

Briefing on Consolidated Financial Results for the Year ended March 31, 2008.
Explanatory Summary by Kazuhiko Abe, Director, Managing Corporate Officer

Fiscal Year 2007 Supplementary Document: Overview

I would like to explain the overview of the Consolidated Financial Results for the Year ended March 31, 2008. The Home Video Games business was strong, so it plays the role of an engine for our business performance. In addition, the Contents Expansion business also performed very well. On the other hand, the figures dropped slightly for the Arcade Operations and Arcade Games Sales businesses. However, as a result of the strong Home Video Game business, our overall business performance showed increases both in sales and profits.

P.2-7 Consolidated Income Statement

Our net sales increased by about 9 billion yen, an approximately 11.5% increase in profit. Over the previous year, operating income, ordinary income, and net income all indicate strong business performance. Because we revised our forecast a few times, you see an increase of slightly more than 1 billion yen over the second forecast. However, if we compare the results with the original forecast, they demonstrate bigger increases both in sales and profit.

I would like to explain each business. First, regarding sales for the Home Video Games business, we sold about 2.32 million copies of “Devil May Cry 4,” while sales of “Resident Evil 4 Wii edition” were around 1.3 million copies, and the sales of “Resident Evil: The Umbrella Chronicles” were around 1.06 million copies. The sales of these flagship titles were excellent, exceeding one million copies each, and served as the engines for our business performance. “Moreover, Monster Hunter Portable 2nd,” which was released in the previous period, achieved around 950,000 sales in total for continued sales in Japan and new sales overseas. “Monster Hunter Portable 2nd G,” which was released on March 27, sold around 990,000 copies in about four days and we have shipped about 2.2 million copies so far. With the contribution of these titles to our business performance, net sales have also increased. Regarding our Contents Expansion business, net sales in this business also increased around 20% over the previous year.

The following concerns operating income. Since the contribution of the Home Video Games business to net sales was very high, operating income followed suit. In terms of the amount, this was 13.1 billion yen, an increase of 3.5 billion yen over the previous year, meaning increases in both sales and profit.

On the other hand, with respect to ordinary income, we lost about 2.1 billion yen in foreign exchange losses due to the significant effect of the appreciation of the yen. Our original assumption was based on an exchange rate of 115 yen to the dollar, but the rate reached 100.19 yen to the dollar at the end of the 2007 fiscal year, so the difference between those rates created an exchange loss. As a result, ordinary income in the year ended March 31, 2008 was 12.3 billion yen.

Net income was 7.8 billion yen in terms of the amount. If you look at the corporate tax, you might notice that the rate of 34.9% is slightly lower than usual. This is because we reviewed the valuation allowance of the company's deferred tax assets in one of our North American affiliates.

P.8-12 Overview by Business Segment

Now I would like to go over segment information.

First of all, let me talk about the overall situation. As I mentioned at the beginning, net sales in the Home Video Games business increased by around 8 billion yen. The Contents Expansion business, which is shown in the fourth column, increased to 8.5 billion yen, and was a driving force for sales. On the other hand, net sales in the Arcade Operation business were almost unchanged, but we opened nine new stores last year. Despite opening nine new stores, sales were almost flat, which means we had a very tough time. Regarding the Arcade Games Sales business, as you may already know, there were machine malfunctions in "Donkey Kong Banana Kingdom" in the first half of the previous fiscal year. The business performance in the first half was not good because of this, so sales for the year declined slightly from the previous year, although they revived in the second half year. We were able to record 6.5 billion yen in sales.

Let's move on to the geographical segments of Japan, the USA, and Europe.

First in the Japanese segment again, because the Home Video Games business achieved very favorable sales growth—especially the Monster Hunter series “Monster Hunter Portable 2nd”, and “Monster Hunter Portable 2nd G”—which both attained sales of around one million copies, the Japanese segment was strong. In addition, the Contents Expansion business also contributed to increased total sales. On the other hand, in general, we faced uphill battles in the Arcade Games Sales and Arcade Operation businesses, while all other companies in the same industry also suffered from the softened Arcade Operation market. Therefore, net sales in those businesses declined. However, reflecting the healthy Home Video Games business and Contents Expansion business, net sales and operating income in Japan showed positive results.

In North America, net sales in North America remained at almost the same level, while operating income increased by around 900 million yen. You will understand the situation if you look at the number of copies sold. The year before last year, we released two big hit titles called "Lost Planet" and "Dead Rising" at a sale price of \$60 for each. Looking at titles in the previous term, "Devil May Cry 4" sold for \$60, while "Resident Evil: The Umbrella Chronicles" sold for \$49 and "Resident Evil 4 Wii edition" sold for \$29. Therefore, the average sales price was somewhat lower. As we marketed lower priced titles aggressively, which led to a lower average unit price, net sales in North America remained nearly unchanged. However, regarding sales and marketing system, we have been fairly strict in establishing a system to produce operating income while tightly managing costs and sales and general administrative expenses. As a result, our operating margin improved.

