

Growing steadily in the industry said to be “recession-proof”.

It has been said that the world economy is currently facing a “once-in-a-century” recession. Although video games, which can be enjoyed at home, are known to be “relatively safe” from the effects of an economic slowdown, a prolonged recession can be a source of concern for our business performance. During such a period, the talent of the executives is what makes the difference. Capcom will continue to establish a solid management base and grow a business that will withstand economic ups and downs.

A photograph of two men in dark pinstriped suits standing on a staircase. The man on the left is older, wearing glasses and a patterned tie. The man on the right is younger, wearing a blue striped tie. They are both smiling slightly. The background shows the stone steps and a glass railing of the staircase.

辻本憲三

Kenzo Tsujimoto

Chairman and Chief Executive
Officer (CEO)

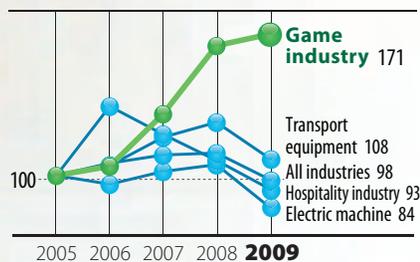
辻本春弘

Haruhiro Tsujimoto

President and Chief
Operating Officer (COO)

Net Sales Growth Rate of Japanese Industries

The game industry has marked a high rate of growth compared to other industries.



Net sales growth rate by counting 2005 as 100
 Source: Ministry of Finance "Financial Statements Statistics of Corporations by Industry, Annually"
 Game industry version was created by Capcom based on listed game manufacturers' brief announcement of financial results.
 (YEARS ENDED MARCH 31)

**Limited effect of the economic downturn on the video game market as a whole —
 Winners in the industry emerging clearly**

Following the financial crisis in the United States, the world economy saw an unparalleled recession during this fiscal year. This has impacted various industries in number of ways: Equipment investment has cooled significantly, and exports decreased along with plunging stock prices, the continued appreciation of the yen and worsening employment numbers.

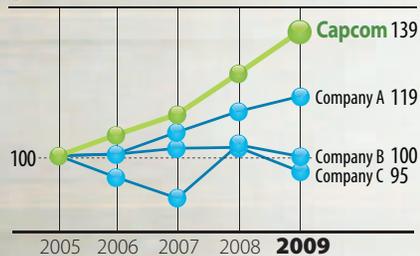
Nevertheless, the home video game market was worth 26,900 million dollars (up 11.2% from the previous year) in 2008 and continued to grow for the third consecutive year without feeling the effect of the recession. There are three reasons why the video game market has steadily grown and is considered to be one of the "defensive stocks" (a type of business resistant to a recession). First, the core users tend to purchase their favorite video games regardless of the economic conditions, which helps prop up the market. Secondly, consumers in general tend to avoid luxury items or expensive entertainment and vacations during tough economic times. Instead, they tend to stay home to "nest" and enjoy inexpensive entertainment products such as home video games. Lastly, home video game consoles are remodeled and launched every four to six years. The sales of video games tend to increase during the in-between period, in which the year 2008 was, in accordance with the consoles' popularity.

However, as a negative effect of the economy, we have seen electronics or toy retailers cutting back on their orders of home video games as they struggle with financing. These retailers cut back on the number of titles or units they order to secure their cash flow and reduce the size of their inventory to improve its turnover. Furthermore, they avoid casual titles, which tend to be "sleepers" rather than blockbusters. These factors have had an effect on software manufactures and, as a result, winners are now beginning to emerge clearly leaving others behind.

Nonetheless, the effect of the economy on this market as a whole is limited and the forecast is that the home video game market will continue its robust growth supported due to enthusiastic demand from its users.

Net Sales Growth Rate of Japanese Game Manufacturers

Capcom has marked steady growth since 2005.



