

**Outline of Q&A at the Briefing on Consolidated Financial Results
for the Year ended March 31, 2008**

Q

Regarding “Street Fighter IV”, please tell us why Capcom re-entered the arcade video game market which you’ve already withdrawn once.

A

In recent years, there has been further evolution in arcade game machines, and machines with a PC base have been brought into the market. In addition, because a different network environment from home video games had been realized at gaming arcades and amusement facilities, we felt that it might be possible to develop a type of game that was different from home video games. Moreover, Capcom has been developing certain arcade game software which has been on the market for several years. We release this every year and ensure a certain number of copies. For these reasons, we judged arcade video games to still have a lot of potential. Then, when we decided to re-enter the market, we concluded that *Street Fighter* was the best among Capcom’s contents. At the re-branding of *Street Fighter*, we decided to develop the software for arcade games, as we judged that we had better start from there. In this manner, we started to develop “Street Fighter” several years ago, and will finally release it in this term.

Q

Please tell us why “Monster Hunter Freedom” became such a big hit in Japan, and give us your opinion on whether it will be a hit in Europe and North America.

A

The elements of “Monster Hunter” is, as you know, a game in which players defeat monsters by forming teams, i.e., using teamwork, so gamers are able to defeat monsters together when they can’t do it by themselves. In addition, gamers with different skill levels are also able to pursue difficult missions to complete their level by enlisting the help of more skilled gamers. The players spread the word as a way of communication or encourage their friends to buy the game, and this is what led to the game becoming a big hit. Capcom is also selling this title in North America and Europe, but partially because of the difference in cultures and customs, it has not yet become a big hit. In our case, we have been talking to our overseas subsidiaries about Japanese analysis with the cooperation of platform holders, and we began a project last year aimed at building up the success of the *Monster Hunter* series abroad.

Q

Can we assume *Street Fighter IV* uses your own hardware?

A

Capcom uses a hardware developed by another company. Because we do not yet have resources to design hardware for arcade video games within the company. We employ hardware developed by other companies.

Q

I would like to know whether the exodus of a lot of developers from Capcom about two years ago influenced your development ability or created confusion in the company. In addition, please tell us about any developer that is currently receiving attention in Capcom.

A

Capcom used to have a development system or development culture that an individual creator played an important role of the product development. It was certainly true that a good creator produced a good-quality software, but it did not always happen that good-quality game has been sold well in the market. The creators' intentions to the products did not always meet with those of the purchasers, and our efficiency in product development was not streamlined in those days.

In fact, Capcom completely changed its product development methods after 2004 and our reasonable titles all became million sellers. Why did this happen? What we can say in general is that the current directors at Capcom understand that excelling in terms of aptitude means nothing if they don't have the total environment in which they can make best sellers. The reason for this is simply that various deeply interdependent factors interact to create best sellers. Therefore, developers might feel cramped to some extent now and then because they have to work within such a framework, but we have a system in which they can ultimately create sound titles, and everyone understands each other.

We have 5 to 10 large-scale titles per year, so the total number of titles is about 15. In Capcom, directors who are in charge of development of 15 titles a year become progressively more competent among our 800 creators. The quality of any of their work is high.

Q

Please comment on Capcom's comparatively bullish shipment plan of 1.5 million copies for *Bionic Commando*, as well as your approach to managing the development progress, and also your development style. Moreover, if *Bionic Commando* is successful, does Capcom plan to release arcade game titles that strongly appeal to the overseas market one after another such as the ones that became big hits in the 1980s?

A

We previewed *Bionic Commando* in the U.K last year and it achieved a highly favorable reviews from foreign media even at that stage. Its developer is GRIN, well known for their high competency. Moreover, we update new information about our company as well as our products in Europe and the U.S.A. on the website all the time. As a result of sales marketing meetings concerning trends in the popularity of our products, we base our plan on how much we can achieve. With respect to our management system for product development, GRIN AB has excellent experience, so we basically follow their views.

As for the progress of product development and quality controls at GRIN , we also suggest our proposals to them, and the development proceeds in line with their opinions.

The evaluation of our titles released for game arcade machines or the Super Family Computer in the past has been quite high in foreign countries. Capcom will aggressively provide products that meet such high overseas needs, and we have been implementing plans as necessary if they can be adapted to current generation platforms. Thus, we plan to promote such possibilities positively in the future.

