

**Briefing on the Consolidated Financial Results  
for the 2nd Quarter of the Year ended March 31, 2010.  
Explanation Summary by Haruhiro Tsujimoto, President and Chief Operating Officer  
(October 30, 2009)**

**Handout for Capcom's business strategies for the second quarter of the year ending March 31, 2010:**

**Overview**

I would like to discuss the current state of each business during the first half of the year ending March 31, 2010, and our plan for the second half.

**P.3-8 Home Video Games Business**

First of all, I shall outline the actual achievements for the first half of this fiscal year in the Home Video Games business. Due to the repeat sales of profitable products, our business performance in the first half was strong, and we gained a strong market share with large scale titles.

One factor that contributed to these good results was the success of applying multiple platforms for the "Monster Hunter" series, one of Capcom's most popular titles in recent years. Our new game "Monster Hunter Tri)" is the first third-party product for the Wii to break a million in sales, despite the fact that actual results were slightly less than our initial figures. Additionally, the total accumulated sales of "Monster Hunter Portable 2nd G (PSP the Best)" which was released last year, reached one million copies, and is a remarkably long-running hit. Moreover, in the PC online game industry, we enjoy a steady number of memberships for "Monster Hunter Frontier Online," which in turn has contributed to our increase in income.

In addition, at the recent Tokyo Game Show 2009, in the "Japan Game Awards 2009" category Capcom received the Minister of Economy, Trade and Industry Prize for the "Development Team of Monster Hunter", while our "Resident Evil 5" and "Monster Hunter Portable 2nd G (PSP the Best)" won the Award for Excellence and the Special Award, respectively. Moreover, both our "Lost Planet 2" and "Ghost Trick" titles won the Future Division Award. These awards convinced us that people have high expectations for Capcom's games.

In addition, we are also expanding the horizontal development model based on Capcom's all-important "single content multiple usage" strategy. In regards to the "Ace Attorney" series, the performance of "Phoenix Wright: Ace Attorney 2" which was adapted as the sequel play by the Takarazuka Revue Company, was successfully held in August. Moreover, an animated television program was created in April for the "Sengoku BASARA" series, it was also adapted for the stage in July. In addition, one of the characters from the series was used as the image character for promoting the Miyazaki prefecture gubernatorial election held in October. In this manner, both series proved that their enhanced brand value extends well beyond video games.

Looking at title sales in the first half of this fiscal year, our leading series titles, such as "Monster Hunter" and "Resident Evil", posted steady results.

1.1 million copies of "Monster Hunter Tri" shipped in Japan during the period, and we continued to promote the expansion of sales in preparation for the year-end and New Year holiday season. Repeat sales of the "Best Of" version for "Monster Hunter Portable 2nd G" continue to be brisk in Japan, while sales in the North American and European markets have fallen slightly short of our initial projection since its release at the end of June. Nevertheless, in light of the current state of the video game console market in Europe and North America, we acknowledge that our situation is still relatively sound.

In addition, we have been continuously receiving orders for "Resident Evil 5", which was released at the end of the previous term. Three quarters of a million copies have already been shipped in this term alone. The PC version released in July also has sold well, chiefly in Europe.

In contrast, we have faced an uphill battle with "Bionic Commando," as its sales have failed to live up to initial expectations. As part of our overseas strategy, Capcom worked with an overseas developer to create the game. However, we soon realized how difficult managing development overseas can be. Still, we feel this experience offered us a valuable lesson for future overseas product development.

Turning our attention to medium scale titles, sales for the "Ace Attorney" series, including "Ace Attorney Investigations: Miles Edgeworth" stand at half a million copies, while sales for "Sengoku BASARA: Battle Heroes" and "Street Fighter IV" (repeat sales) are 200,000 copies and 250,000 copies, respectively.

Next, I shall speak about our business performance for the first half of the current fiscal year.

Contributions from large-scale title earnings and repeat sales of products helped to improve profit margin. Therefore, despite shrinking market tendencies, our net sales, operating income and operating margin all improved from the previous year.

