

**Explanatory Summary of Financial Results Briefing  
of the Full Year Results for FY2009  
by President and Chief Operating Officer Haruhiro Tsujimoto  
(May 10, 2010)**

I would like to explain Capcom's business strategies and plans for the fiscal year ending March 31, 2011.

**P.3-6 Capcom's growth strategy**

The first thing I would like to address is our growth strategy for the future. Some of our shareholders have voiced their concerns about our mid- to long-term growth in light of the downward revision of our earnings in the previous fis

cal year and recent changes in the economic environment. However, Capcom aims for continued growth in the future by implementing the following two strategies.

Our first strategy is "to enrich product lineup by streamlining and restructuring our product development process". We have already finished reworking our development system in Japan, and our new system went into operation this fiscal year. Specifically, we plan to implement the following measures: 1) revise our personnel distribution, and 2) shorten our product development-to-release cycle by actively using the services of other video game development companies. In addition, we also seek to expand our entire product line by launching new brands as well as revitalizing our existing assets. We also plan to improve our partnership model with overseas developers. In the future we will avoid outsourcing the production of entire projects, and instead will start delegating only part of the production. We endeavor to maintain high-quality products by working closely with these companies, but Capcom's product development divisions will oversee everything.

The second strategy is "to strengthen our business for online gaming, which is an industry with high growth potential". To start, we plan to bolster the business operations of our PC online games in Asia. Capcom has already started operations in Japan, Taiwan and South Korea, so we will increase the number of available online game titles in the coming years, while examining the potential of entering the Chinese market. Next, we will increase the number of downloadable contents for home video games. We aim to maximize our sales volume by also focusing on digital distribution and the sales of additional contents, combined with our conventional packaged sales. In the mobile market, we plan to increase the number of game titles available for smartphones by distributing games that target hardcore gamers (games which we excel at producing), as well as games for casual gamers in the North American market. Moreover, we will employ the same multi-platform approach towards mobile phones that we have adopted for home video game software.

Moving on, I would like to discuss the net sales trends for Capcom's online content. The figure in the handout indicates total net sales of downloadable content and digital distributions in "PC Online Games Business", "Mobile Content Business", and "Home Video Games Business". As you can see from the chart, total sales for the year ended March 2009 were around 7 billion yen, while in the previous year sales stood at nearly 10 billion yen. Our sales target for this fiscal year is about 11 billion yen. This industry is steadily growing, so the company would like to actively invest our management resources in this field because we can expect continued growth in the future.

#### **P.7-8 Comparison of the old and new business segments**

Next I would like to touch upon Capcom's current situation by examining each business segment.

In this fiscal term, due to changes in accounting standards the company reclassified our business categories. We separated the Mobile Content Business from the Contents Expansion Business, and combined the Arcade Games Sales Business and the Pachinko & Pachislo Business to form the Amusement Equipments Business. Capcom considers the Consumer Online Games Business and Mobile Content Business to be a "growing business area" for the future, and we plan allocate 85% of our management resources to this particular business. The company regards the other three businesses as "stable businesses", and intends to distribute 15% of our management resources among these three.

#### **P.9-19 The Consumer Online Games Business**

Let me begin by examining the market size trends for packaged home video game software. According to IDG, in 2010 the market is expected to shrink to 92% of the 2009 level. We believe the reasons for this drop are as follows: 1) the global recession has made consumers reluctant to buy products, 2) sales channels, including expansion of digital distributions, have become even more diversified. However, Capcom forecasts the total volume of the packaged software market and the digital distribution market will remain even with the levels from the previous year.

Next, I would like to look at the market size for PC online games.

The Asian market, especially the Chinese market, has been rapidly growing since 2006, and the South Korean market is also doing well. These trends lead us to believe that the PC online games market will continue to expand in the years to come.

Capcom ranked 6th in market share in 2009, falling from 4th the previous year. The reason for our drop in the rankings was that our sales in the Japanese market remained unchanged from the previous year, while the market in Japan grew slightly to 103.7% of the FY 2008 level. Though we suffered a setback in Japan, our rankings shot up significantly in foreign markets. Last year we ranked 10th in the North American market, up from 18th in FY 2008, and held a 2.55% share of the market share. In the European market, we ranked 12th in FY 2009, up from 20th in FY 2008, with our share of the market standing at 2.1%. This is largely because of the contribution made by big-hit titles such as “Street Fighter IV” and “Resident Evil 5”.

The next thing I would like to turn your attention to is our business strategy for the Consumer Online Games Business.