Q

Could you explain the reasons of increasing for research and development expenditure, or development investment, Moreover, I would like to know about the factors behind the increase in expenditure during the last period and this period.

A

Several years ago, our work-in-progress for game software decreased significantly to reasonable level. Since then, our assets have increased steadily, as you mentioned. The majority of expenses for work in progress for game software are headcount-related personnel-related. Capcom has not increased the number of its development staff greatly. All of the important titles are developed at our headquarters, but as I mentioned a little while ago, we have been developing products jointly with other companies too, and have also acquired a company. Hence, our assets have been increasing significantly.

Particularly, we are working on various overseas projects including *Bionic Commando*, in which our American subsidiary uses its development expenses in terms of consolidated accounts. We also apply our management's targets to those companies, in effect saying "let's increase our net sales by 10%," or "Definitely keep a 15% operating margin." I believe that there is no serious danger concerning their increase.

Q

Capcom has made a plan for shipping 18 million copies of software during this term. Do you still have several titles which are as yet unpublished and can be expected to be million or double-million sellers?

A

Regarding the validity of the figure 18 million copies, it may seem difficult to reach with only our currently disclosed major titles, but we believe that this number is quite achievable due to an increase in major title sales for titles which we have not yet disclosed and also old or lower priced titles,. For example, as big titles become old titles the following year, those prices decline from \$50 to \$19 gradually, and we can attract a new customer segment in this process. We have plans to increase the number of copies of such big titles sold over the time span of about four years.

Therefore, in our plan, lower-priced titles decrease in number while the total number of sales for this term increases, but as the number of sales of lower-priced titles increases year by year due to the above-mentioned long-term sales, our plan for lower-priced titles in this term is conservative and, as a result, we can sufficiently achieve the figure in the shipment plan.

Q

It seems your R&D investment has tended to increase a little bit, please tell us whether or not Capcom has a management or policy regarding the approximate upper limit for expenses.

A

We are not able to disclose a detailed breakdown of the increase in R&D investment. We have not set any upper limit for the expenditure, and we also use the per-title average. Our policy is that we will spend more money to make good products for leading titles, while spending less money on titles for casual users who use Nintendo DS, etc. Moreover, we are increasing R&D expenses in each business centering on consumer games and online games.

Q

How does Capcom analyze indications that the entire arcade operation industry is heading into a bad situation? In addition, have you thought about when the industry may bottom out?

A

Regarding the arcade operation business, the intended users of game arcades are similar to the targeted users of home video games. Therefore, in an environment where some hit titles are in the market of home video games, game users allocate less time at game arcades because of the constraints on their leisure time. Moreover, I think one of the big reasons is that the situation of arcade games in the past was unfortunate, as there were no popular game machines such as card game machines and others. In addition, the competition in the neighborhood intensified.

From these factors, we feel that there will not be any significant improvement in the market environment in the next one or two years. We expect the next one or two years to come will be a period of structural reform in the arcade operation business, and we will pursue cost management and sales management approaches that differ from other companies during this period. If we can accomplish our profit targets by doing these things, that means the organization can yield a profit under the severe environment. When it comes time to switch home video game consoles, it is possible that the home video game market will temporarily experience a downward trend, so we will proceed with structural reform while considering the possibility that we can expand our profits stably at that time.

Q

Please tell us your policy for the “*Street Fighter IV*” home video game.

A

We have not made any official announcement yet, but we are considering our multi-platform strategy, and I believe we should surely review our procedures.

Q

I would like confirmation about Capcom's financial strategy. I suppose your company has to redeem around 15 billion yen in convertible bonds in this term, so please tell us about your policy for handling that event, including funding, or how you will refinance, and so forth.

A

The redemption date for the 15 billion yen in CBs is expected to be March 2009. Because the conversion price is 3,020 yen, we are preparing by assuming those bonds will be converted, but we could also assume that none of the bonds will be converted. As regards the policy for refinancing, we have not made any concrete decision yet. First of all, we are not currently using 15 billion yen of our commitment line, so we can divert this. We have not made any decision on whether or not we will issue new CBs. As there is a problem of stock dilution, we would like to decide comprehensively by taking into account overall policies and problems.