Decreases in number of sales titles are the result of decreases in distributed titles.

Examining sales by region, our sales volume in Japan increased by 600,000 copies period-over-period. This can be largely attributed to the contributions of “Monster Hunter G,” “Ace Attorney Investigations: Miles Edgeworth,” and “Sengoku BASARA: Battle Heroes.” In the North American market, the strong sales of “Resident Evil 5,” “Bionic Commando” and “Monster Hunter Freedom Unite” helped boost our sales volume by 700,000 copies. The same is true for Europe, in which sales volume increased by 1.2 million copies, accompanied by brisk shipments of “Resident Evil 5” for PC.

Next, I shall discuss the strategies for the Home Video Games business during the second half of the fiscal year.

We plan to sequentially release our major large scale titles in the second half. This will help us to expand our overseas market shares and maximize sales volume through overseas networks. Capcom intends to create a lineup of game titles focusing on overseas market, including “Lost Planet 2,” “Dark Void,” and “Resident Evil: The Darkside Chronicles.” As a result, our overseas sales volume accounts for 75% of our total plan.

Capcom also plans to reinforce the worldwide expansion of online games. Concerning “Monster Hunter Frontier Online,” we are looking to increase the number of memberships and earnings by upgrading the game in Japan. Outside of Japan, we plan to start operation in South Korea and then Taiwan. We hope to firmly establish the “Monster Hunter” brand within the Asian online game market.

In regards to online game titles, the company intends to promote “Monster Hunter Tri” and “Lost Planet 2” as our leading products. The number of the “Monster Hunter Tri” online players continues to exceed our expectations. Likewise, soon up to 16 players will be able to simultaneously play the “Lost Planet 2” game.

To maximize our sales opportunities, we are also promoting the preparation of our game titles via digital distribution. “Marvel VS. Capcom 2” was digitally distributed in the first half of the fiscal year, and recorded sales of a half million copies. In the overseas market, we plan to distribute “Fate/unlimited codes” and other titles on a continual basis.

Furthermore, we will also focus on increasing profits by releasing additional content through the PlayStation Network (PSN) and Xbox Live Arcade (XLA), such as “Resident Evil 5” and “Street Fighter IV”, which were both released at the end of the previous term. We also seek to distribute additional content for various game titles in the second half of the fiscal year, and secure repeat sales.

Next I will address our sales plan for major game titles we have lined up for the second half of the year.

In the light of the great reviews for “Lost Planet 2,” the trial version of which posted 2.5 million downloads, we expect sales to be around 3.7 million copies.

On the other hand, we adjusted our sales plan for “Dark Void” to 1.3 million copies. There were a number of factors that lead to this decision, such as the corporate framework we share with the overseas developer, the competition from rival companies we expect to face in the fourth quarter, and the fact that it’s a completely new game.

For your information, the sales target for “Super Street Fighter IV,” which is the sequel to “Street Fighter IV,” is 1.1 million copies, while the target for “Resident Evil: The Darkside Chronicles” has been set at 0.8 million copies. Although we haven’t established a specific sales volume projection for “Resident Evil 5: Alternative Edition,” we are looking to expand its sales by combining figures with the sales for “Resident Evil 5.”

Moving along, I’ll now introduce our plan for the Home Video Games Business for the full fiscal year.

On account of our strong online business and the revisions made to our sales plan for video game titles during the second half of the year, we adjusted our forecast so that figures are higher for the full fiscal year. Compared to our initial projection, net sales and operating income have increased by JPY 6.4 billion and JPY 2.3 billion, respectively. These changes were brought about by adjusting the projected sales volume for “Lost Planet 2” during the second half of the year, and reflecting the positive results for the first half of the year.

The number of game titles to be sold is expected to decrease by 16 titles from the previous term. This is because we only recorded the distributed titles that are currently planned, so that it is highly likely this number will change over the course of the period.

