and management reforms of overseas subsidiaries. Those were very challenging objectives and required self-revolution of our company overall. As its results, we were able to achieve our targets to the extent that we have expected.
- (3) With its success, I believe that the foundation for the long-term growth of management has been solidified. We need to keep the management structure optimized and streamlined in consideration of our dynamic, ever-changing industry, as well as the environment surrounding our company. Therefore, it is very crucial for our company to have a flexible management structure to quickly respond to the market requirements with wider vision.
- (4) In order to cope with those new challenging objectives, we strongly felt the necessity of separating the responsibilities of management. One is charged with the entire company strategy and the other is charged with its operation based on the company's strategy. I assumed the responsibilities of company strategy as Chairman and CEO and Mr. Haruhiro Tsujimoto assumed the responsibilities of operation as President and COO. Hence, we came to the conclusion of changing the management structure to materialize flexible and speedy decision-making in close collaboration with each other's experience and strength.

### **3. Mid- and Long-term Goals and Status of Progress**

- (1) Next, I would like to go over our mid- and long-term goals and the current progress.
- (2) As I explained before, our company direction toward our mid- and long-term goals is to become “a global leader in game development and technology” and to arm ourselves with “a strong lineup of titles” to compete in the growing international video game market.
- (3) In addition to these goals, we are striving to maximize a “strong lineup of game titles” in the entertainment market by following a single content multiple usage strategy to increase revenues across the business group.
- (4) Capcom's mid- and long-term goals are to maintain a yearly growth of 10% and attain an operating margin of 15%.
- (5) As last fiscal year's results show, sales revenues had 6.1% growth, and the operating margin was 12.9% in comparison with the previous year. As per our forecast for FY2007 ending March 31, 2008 sales revenues show 4.6% growth and the operating margin is 12.8% in comparison with FY2006, both of which unfortunately do not meet with mid- and long-term goals yet.
- (6) However, we are taking necessary managerial countermeasures and we are making necessary improvements in each business segment to reach the goals. I believe that the current progress of our mid- and long-term goals is going smoothly.

### **4. Recent Management Decisions**

- (1) Next, I would like to explain recent management decisions for mid- and long-term objectives. At the previous meeting for FY2006 results, I referred to five issues to be resolved for achieving mid- and long-term goals, and I would like to explain the progress during this first half-year.
- (2) Penetration of Multi-Platforms Strategy  
At the previous meeting, I explained our “major emphasis on strengthening key divisions”. In order to make Capcom more competitive, we are focusing on further strengthening development of our core home video games business, our marketing efforts and our sale efforts. During this period, as part of our multi-platforms strategy, we decided to develop “Monster Hunter 3 (tri-)” for Wii and “Lost Planet” for PS3. We are planning to participate in the sports genre with development of golf-themed game software to expand our end-user base.
- (3) New Hire for Sales in the European Region  
One of the five issues referred to was to focus on expansion overseas. During this period we employed Mr. Rob Edwards as head of sales & marketing, who has long experience and expertise in the European region. This came from the review of our European subsidiary.

(4) Start-up of Operations at New Subsidiaries

I referred to business selection and concentration, which means that Capcom makes prompt scrap-and-build efforts as a cornerstone of its business to realize the collective group potential. During this period, “Daletto Co., Ltd.” as well as “Capcom Entertainment Korea Co., Ltd.” each started operation, the former for on-line business and the latter for new market exploitation.

(5) Penetration of Single Content Multiple Usage Strategy

I referred to expanding the scope of business. Namely, the single content multiple usage strategy is critical for maintaining stable growth in the mid- and long-term. This fiscal year, we streamlined the R&D process for arcade games sales as a part of reorganization. We are also focusing on the movie business that benefits most from synergy with the home video games business. We decided to produce a CG animation of “Resident Evil” under a joint venture scheme, and the third episode of “Resident Evil: Extinction” Hollywood movie is now in the theaters.

(6) Specifying the Management and Operating Role Arrangement

“Strengthening corporate structure” was mentioned at the previous meeting. It is important to clearly separate management and operation, and we made such a distinction between management and operation as I explained at the very beginning.

## **5. Merger and Acquisition**

(1) Now I would like to discuss thoughts on merger and acquisition.