Net sales growth rate by counting 2005 as 100
 Source: Created by Capcom based on listed game manufacturers' brief announcement of financial results.
 (YEARS ENDED MARCH 31)

**Yielding favorable results by taking advantage of our three strengths
 Our goal: Continued Steady Growth**

In the home video game market that continues its growth despite this bleak economic time, we have been able to steadily grow by taking advantage of our strengths. Our three strengths are: 1. We have many global million-selling titles and popular characters; 2. World-class development and technical capabilities that generate original gaming content; 3. Strong overseas marketing capabilities based on the local sales structure that fully takes into account local business practice. (See p.17 "Our Strategy for Growth" for more details) In fact, we have had a phenomenal fiscal year and produced three big hits that each shipped more than 2 million units.

Although, similar to any other export company, due to our high ratio of overseas sales, our operating income decreased by 600 million yen because of the strong yen; robust sales were more than enough to supplement the loss.

As you can see, we have achieved very favorable results in this fiscal year and also forecast an increase in both sales and profit. However, this is not the time to rest on our laurels. Rather, we will continue to build a solid management base by promoting organizational reform to address changes in our environment and enhancing our information system to take our company to the next level. We are fully aware of the fact that the direction we take during tough economic times will define our growth in the future. As CEO and COO, we will diligently carry out our duties in management and business operations, respectively, to manage the company rationally as well as efficiently.

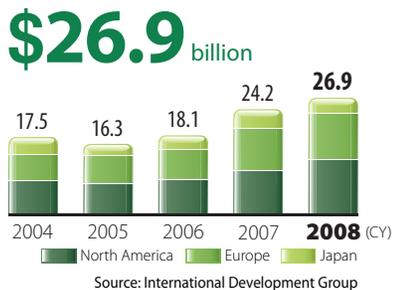
We will strive to continue to grow 10% annually by producing business results based on the results of the management structural reform.

The home video game market continues to expand during this global economic crisis. Even in this “recession-proof” industry, Capcom capitalized on its unique strengths and recorded an increase in both sales and profit for the third consecutive fiscal year. This was undoubtedly the result of our structural reform that has been carried out, though not without some pain, since 2002. Here, Chairman and CEO, Kenzo Tsujimoto will discuss the company’s overall performance during the current fiscal year and answer questions regarding its management plan, medium- and long-term goals as well as its financial policies. It is our hope that these questions and answers will be helpful in your gaining a deeper understanding of how the company is managed.



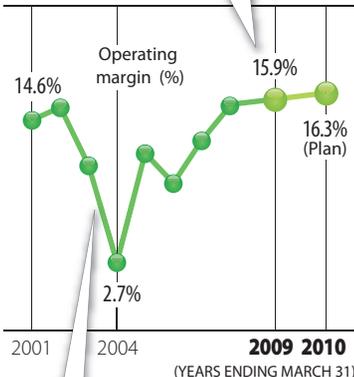
Kenzo Tsujimoto
Chairman and Chief Executive
Officer (CEO)

Game Software Markets (\$ Billion)



Structural Reform and Improvement of Management Efficiency

- Increase in our overseas sales ratio
- Production of four million-selling titles within a year



- Structural reform**
- Concentration of our management resources
 - Reform of our software development structure
 - Reform of our marketing/sales structure

Q.1 What is the reason why Capcom continues to grow steadily while many companies struggle due to this global economic slowdown?

A. It is because we implemented a structural reform to establish a solid management base that resists and minimizes the influence from the outside environment.

There are two major reasons why we were able to achieve an increase in both sales and profit during this global economic crisis. One is that the video game industry is relatively resistant to recession. (See p.9 “To Our Shareholders” for more details) The other reason is that we have been carrying out a structural reform since 2002 to establish a solid management base that resists and minimizes the influence from the outside environment, such as economic climate change. Here, I would like to elaborate on the latter.

As we expected that the costs for developing software for the next-generation consoles would skyrocket and the overseas market would experience a sudden and rapid growth, we have been implementing in preparation a structural reform centered around “establishing a solid financial base” and “reinforcing the development, sales and marketing structure” to realize medium- and long-term growth.

