

## **Briefing on Consolidated Financial Results for the Year Ended March 31, 2008. Explanatory Summary by Haruhiro Tsujimoto, President and COO**

### **Fiscal Year 2007 Supplementary Document: Overview**

My name is Haruhiro Tsujimoto, and I am the President and Chief Operating Officer of Capcom. Today, I would like to explain our business strategies and plans for the year ending March 31, 2009.

### **P.2-5 The Business of Capcom**

The first topic is Capcom Co., Ltd's business developments.

Our company operates across a wide business spectrum, focusing on our game contents business as the core, around which we develop peripheral businesses. We have the leading content group and we are maximizing them into the Home Video Games business, as well as a Publishing / Screen Images/ Character Goods business. In addition, we apply these contents to the Mobile Contents, Online Game, Pachinko & Pachislo (slot machine style), Arcade Games Sales, and Arcade Operations businesses as well. These strategic links among our businesses are essential for increasing our profits. Our competitive strengths are: strong title lineup higher sales in the north American region as well as in European region world-leading game development capability and technology.

Subsequently, our basic strategy is that of the multiple-use of single-content. Our powerful original game content is used not only for home video game consoles, but is also utilized for our various businesses. . In this manner, our business strategy is to expand our profits by developing various businesses using the game contents as the core. We demonstrate Capcom's content not only to our game users, but also to more diverse users whom we ultimately expect to become users of our games.

### **P.6-16 Home Video Games Business**

First, let me talk about the Home Video Games business.

Looking at market conditions, game consoles were replaced between 2004 and 2005 in the manner shown. Current generation game consoles have been spreading among the population again since 2005, and we believe that the market itself will be grown through 2008. Despite of markets' transition, it appears the European and North American markets will continue to grow and our company will define the growing North American and European markets, as strategic markets in 2008 and afterwards. We plan to aggressively challenge these markets strategically to achieve our consistent further growth.

Next, I would like to talk about our market share in CY2007. In the domestic market, Capcom was ranked fifth among manufacturers, with 25 billion yen in sales, with a market share of 7%, an increase of 1.98%. We were in seventh place in CY2006 in Japan, so we have expanded our market share greatly. In the North American market, we were ranked 15th, with net sales of 123,434,000 dollars, and a market share of 1.43%. In terms of percentage change, our market share declined slightly, unfortunately. Regarding the European market, this table only shows our market share in the U.K., our major region in Europe. We were ranked 15th, with net sales of 39,962,000 dollars, and 1.43% market share. We also lost some of our market share in this market.

Let me explain our business objectives in the Home Video Game business. Our mid-term business objective is to aim for a sales ratio in accordance with market size. We expect continuous and significant growth in North America and Europe in the medium-term, ultimately aiming to achieve a ratio of 50% of our sales in the US, 30% in Europe, and 20% in Japan. With respect to the measures for achieving this goal, we will further promote our multi-platform strategy. With the aim of creating new franchises every year, we have been continually developing new titles. We promote overseas title development for the market. In addition to development, we are also considering reinforcing our overseas marketing and sales.

Regarding the goal, we will strengthen the MT framework, as it is essential for developing our multi-platform strategy, and for, we are preparing ourselves to start our own marketing from this summer by establishing a sales base in France, and to establish our own sales organization in the Spanish market for the next year, where growth is remarkable further.

Here are the measures we implemented for the Home Video Games business in the last year. In the previous term, our efficient and adequate development system proved its merit and we achieved outstanding success in each region and on each platform. For the shift into new generation platforms and looking to our future success, our original common development environment, the MT framework, proved its worth. We had achieved a decent level of success using multiplatform to release “Devil May Cry 4” and “Lost Planet” on PS3 in the previous term, and again, we have produced hit titles in all new consoles. The second point is the great leap forward in the Monster Hunter series. It gained great strides, becoming Japan’s top title in its third year. Our latest product, “Monster Hunter 2nd G,” has already shipped 2.2 million copies at this stage. This figure is the result of many of our users widely recognizing the enjoyment possibilities of Monster Hunter on the PSP game console.

Now, let me talk about the sales results of each title in the previous term. “Devil May Cry 4,” “Resident Evil 4Wii edition,” “Resident Evil: The Umbrella Chronicles,” “Monster Hunter Freedom 2nd G,” and “Monster Hunter Freedom 2nd,” are the five approximate million-seller titles we released. Regarding “Apollo Justice: Ace Attorney,” this sold 560 thousand copies, exceeding this series’ record number of 500 thousand sales.