Next I want to move on to the European market. Compared with the year before last year, net sales in Europe increased about 1.7 billion yen. We also ensured a profit. In the beginning, our European market was mainly the three countries of France, Germany, and the U.K., but around two years ago we started to actively extend the market to other European countries, including Spain, Italy, Russia, and Eastern Europe. These marketing efforts brought a successful outcome, particularly as sales of PCs increased considerably, so net sales achieved nearly 10 billion yen. Our operating income was 1.8 billion yen due to our various marketing efforts. So the performance in Europe realized great increases both in sales and profits.

Meanwhile, "MotoGP 07", which we developed under the control of our North American subsidiary, achieved solid results as planned. That is our big overseas hit title, which we had finally managed to release in the previous year. Titles developed in North America will be entering the market in the future.

P.13-16 Consolidated Balance Sheet

As for the overall characteristics of the balance sheet, our assets increased approximately 2 billion yen over the previous fiscal year. Regarding liabilities, the situations of current liabilities and non-current liabilities switched roles. In total, liabilities decreased by a little over 6 billion yen. As our net assets increased, we believe that our financial standing has become fairly balanced. Shareholder's equity ratio also increased to nearly 60%, so we consider that it has improved.

As you know, game titles are recorded in Assets as work-in-progress for game software. This increased by a little less than 3 billion yen for the year ended March 31, 2008 compared with the year ended March 31, 2007. This increase in work-in-progress is due to big-hit titles lined up to be released during this and the next period or later. Related to intangible fixed assets, we have been recently pursuing various business reforms, including systematization of information. We have been investing in our system in order to create a system that will make our management situation visible. In addition to this, online content was included in this account so intangible fixed assets increased by 2 billion yen.

Concerning the distinguishing characteristics of liabilities, the current portion of convertible bonds shifted from long-term liabilities to short-term liabilities because the redemption date of this bond is expected at the end of March 2009, so the original 15,000,000,000 yen issued became 14,997,000,000 yen as of the year ended March 31, 2008. Euro-yen convertible bonds in long-term liabilities, in which we financed 11.5 billion yen in 2004, have been largely converted and the remainder is 1.2 billion yen. The remainders of liabilities are short-and long-term loans.

P.17-18 Consolidated Cash Flow Statement

Focusing on cash flow characteristics, we had a considerable amount of net cash provided by our operating activities—16 billion yen, in the year ended in March 31, 2007. At the end of the previous term, net cash provided by operating activities was 7.5 billion yen. We have two major reasons for this change: first, accounts receivable increased because various big-hit titles were released at the end of the period, and secondly, work-in-progress for game software increased due to various big-hit titles lined up for release in this and the coming year, or later.

My next topic concerns cash flows from investment activities. We invested money to purchase a Canadian company in the year ended March 2007, but we did not do such a thing this time. So cash flow returned to an adequate level.

With regard to cash flows from financing activities, financial cash flows in the year before last were particularly negative due to the redemption of 10 billion yen in convertible bonds, that is, we paid out 10 billion yen in cash, and the purchase of about 3 billion yen in treasury stock. On the other hand, as we didn't have such issues last year, cash flows were slightly less than 2.5 billion yen in the negative due to dividends and repayment of loans, etc. Therefore, the balance of cash and cash equivalents at end of the year was a little bit more than 32 billion yen, decreased by 2 billion yen from the previous year.

P.19-20 Basic policy for financing activities

Our mid-term strategy is to target "10% annual growth in net sales and 15% operating margin," this is one of the minimum requirements from the management side. In accordance with such corporate strategies, our basic line is to steadily expand and grow each business. On this account, our primary objective is to finance reliably and ensure we have the money we need for our business management. We presently have a commitment line of 15 billion yen, as it is important to acquire liquidity in order to actualize our strategy. As this has not been used yet, we plan to properly maintain and assure this level of liquidity.

The second point describes distribution of our achievements. We plan to invest energetically in businesses in the future. As regards Capcom's financial standing, the equity ratio has finally been rising, too. At the same time, concerning the company's cash position, our loan-deposit ratio is improving greatly. We would like to maintain this condition. Finally, concerning the review of stockholder returns, as issued in our news release this time, we are going to distribute 20 yen per share as an interim dividend, including 5 yen in commemorative dividends in celebration of Capcom's 25th year in business. We also would like to think about maintaining stable stockholder returns in the future, based on steady business growth.

This concludes my portion of the presentation. Thank you very much for your attention.