By region, for the second half of the year we expect sales volume in Japan to exceed our initial projection by 0.6 million copies. This is because we counted increases in the sales volume for “Monster Hunter Portable 2nd G” and other titles. In the USA and Europe, the total sale volume will rise. The reason for this is an expected increase of 200,000 copies per region for “Lost Planet 2” compared to our initial plan.

However, due to the large contribution of “Monster Hunter Portable 2nd G” and large-scale titles releases, such as “Resident Evil 5”, during the previous term, we expect sales volume in Japan is expected to decrease.

In contrast to our initial projections, sales for lower-priced titles are expected to increase by one million copies. The main reason for this is the rise of repeat sales for the “Grand Theft Auto” and “Sengoku BASARA” series.

#### **P.9-10 Arcade Operation Business**

Next, I will describe the current state of the Arcade Operation business.

Because of the lack of popular arcade game machines throughout the industry, and the continuing poor economic situation, the market conditions of the Arcade Operation business for the first half of this fiscal year were extremely harsh. Though the net sales for this business fell because the number of customers continued to decline, we managed to acquire a surplus by implementing corporate downsizing and structural reforms, beginning last year.

Net sales on a like-for-like basis were 86% of the sales level for last year, and down from 93% as projected in our initial plan. As for our business performance during the first half of the year, net sales fell below the initially planned figures. However, operating income exceeded our projections, thereby resulting in a decrease in sales and increase in profits, resembling the results posted for the previous term. There were no new stores opened or closed during the period, so the total number of stores remained at 40, as was originally planned.

We know that the outlook for the second half of the year isn't exactly promising, as was the case last year. We scaled our plan downward in the Arcade Operation business for the full fiscal year, considering the fact that price cuts in video game consoles may potentially cause the industry to lose customers to the Home Video Game market.

Countermeasures to be taken in the second half of the year include examining our capital investments, curbing labor costs by reviewing personnel distribution, and by closing unprofitable stores. These measures will help us to successfully and thoroughly reduce costs. Capcom will also try to distinguish itself from competitors by launching a Capcom in-house arcade game machine “Mario Party - Fushigi no Korokoro Catcher,” on a priority basis. Initially net sales for existing stores were expected to be 93% of the previous term. However, considering the developments of the first half year, we revised this figure to 87%.

Our goal for this full year period is to reduce net sales by JPY 1 billion from our initial plan, while using the increases for the first half year to raise operating income increased by JPY 100 million. As always, we shall continuously strive to ensure profits.

### **P.11-12 Arcade Games Sales Business**

Next, I would like to describe how the Arcade Games Sales business has fared during the first of the year.

As was the case with the Arcade Operation business, it was pretty much an uphill battle for this business during the first half of the fiscal year.

No new arcade video game machines were released during the first half of the fiscal year, so we recorded a loss. However, this was expected due to preexisting fixed costs. Moreover, after reviewing the assignment of jobs for development and sales staff within the company, we went ahead and reorganized our sales division in the first half of the year. In regards to game machine sales, repeat product sales enabled us to sell 170 units. Therefore, both net sales and operating income largely succeeded in reaching their initially planned figures. The reason that we recorded a significant drop in sales and profits, when compared to the previous term, is that last year we launched the arcade video game machine “Street Fighter IV”.

Falling demand and worsening market conditions lead us to readjust the sales volume of the second half for “Mario Party - Fushigi no Korokoro Catcher”. As a result, we scaled down our plan for the full fiscal year.

Nevertheless, Capcom intends to expand the sales of “Mario Party - Fushigi no Korokoro Catcher” by collaborating with NAMCO BANDAI Games Inc. We will also continue to work with NAMCO BANDAI Games and discuss ways to fully utilize the resources of both companies, not only in sales divisions, but also in development.