I would like to mention our development in this term. Capcom is aiming to sell flagship titles in the stationary platform market, where software sales will bear fruit during this term in order to promote multi-platform strategy. Through multi-platform strategy of our leading titles, we will be able to overcome the barriers of platforms which have different diffusion rates throughout the world to provide our titles to the greatest number of users. The titles Capcom is going to provide with the multi-platform editions in this term are "Resident Evil 5" for Xbox360 and PS3, and "Bionic Commando" for Xbox360, PS3, and PC. Product development of "Devil May Cry 4" PC edition will be released in this term as well. Moreover, "Moto GP 08" will be released on five platforms: Xbox360, PS3, PS2, Wii, and PC. More information will be available at the Media Summit, which will be held from May 28 to 30 in Las Vegas, USA.

Our second goal in this period is the expansion of our development line. We will finalize the acquisition process of K2 Co., Ltd. during this period. If software developers with an excellent record for product development and high development technology standards like K2 Co., Ltd. agree with our plans for product development and our development style, we would like to collaborate in business or even capital participation. Capcom will positively pursue M&A opportunities at any time. Also, the company plans to reinforce its staff in the development area. We aim to continuously recruit new graduates and mid-career workers and strengthen employee education to reinforce the development staff that is the source of our profits. Furthermore, in this period, we will be releasing titles jointly developed with overseas developers. We are pursuing further expansion of our share in the North American and European markets by developing titles to meet the demands of overseas markets. As regards specific title names in this period, "Bionic Commando," "MotoGP08," etc. which I explained earlier will be incorporated into our lineup of titles. In addition, we will continue to release titles developed overseas in the future.

Regarding our sales plan for titles in this term, we expect to sell 2.3 million copies of "Resident Evil 5" and 1.5 million copies of "Bionic Commando" worldwide. "Monster Hunter Freedom 2nd G," released last year, will repeat sales in this term and is expected to sell 1.5 million copies. Moreover, we plan to sell 610,000 copies of "Lost Planet Colonies" worldwide.

Moving on, I would like to explain the Home Video Games business for this term. Capcom is seeking continuous and solid business growth in this field by releasing major franchises such as "Resident Evil 5." Our targets are net sales of 58.3 billion yen, a 6.621 billion yen increase over the previous year, and a 21.8% operating income. We will release 78 titles. As for the planned number of shipments, Capcom aims to ship 5.7 million copies in Japan, 5.5 million copies in North America, 6.4 million copies in Europe, and four hundred thousand copies in Asia—a total of 18 million copies. The reason for the lower expected number of titles compared to last term is that the number of distribution titles is to be reduced. This planned figure does not include titles which have yet to be introduced to us by our clients. Additionally, the decrease in the number of shipments in Japan is due to a decline in titles for PS2 from last year. The reason for the expected increase in sales in North America and Europe is that the number of titles developed for PS3 and Xbox360 will increase. Furthermore, due to the contribution of PC editions, title sales in Europe will increase further.

### **P.17-21 Arcade Operation Business**

I would like to continue now with an explanation of the Arcade Operation business.

This figure only shows data through FY2006. We had been growing steadily until FY2006 by opening larger stores. However, regarding FY2007, Capcom thinks the market might have experienced a downward trend.

Therefore, in the midst of a challenging overall market situation, our profit rate in the Arcade Operation business in the previous term declined, but we were able to maintain an operating margin of around 5%, whereas our operating margin is relatively higher if we compare it with all other companies in the industry.

Looking at our plan of action for this business, we aim to open new stores sequentially in large commercial complexes. However, as growth has been somewhat difficult for stores opened recently, we will select the potential location for opening new stores by strictly scrutinizing the conditions. As our plan for FY2008, 3 new stores are to be opened and 5 stores are to be closed. For existing stores, we will cut costs to restore and secure their operating margins and will implement thorough successive scrap-and-build activities.

Net sales will be 15.8 billion yen, an increase of around 2.4 billion yen, due to the contribution of sales at stores newly opened last year. Although the operating margin is expected to follow a slightly downward trend, we plan to maintain 5%. Net sales at existing stores are expected to be 99% compared with those of the previous year. Since the Arcade Operation business is stable, we would like to continue with the business.

### **P.22-25 Arcade Games Sales Business**

Next, I would like to talk about our Arcade Games Sales business.

The situation of this market closely resembles the Arcade Operation business market, which I have just explained. It had expanded favorably until FY2006. Because of the contribution of prize medal games and card games, the market had been robust. However, according to our analysis, the Arcade Games Sales business market slowed down in FY2007.

With respect to strategies for the Arcade Games Sales business, the business performance of the Arcade Games Sales last year made no progress due to machine malfunctions. This year, the company will implement business reforms, including improvement of quality control, to gain a foothold for further business growth. More concretely, we are going to develop game machines in each category as the need arises, and in a balanced manner. Furthermore, since the store size at SCs is increasing in accordance with this trend, we are going to develop medium and large-sized medal-winning game machines. We will continue in this period to provide video game machines developed through home video game console development capabilities. We also have been restructuring our business organization for steady growth. We have been conducting comprehensive quality control in response to malfunctions happened last year. We will carry out intensive development management by introducing the schedule management system that led to success in home video game development.