During the fiscal year 2003 ended in March, in order to establish a solid financial base, we have posted an appraisal loss on lands and buildings of 24,300 million yen and dissolved a financing subsidiary company so as to pursue aggressively the improvement of our balance sheet and accelerate the amalgamation of our management resources. Furthermore, due to the development of the discontinuation of unprofitable titles, we posted a loss of 5,300 million yen. As a result of implementing these measures accompanied by some pain, the final account for the fiscal year 2003 was 19,600 million yen while the fiscal year 2004 regrettably saw a net loss of 9,200 million yen.

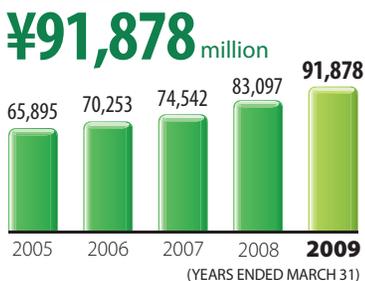
On the other hand, we pushed for a reform on the development, sales and marketing structure to secure our position of superior competitiveness. In the development department, the authority to make major decisions that determine the success or failure of a title such as selecting the compatible console, the regions to release the title, the timing of the release as well as budget setting was transferred from the producer to the management, which approves and makes the final decisions on these issues. The medium- and long-term development plan called “Title Portfolio”, mapping out a 60-month title development plan, helps us manage all titles on a timeline.

We have also begun a management reform of our overseas subsidiaries. The overseas video game market accounts for more than 80% of the global market. It is therefore crucial to expand our overseas market share now if we are to continue to grow in the future. First, our subsidiary in the United States has gone through a drastic personnel change in management, established a much more detailed marketing plan and switched from indirect sales via local distributors to direct sales by our subsidiary. As a result of these measures, we have succeeded in significantly reducing unprofitable titles and expanding sales in the overseas market. We have also produced three million-selling titles each period and recorded favorable results. In the future, we will strive to repeat the results in the United States, and carry out a management reform of our local subsidiaries in Europe as well as in Asia in pursuit of even better profitability.

Q.2 What are some key points in your business results for this fiscal year?

A. Our net sales rose by 10.6% while operating income rose by 11.4%. Our net sales, especially, was the biggest ever. The reason why we were able to achieve an increase in both sales and profit for the third consecutive fiscal year is that the all out effort put into the structural reform is coming to fruition.

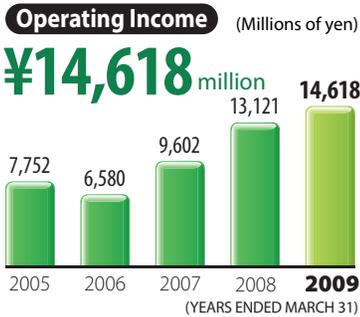
Net Sales (Millions of yen)



1. Market Environment

The home video game market in 2008 was worth 26,900 million dollars (up 11.2% from the previous year) and grew for the third consecutive year, mainly overseas.

This is due to (1) Approximately three years have passed since game console (hardware) manufacturers launched their new models, which is enough time for these consoles to be commonplace; (2) Software manufactures released many top-quality titles; (3) Newly established game markets such as Southern and Eastern Europe and Australia are growing steadily; and (4) While Wii and Nintendo DS have attracted casual users, PLAYSTATION®3 and Xbox 360 increased their core users, which resulted in an increase in the general gaming population. These three factors, — increase in the number of consoles (hardware), titles (software) and gaming population (users) — I believe, were the driving force behind the market expansion.



2. Actions Taken So Far

We have been implementing a structural reform (see Q1 for more details) since 2002 based on the belief that the video game market was about to expand. This reform then paved the way for our company to grow steadily.