(2) In order to maintain stable growth, it is important for Capcom to turn its efforts to increasing its share in the overseas market, where much of the growth in the home video games and mobile content markets is taking place.

(3) Mutual shareholding in, business partnerships with, or acquisition of companies that create content popular around the world is something Capcom is actively pursuing. As an example, we are now engaged in business relationships with Milestone for “MotoGP 07” in Europe, and with Camelot Co., Ltd., for joint development of “WE LOVE GOLF!”.

(4) Business partnerships that capitalize on the unique strengths of the companies involved are critical to successful partnerships and acquisitions, as well as to contribution towards growth. We are looking into the possibilities of modest content collaboration to enhance our corporation's value.

(5) Also, one measure of defense against hostile takeovers is to make sure that Capcom's value as a company continues to rise to prevent weak share prices from making it a tempting target on the market. Proving that Capcom is a growing company is one reason why our goal is stable 10% continual annual growth and to attain over 15% operating margin growth.

(6) In order to generate faith about Capcom's growth strategies, I will take an even more active role in investor relationship efforts, including President Mr. Tsujimoto and Mr. Abe, and maintain solid communication ties with the market.

## **6. Future Financing**

- (1) Now I will go into Capcom's future plans with regard to financing.
- (2) Within the home video games business, which is Capcom's core business, gaming software usually requires around two years to develop. Taking into account the required investment in next-generation game development and the growth of other businesses, a steady supply of funds will be a necessary resource going forward.
- (3) In order to raise asset efficiency, we believe it is necessary to trim down and avoid holding unnecessary surplus assets. To accomplish this, we would like to apply funds with no immediate need to the repayment of interest-bearing debt.
- (4) To secure the required financing as it is needed, we are employing a commitment line of 15 billion yen and exploring options for guaranteeing the liquidity of available funds for our business.
- (5) From the perspective of equity cost, we will closely monitor our title development and storefront expansion and rely on our commitment line rather than equity financing for the foreseeable future.
- (6) I believe that our financial base needs more improvements in comparison with other competitors this industry. We are now in the 2nd stage of improving our financial endurance after going through the 1st stage of streamlining assets, thanks to structural reform. We would like to build up a solid financial base that will allow us to secure all necessary funds for our growth strategies and move to the 3rd stage, which involves the effective and thorough utilization of capital.

## **7. Shareholder Returns**

- (1) For the next topic, I would like to discuss the current view on shareholder returns.
- (2) The management of shareholder returns is of the utmost importance to us at Capcom. Our fundamental policy is to take our financial situation and future business plans into consideration while continuing to maintain stable dividend payouts.
- (3) We would like to maintain a stable dividend based on 1.5% yield for long-term (10-year) government bonds as one of a benchmark by securing a stable cash flow every term.
- (4) If our current business plans are successful and we are able to guarantee a stable increase in profits, Capcom will consider raising the dividend payout or reacquiring stock to increase profits for our shareholders.

## **8. Corporate Governance**

- (1) Lastly, I'll explain our fundamental way of thinking with respect to corporate governance.

- (2) We recognize that corporate governance is one of the most important issues facing a business today and we are doing our very best to improve the monitoring functions of the board of directors, enhance credibility and ensure fairness and honesty with the help of our 3 external directors and 3 external auditors.
- (3) Also, in order for our corporate governance to function effectively, we've established a compliance committee and remuneration committee whose core members are external directors and fortified our investor relations activities for the purpose of fulfilling our timely and appropriate information disclosure and accountability responsibilities.
- (4) In addition, we are working towards the establishment of an internal controls system with the application of our internal controls in April of next year based on the financial Instruments and exchange law.
- (5) Recently, with positive results from our efforts up to now, we were admitted in the "corporate governance fund" of the pension fund association from which we received high points for our "shareholder value geared management", "information disclosure and accountability", "board of directors", "director remuneration system", and "compliance and risk management".
- (6) In addition, we were ranked 23rd among approximately 3,800 listed companies by the "corporate governance evaluation system", which evaluates periodically the level of corporate governance, developed by Nikkei Digital Media, Inc.
- (7) In the future, we will make further improvements to our system of corporate governance.

## **9. Concluding Remarks**

That concludes my portion of the presentation. Now, Mr. Abe will present a more detailed explanation of our mid-term results and Mr. Tsujimoto will present a specific strategy for each business segment.