In the current term, Capcom will tackle business reform as a priority issue, aiming for a V-shaped recovery in business performance and a return to a stable growth path. Regarding our product lineup by category, we expect sales to reach 12,500 video game machines and its leading product is the “Street Fighter IV” game machine. We plan to sell 210 prize game machines and 85 medium-sized medal game machines. Regarding business performance figures, net sales in this business are expected to be 8.3 billion yen, up 1,762 million yen from the previous year. Our operating margin will improve to 19.3%, a 1.2% increase.

#### **P.26-29 Contents Expansion Business**

The next topic is our Contents Expansion business.

In this business, Capcom is to promote a highly profitable and effective business by applying our property and title development capability broadly. With reference to strategies, we embark on a thorough horizontal expansion of our content, toward the cell phone, Pachinko & Pachislo game markets. By sharing business resources, i.e. content assets, we will maintain our highly profitable business structure, and the company will achieve further growth in both businesses in this period so as to grow them as new core businesses. Regarding the plan, net sales will be 10.2 billion yen, a 1,675 million yen increase over last year. The operating margin is expected to be 30.4%—a slight decline from the previous year—but we will strive to maintain above 30%. The ratio of sales between the Pachinko & Pachislo business and the Mobile Contents business will be 50/50.

As for the Pachinko and Pachislo business, the company is going to expand its lineup further and grow steadily by building on our experience and past achievements. We are going to develop products by applying our game contents and development skills. We will also seek sustainable business growth through the collaboration of major Pachinko & Pachislo machine manufacturers. Last year we released the pachislo machine “Devil May Cry 3” with cooperation of RODEO Co., Ltd., as well as several other titles, as an entrusted business. This year, the “Resident Evil” pachislo machine announced by Yamasa Co., Ltd., is going to be sold in this fiscal period. Although we have some more machines to be released during this period, this is an entrusted business so please allow us to omit detailed explanations because of the sensitive relationship with contracting firms.

Next I will discuss strategies for the Mobile Contents business. Our North American subsidiary, which we acquired several years ago, has been achieving good results, so Capcom is aiming for stable global expansion through this company. The company is going to use hit titles from our home video game consoles to make mobile games. In addition, so-called “casual games” for light users are popular nowadays, so we will aggressively purchase the copyrights of other companies to meet diversifying user needs. As regards the Japanese market, we will release the Ace Attorney series in this period, as it has achieved strong sales since last year. We are also developing new titles so we will promote further growth through the strategy of making mobile games from the titles that sold well for home video game consoles.

The North American market has been growing smoothly with the contribution of a company we acquired several years ago. We have been pursuing our strategies in North America with the leadership of this company, and Capcom achieved a 5.4% market share as of January 2008, ranking 4th in the North American market. This result means that we are the top Japanese publishers. In the future, we will boost our mobile business in Europe, using the successful North American business model as well as Japanese content.

### **P.30-31 Other Business**

Now, I will summarize our other businesses.

These are businesses which function as the core for the horizontal expansion of Capcom’s game content, i.e., businesses that utilize our contents in various areas such as screen images, toys, and publishing. With respect to the Character Contents business, we are reinforcing the card-based game business. We established a department that specializes in this business last year, and we started working to establish this business by forming strategies to take advantage of the favorable circumstances in home video games by using the popular “Monster Hunter trading card games.” Regarding the Picture Entertainment business, the company will strengthen the development and expansion of image products utilizing Capcom’s content. We feel the Picture Entertainment business and game business will easily meld together in terms of strategies. Therefore, the company aims to expand its income by seeking a synergetic promotion effect through carefully timing the releases of games and related movies. In this term, as I mentioned earlier, the movie “Street Fighter” is now in production and shooting is already underway. Other than this, a 3D animated production of “Resident Evil” is in progress in collaboration with Sony Pictures Digital Inc. We aim to release these two works in this fiscal period.

### **P.32-33 Fiscal Year 2008 Forecast**

Finally, I will look at our earnings forecast for the year ending March 31, 2009.

We expect to expand our business activity in a stable manner based on a sound business growth plan for each sector. We forecast our net sales will be 95.3 billion yen, up 12.23 billion yen from the previous year, while our operating income will be 14.6 billion yen, up 1.479 billion yen. Our forecast for ordinary income is 14.8 billion yen, up 2.533 billion yen, while net income will be 8.6 billion yen, up 793 million yen. Net income per share is expected to be 140.6 yen. Regarding dividends, the interim dividend is 15 yen per share and the commemorative dividend is 5 yen per share, while the year-end dividend is 15 yen per share, giving a total annual dividend of 35yen per share. We anticipate increases both in sales and profits during this term. Because all companies will work together as a unit to definitely achieve this plan, we would accordingly be grateful for your continued support in this term. This concludes my presentation. Thank you very much for your attention.