To address the soaring costs of software development for the next-generation consoles, we shifted our strategy. Instead of choosing one specific console for which to develop software, we have decided to develop more profitable multi-platform software. Our own integrated software development environment, "MT Framework" made it possible to develop multi-platform video games efficiently while cutting costs. Furthermore, we have switched the sales structure overseas from indirect to direct to strengthen our sales network.

In the end, we succeeded in building a structure in which "high-quality products" are produced with "reasonable development costs" and offered to the public through our "global sales network".

3. Summary of Sales and Business Results in This Fiscal Year

In this fiscal year, our Home Video Games Business demonstrated the strength of the brand of two titles popular overseas. The much-awaited release of one of our major titles, "Resident Evil 5", at the end of the fiscal year was a huge success, with its initial shipping exceeding 4 million units worldwide while "Street Fighter IV" sold more than 2 million units. "Monster Hunter Freedom Unite", released at the end of the previous term also continued to do well as we released an inexpensive version this term to attract new users. It can be said that our achievement dominated the market.

However, the Arcade Operations market continued to move sluggishly as the distinction between arcade games and home video games became more and more blurred and there were not enough popular game machines to drive the market.

Furthermore, we continued to build a multi-faceted content-related business by creating a synergy effect with our video games. For example, a Hollywood film based on our popular video game "Street Fighter: The Legend of Chun-Li" was released worldwide, while, in collaboration with the Takarazuka Revue Company, a musical "Phoenix Wright : Ace Attorney-The Truth Comes back to Life" was staged.

We also wanted to select and amalgamate our management resources. To this end, we have founded a subsidiary Capcom Entertainment France SAS, which is our third European base, through our British subsidiary in order to accelerate our business expansion in the overseas market, which still has ample room to grow. Also, in order to cope with changes in market environment, we withdrew from the unprofitable sales of rechargers for cellular phones and made bold investment towards establishing new business segments.

I would also like to add that the remainder (14,993 million yen) of the fifth unsecured convertible bond, which matured in March, 2009, has now been paid back in full.

As a result, though the effect of the strong yen was indeed felt, our net sales reached 91,878 million yen (up 10.6% from the previous year), our best ever. As for the profits, operating income increased to 14,618 million yen (up 11.4% from the previous year) while ordinary income reached 13,808 million yen (up 12.6% from the previous year), which resulted in a net income of 8,063 million yen (up 3.3% from the previous year). Despite the global economic downturn, Capcom was able to record an increase in both sales and profit for the third consecutive year. (See p.25 "Overview of Capcom's Business and Outlook for the Future" for more details)

Q.3 We are not seeing the signs of economic recovery yet. Do you think you will be able to produce favorable results yet again in the next fiscal year?

A. Our goal is to finish the next fiscal year with an increase in both sales and profit for the fourth consecutive year by expanding our share in the overseas market and creating new businesses. Our ultimate goal is to record the best net sales and operating income ever.

Forecast for the Next Fiscal Year

	2009 (Millions of yen)	2010 Plan (Millions of yen)	Growth rate (%)
Net sales	91,878	95,000	3.4
Operating income	14,618	15,500	6.0
Net income	8,063	8,500	5.4

(YEARS ENDING MARCH 31)

1. Market Outlook

Although the home video game market is relatively recession-proof, if this downtrend in consumption drags on, it will be very difficult not to be affected by it. However, the overseas market, especially in Europe and in North America, is expected to see an increase in the number of users and new game consoles that will most likely continue to proliferate. For this reason, we expect the video game market to continue to grow and reach 27,600 million dollars (up 2.6% from the previous year) in size in the fiscal year 2009. (See p.25 "Overview of Capcom's Business and Outlook for the Future" for more details)

2. Strategy for the Next Fiscal Year

Our company is constantly looking to develop unique and attractive original titles, strengthen our existing series and discover new genres. Our Title Portfolio, mapping out a 60-month title development plan,

offers a point of view based on medium- and long-term goals and serves as the basis for our plan for expanding and improving the Development Department.