In addition to considering measures for restructuring our sales division, Capcom is moving forward with a plan to combine our Arcade Games Sales and Arcade Operation businesses. We intend to carry out this plan during second half of the fiscal year. As for our sales plan, we expect to sell a total of 280 units for the full fiscal year, including the new medal game machine “Mario Party - Fushigi no Korokoro Catcher,” which is scheduled to be launched during the second half year.

In our plan for the full fiscal year, we expect net sales and operating income to fall short of initial projections by JPY 1.8 billion and 0.9 billion, respectively. Although we will experience a significant drop in sales and profits compared with the previous term, the main cause for this is the lack of arcade video game machines.

### **P. 13-14 Contents Expansion business**

Next I will discuss the results of our Contents Expansion business.

In our Pachinko & Pachislo business, we launched our 2nd in-house game machine “Vampire.” Unfortunately only 1,100 units were sold, thus falling below the figures we predicted. As a result, the Pachinko & Pachislo business had a negative effect on the overall performance of the Contents Expansion business, and ultimately put us in the red.

The Mobile Contents business proceeded mostly as planned, with “Apollo Justice: Ace Attorney” and other products being digitally distributed in Japan.

As a part of our “Multiple Platforms” strategy, for existing brands Capcom is currently using an efficient horizontal development, distributing popular company series such as “Resident Evil: Degeneration” and “Resident Evil 4” to iPhone users.

Looking at the business performance for the first half of the fiscal year, both net sales and operating income failed to meet their projections. But as mentioned before, this was because of the sluggish sales in the Pachinko & Pachislo business. The reason operating income fell from the previous term is because we outsourced the development of “Resident Evil” for the Pachinko & Pachislo business during the previous term.

In the second half of this year, we shall review the lineup of game titles in the Pachinko & Pachislo business, and narrow down our new game machines to a single model. At the very least, this should enable us to achieve our sales plan.

Furthermore, in order to solve current problems with our sales system, the company is considering forming business alliances with major sales companies. These partnerships will enable us to enhance our sales system and improve product quality.

In addition, we shall merge the development division of our group company Enterprise Co., Ltd. with Capcom’s own development division. The purpose of combining these divisions is to collectively develop new game machines, thereby integrating expertise and improve development capability.

Likewise, we shall resume subcontracting of the game titles development and strive to hedge risks in earnings. We plan to start delivering one subcontracted game machine model during the second half of the year.

In our Mobile Contents business, we shall continue to utilize our content and develop casual games for Japanese and overseas carriers. This will allow us to further expand titles, such as the “Monster Hunter” series, “Ace Attorney” series and “Are You Smarter than a 5th Grader?”

We also plan to create new games, such as “Ghosts 'n Goblins” for iPhone users, with the aim of continuing to quickly obtain development knowledge by swiftly adapting to new terminals.

We scaled down our performance plan for the Contents Expansion business for the full fiscal year due to poor performance of the Pachinko & Pachislo business in the first half. We also lowered projections for our net sales and operating income from their initial projections, by JPY 3.7 billion and JPY 1.4 billion respectively. Because of the rising sales of game machines in the Pachinko & Pachislo business from the previous term, we expect to see increases both in sales and profit compared with the previous term.

#### **P.15 Business Forecast for the Year ending March 31, 2010**

Turning our attention to the overall business performance for the year ending March 31, 2010, our plan for the full fiscal year remains the same. Although we anticipate operating income to improve in the Home Video Game business and the Arcade Operation business, we expect other business will offset these positive effects. We predict our net sales to finish at JPY 95 billion, operating income at JPY 15.5 billion, ordinary income at JPY 14.7 billion, and net income at JPY 8.5 billion, with net income per share standing at JPY 139.31. In regards to dividends, our interim dividend will be 15 yen, and the year-end dividend will be 20 yen, totaling 35 yen for the year.

While the price-cut for video game consoles in each region will help move our sales towards profitability in the second half, competition with rival companies will be fiercer than ever. Capcom will work as one towards achieving our goals. We deeply appreciate your continued advice and support.

This concludes my explanation of the financial results for the second quarter of the fiscal year ending March 31, 2010.