

## **Keynotes by Kazuhiko Abe, Director and Managing Corporate Officer at November 2007 Mid-Term Results Meeting**

### **Fiscal Year 2007 Mid-Term Supplementary Document: Overview**

- I would like to present the details of our 2008 fiscal year interim results. Our FY 2008 interim results are characterized by fairly brisk business for the Home Video Games and the Contents Expansion businesses during the first half of the fiscal year. Contrastingly, the Arcade Games Sales and the Arcade Operations businesses weren't faring well.
- Going into a little more detail, domestic operations in the Home Video Games business reported very robust sales. Repeat shipments of "Monster Hunter Freedom 2" and the "Ace Attorney" series, including "Ace Attorney: Apollo Justice" as well as the launch of "Resident Evil 4 Wii edition" have contributed to our surpassing projections. On the other hand, Capcom's overseas markets didn't have the large sales characterized by "Dead Rising" in the previous year, and without such a hot-selling high-priced product, figures over that year decreased. However, they still exceeded our initial projections, which I consider to be a decent result.
- The Contents Expansion business greatly expanded its sales figures with the contribution of sales of the Pachislo machine, "Devil May Cry 3". On the other hand, Arcade Games sales were well below projections, going into the red due to a fire in the "Donkey Kong" machine. At present, we are restructuring our business operations, including a framework for quality improvement.
- Capcom's Arcade Operations have experienced a decline in sales figures at existing stores due to bad weather and competition from rival companies, and are endeavoring to improve this situation. Taking into consideration the above factors, although we slightly improved on the previous year's performance, I feel that our results were reasonable, as we substantially surpassed the projection made at the beginning of the term, as well as the revised projection. From this overview of the financial results I would now like to go into the specific numbers.

### **P.4-8 Mid-Term Consolidated Statement of Income from April 1, 2007 to September 30, 2007**

- Compared with our performance in the same period of the previous year, both sales and operating profit were up in this term. However, ordinary income and net profit were down on the previous year. The main reason for this decrease was exchange loss due to appreciation of the yen.
- This contrast chart shows our revised projection, which we released at the time of closing in the first quarter. As you can see, all items shown here exceed the projection. After the release of the revision, some consumer titles made more repeat sales than we expected, contributing to both sales and profit.
- Let's have a look now at a chart that compares each business segment. The details of this will be presented by our President, Mr. Tsujimoto, but to briefly explain, the Home Video Games business recorded a slight increase compared to the overall business. This slight increase contrasted with a sharp increase in sales for the Contents Expansion business, while Arcade Games Sales decreased considerably. Overall, profits slightly

increased.

- As for the status of segments by region, you may notice that while Japan was in rather a healthy condition, the North America and Europe saw decreases in their figures. However, considering the fact that the company lacked a big seller in those regions like “Dead Rising” in the previous year, they are surpassing projections. In addition, development in North America is in full swing, and we can see the costs of that development slightly preceding.

#### **P.9-11 Mid-Term Consolidated Balance Sheet as of September 30, 2007**

- Now I would like to turn to the consolidated balance sheet. Overall, assets decreased by 5 billion yen, while on the other hand, liabilities decreased approximately 8 billion yen. On the mid-term consolidated balance sheet, total net assets increased 3.5 billion yen.
- More specifically, cash and deposits decreased by about 2.7 billion yen, while in comparison, work in progress for game software increased by about 2.8 billion yen. At the end of the previous term, work in progress was decreased by the launch of big sale titles such as “Monster Hunter Freedom 2” and “Lost Planet”, but on the other hand, Capcom is now in the process of developing titles for 2008 and 2009, and work-in-progress for game software is increasing.
- As for Capcom’s liabilities, convertible bonds decreased by roughly 3.1 billion yen and have been transferred to equity. Long-term liabilities have also been transferred to short-term liabilities. The current balance of Euro-Yen denominated convertible bonds with stock acquisition rights was 2.1 billion yen as of the end of October, and at present, the balance is a little more than 1.8 billion yen. An additional 300 million yen was converted from the first half, and the overall conversion ratio is roughly 84%.

#### **P.13 Mid-Term Consolidated Cash Flow Statement from April 1, 2007 to September 30, 2007**

- The last figures I would like to cover are for the mid-term consolidated cash flow statement. First, cash flow from operating activities has decreased by approximately 3.1 billion yen. As I mentioned earlier, work in progress for game software has increased, up about 3.5 billion yen. Additionally, liabilities from purchase decreased by roughly 1.8 billion yen. Combining these figures, cash flow from operating activities shows only 200 million yen, which is greatly decreased from the previous year.
- Regarding cash flow from investments, although Capcom conducted a corporate acquisition last year, there were no such activities during this term. The collection of loans was roughly 1 billion yen. As a result, cash flow from investments stands in the black at 2.6 billion yen on a year- to-year basis.
- With regard to cash flow from financial activities, the company did not acquire common stock this time. Consequently this figure is minus 1.2 billion yen.

### **P.15 Basic Strategies for Financial Activities**

- I'd like to conclude my presentation by looking at our basic strategies for financial activities. At present, each division is on the process of redesigning its projections, and we plan to redistribute resources based on these strategies. Work-in-progress for game software in particular has increased by a little more than 3 billion yen over the term end, and the company is planning to increase investment in the consumer development and online development divisions in FY 2008 and FY 2009. Of course, a precondition of investing is that we will collect, so we are conducting thorough cost and investment management.
- At present, the company has cash in hand of 32 billion yen, and in addition, a commitment line of 15 billion yen. We are procuring cash reserves to maintain liquidity. Capcom has 15 billion yen in convertible debentures which we will redeem in March 2009. Including the countermeasures against this redemption, we would like to proceed to discuss fund raising. As we haven't decided on a concrete scheme for this, it is something we are going to consider in the days ahead.

This concludes my explanation of the details of the 2008 mid-term accounting results.