We also aim to capitalize on “numerous global million-selling titles and popular characters” and achieve a sales ratio that is proportionate to the market size (5:3:2 for North America, Europe and Japan). However, to achieve such a sales ratio, it is indispensable to expand our market share in both Europe and North America. To this end, three departments, Development, Sales and Marketing, will collaborate as one to develop and release games that respond to the needs of the local users and increase customer satisfaction. We are also going to improve our company’s name recognition and corporate image as well as the added value of our products through promotion activities that take market trends into consideration and mixed media marketing such as tie-ups with movies and TV programs. (See p.17 “Our Strategy for Growth” for more details)

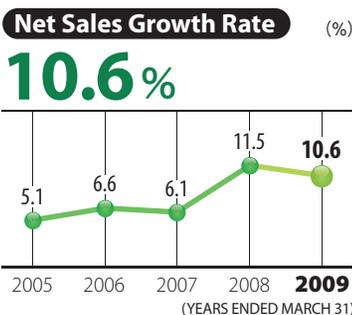
3. Business Results Forecast

During the next fiscal year, we will release many popular titles for the home video game market while concentrating our effort on our own frame business in the Pachinko & Pachislo market. As a result, our net sales is forecasted to reach 95,000 million yen (up 3.4% from the previous year) while operating income is forecasted to reach 15,500 million yen (up 6.0% from the previous year). We are expecting to see an increase in both sales and profit for the fourth consecutive year and to record the best net sales and operating income ever.

Medium- and Long-Term Goals

Medium- and Long-Term Business Goal

- Maintain an annual sales growth rate of **10%**
- Achieve an operating margin of **15%**



Q.4 What is the ultimate corporate image that Capcom strives to represent? Also, what are its medium- and long-term business goals?

A. As a comprehensive entertainment company with multi-faceted content development, our goal is to “maintain an annual sales growth rate of 10%” and to “achieve an operating margin of 15%”, and to reach a 5% market share in each market.

1. Corporate Philosophy and the Direction of the Management

Our corporate philosophy is to create entertainment culture through the development of highly creative software contents that excite our customers and stimulate their senses.

To realize this, our world-class R&D capabilities will serve as the basis for delivering globally popular titles and a multitude of content brimming with creativity. Furthermore, by developing our content further for various facets of the entertainment industry, we will be able to get more exposure and expand our fan base. A comprehensive entertainment company demonstrating steady growth and having a commanding presence in every business line we are involved in... That is the ideal we will continue to pursue.

2. Medium- and Long-term Business Goals

To achieve the goals mentioned above, Capcom has set two clear business targets: “maintain an annual sales growth rate of 10%” and “achieve an operating margin of 15%”.

So far, we have made very steady progress, which we believe is the result of actions taken as part our structural reform such as “strict cost and schedule management” and “development and sales strategies that take medium- and long-term results into account”. (See Q1 for more details)

3. Medium- and Long-term Strategies

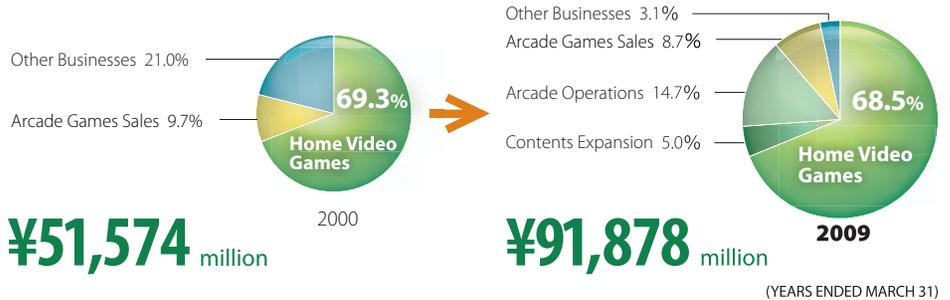
In order to continue to grow as a company, we believe that it is essential to increase our sales volume in the large overseas market with ample room for growth. For us to realize this, in addition to further strengthening our development capabilities and improving our product line-up, we will need to enhance and improve our overseas sales structure. Although we have succeeded in reinforcing our sales network in North America in the past several years, further effort is required in Europe, which is one of the three major markets. During this fiscal year, we have established a local subsidiary in France, our third after the one in the Great Britain and another in Germany.

These three countries account for 60% of the European market. We feel that, aggressively promoting the shift to direct sales structure in these countries will result in an increased profit, especially in European region, in the next fiscal year and beyond.

Another crucial strategy is “Single Content Multiple Usage”, which secures multi-faceted earning opportunities. As you can see on the folded page of this publication’s title page showing the marketing strategy for “Monster Hunter”, Capcom maximizes the profitability of single gaming content for the entire group by adapting our game content to other entertainment businesses. Creating new hit titles, therefore,

will bring about an increased profit not only for our Home Video Games Business, but for other branches. Moreover, as I mentioned in Q3, firmly implementing these strategies requires a solid management base on which pillars of our businesses are built. Instead of being too satisfied with our past results, we will further establish the separation between management and operations and continue to review our personnel organization. We will also push further with our management reform by, for example, introducing a new system to better understand global information and data. We will strive to achieve our medium- and long-term business targets based on these strategies.

Changes in Business Portfolio



Our Views on M&A

Q.5 We have seen game software manufacturers acquiring their competitors across the globe. What are your thoughts?

A. We will be actively pursuing friendly acquisitions and partnerships to gain creative gaming content, technologies and know-how.

1. Our Philosophy on Acquisitions and Partnerships

Capcom's stable future growth depends on whether we can increase our sales overseas whose significant home video game software market still has ample room for growth. Acquisitions and partnerships are part of our major strategies to realize this goal. We are actively pursuing acquisitions and partnerships that will allow us to "create gaming content with universal market appeal" and "gain technologies and know-how required for Single Content Multiple Usage". However, we have no plans to merge with any major Japanese video game publishers or toy manufacturers in the foreseeable future since it is unlikely to contribute to sales expansion overseas. Such a merger could also restrict our licensing business opportunities.

We also have no plans for Take Over Bid (TOB) as we understand that the human resources that create content are the most important assets in the entertainment industry. With TOB, it is possible that the value of the acquired company will be drastically reduced as a result of its employees leaving. We believe that choosing a partner company that complements our strengths leads to a successful acquisition and contributes to the growth of our business. Our first objective, therefore, would be to match our needs with theirs by forming a partnership.

2. Aims of Acquisitions and Partnerships During This Fiscal Year and Their Effects

Over this fiscal year, our domestic development lines were strengthened by making K2 Co., Ltd.,* which has had a business partnership with Capcom, a wholly owned subsidiary. Meanwhile, collaboration with local development companies, such as Monumental Games, boosted software development overseas.

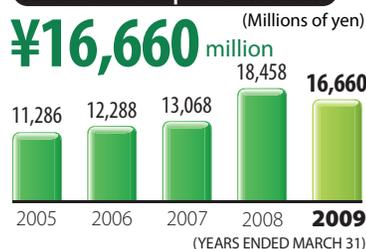
In addition, Enterrise CO., LTD. with whom we have had a close partnership developing and manufacturing devices for Pachislo machines, became our subsidiary when we purchased 90% of all issued stocks. Putting together their development capabilities to develop main substrates (winning-occurrence control program) and our development capabilities to develop sub-substrates (LCD imaging program) will allow us to maximize our profit and propel forward our "Single Content Multiple Usage" strategy.

We have already been able to capitalize on our strengths as well as theirs while producing three new machines to be launched during the next fiscal year, and we at Capcom are estimating that the effect of this acquisition will show soon thereafter.

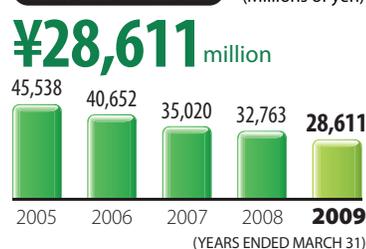
* K2 Co., Ltd. became a wholly owned subsidiary of Capcom this fiscal year, though announcement of its acquisition was made in the last fiscal year.

Capital Policies

Amount of Development Investment

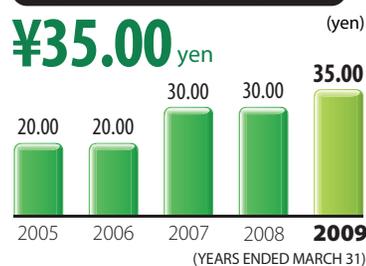


Cash and securities

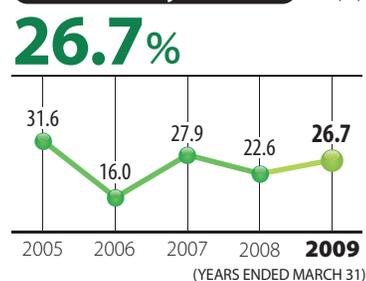


Returning Profit to Shareholders

Cash Dividends Applicable to the Year Per Share



Dividend Payout Ratio



Q.6 Equity financing seems to be declining worldwide. What are your methods and views on financing?

A. Our policy is to raise funds mostly by debt financing within a commitment line.

To achieve stable growth over the medium- to long-term, we are devising and implementing growth strategies in each of our business lines. The home video game market is now welcoming the harvest season as it continues to expand. In this market, it is our priority to secure sufficient investment. Furthermore, a certain amount of investment will be required if we are to nurture our next core businesses such as Pachinko & Pachislo and Mobile Content.

Major titles for home video games require more than two years of development time and it takes some time before we recover our investment. We, therefore, need to maintain a certain level of cash and cash equivalents. Also, we need to consider the risk of not recovering all accounts receivable as well as other accrued income due to difficult financing situations across the globe.

To address the financing issues, we will determine the level of cash and cash equivalents that needs to be maintained by using the reserve from the investment plan and risk management. This amount will then be supplemented with the cash on hand (28,600 million yen) as well as a 10,000 million yen commitment line of credit so as to maintain it within an appropriate range. We will continue with our financial strategy to raise funds mainly through debt financing within the commitment line for a period of time, while paying close attention to changes in the financial market.

Q.7 Are you planning on raising the dividend?

A. We will continue to pay stable dividends while making business investment our priority.

1. Fundamental Principle on Dividends

One of our management priorities is to pass on profits to all shareholders. Our fundamental principle is to provide stable and continuous dividends while taking into account our financial strength and future business strategies.

2. Views on Allocation of the Result of Business Investment (Ratio among dividends, internal reserve, etc.)

As I mentioned in Q6, we believe that now is the time to invest in our future growth.

For this reason, we feel that the free cash flow generated by businesses during this fiscal year should be first and foremost allocated to business investment while keeping our future in focus.

Therefore, our shareholders will continue to receive stable dividends while we increase our corporate value by growing as a company aided by new investment.

3. Dividends for This Fiscal Year and the Next

For the dividends for the this fiscal year, we added 5 yen to our ordinary dividend set at 30 yen, making it 35 yen, as an expression of our deep gratitude towards the support of our shareholders over the years and to celebrate our 25th anniversary. The dividend ratio was at 26.7%.

For the dividends for the next fiscal year, thanks to our strategies for growth and the resulting steady profit growth, the annual dividend will be 35 yen, 5 yen more than our ordinary dividend this year. We will continue to strengthen our profit return through strategies such as payback and gradually raising dividends proportionally to our profit growth while always securing investment resources.

I would like to express my gratitude to you as shareholders for your encouragement and guidance. We will continue to strive to be worthy of your continued support.