In order to realize our mid- to long-term goal of “achieving a 65% overseas net sales ratio” in the Consumer Online Games Business, we reorganized our operations and changed our business structure in preparation for the next five years. The company intends to promote a number of strategies, such as shortening the development-to-launch cycle, promoting overseas product development, expanding multi-platform applications, aggressively distributing downloadable contents, reinforcing our overseas marketing organizations and localization teams, and investing to develop new franchises. We intend to complement the above-mentioned strategies and facilitate our steady growth by moving forward with measures such as the “60 month map”, “expanding the range of applications for MT framework”, “hiring on new employees for our product development staff”, and “establishing a two-stage approval system”.

The next topic I would like to address concerns measures for the Consumer Online Games Business in the fiscal year ended March 2010.

We ran into two issues in the previous term. The first was postponing the release of big-hit titles. The release dates for our video game titles were predominantly scheduled for the fourth quarter, so starting from this fiscal year we are committing ourselves to the even launch of our game titles in each quarter. The second issue was the weak sales of titles we developed together with overseas developers. We determined that sluggish sales were caused by “the inadequacies of our subcontract management system, and our optimistic planning and coordination”. Thus, we will make sure our development divisions in Japan work closely together with overseas development companies in the future, as well as review ways to better use outside resources.

In addition, we just launched our Online Content Business during the last term. Sales for the Asian release of “Monster Hunter Frontier Online” for PC, and the sales of other downloadable contents for home video games such as “Resident Evil 5” and “Street Fighter IV” did fairly well. This represents the establishment of Capcom’s new business model, one made up of online games for personal computers and home video game consoles.

I'll now run through the sales of our major titles in the fiscal year ended March 2010.

Due to the postponement of major titles, the main source of our sales was the repeat sales of products such as "Monster Hunter Freedom Unite" and "Resident Evil 5". Of our new game titles, "Monster Hunter Tri-" was the first video game title for the Wii developed by a third party to sell one million units. Unfortunately though, "Bionic Commando" and "Resident Evil: The Darkside Chronicles" failed to reach our sales targets.

Looking at our strategy for the Consumer Online Games Business during this fiscal term, the first thing we plan to do is review our game development infrastructure. We aim to establish a healthy foundation for product development to help our businesses further expand. To do this, we aim to overhaul the product development infrastructure within Capcom and take advantage of outsourcing work to other developers. We won't rely solely on our in-house game development teams, but rather plan to introduce a "hybrid system". This system subdivides the entire process, and efficiently brings together the outsourcing of product development with our own in-house development. As a result, we will be able to shorten development periods for our leading game software, and increase the number of staple franchises we release within a single fiscal year.

In addition, Capcom intends to allocate 20-30% of our development investments to the creation of new brands, aiming to bolster our product lineup towards future growth while continuing to utilize our past resources. In this term, the company plans to reuse products that were well received in the past and revive those brands, such as "Marvel vs. Capcom 3" and "Okami-den".

We also examine the management methods of overseas video game developers. As I've stated before, the reason sales were sluggish for titles developed overseas was "our optimistic approach to managing companies to which we outsourced work". Although we haven't changed our basic policy of expanding the lineup of titles we develop that target gamers overseas, in the future we will try to blend Capcom's style with that of overseas development companies, focusing on outsourcing development work for existing Capcom video game series.

The next topic I would like to discuss is Capcom's business strategy for the Online Games Business.

Because there is no transition period in the online PC game market, and the fact that the bulk of our customers are in Asia, Capcom believes the online gaming market can complement the home video games market. Thus, we intend to channel our efforts into developing online gaming as a growth business.

Likewise, by capitalizing on the synergy effect from releasing "Monster Hunter Frontier Online" in Japan at the same time the Xbox 360 edition is released, we aim to enlarge both our user base and increase profits. For Asia, along with our operations in existing regions, we are also going to examine our potential in China. In regards to other titles, we are jointly developing "Mega Man Online" with the South Korean game publisher Neowiz Game.

Capcom is also working to enhance the online game capabilities of home video game software. The company seeks to keep its current video game users and ensure steady profits by selling additional downloadable contents, including contents for our leading titles in this fiscal term, "Super Street Fighter IV" and "Lost Planet 2". We believe these additional earnings will help us offset escalating development expenses and the decrease in retail prices.

The next topic I would like to address is Capcom's sales plan for our major titles in this fiscal year.

Our sales target this fiscal term for "Monster Hunter Freedom 3" is 3.6 million units. We expect "Dead Rising 2" to sell around 3 million units, but we have scaled back our sales for "Lost Planet 2" to 2.2 million to account for the current state of orders. We have set our sales target for "Marvel vs. Capom 3" at 2 million. As you can see, we expect to have an incredibly full lineup of titles, with two video games expected to sell two million units and two other games expected to sell three million units.

Now I will move on to the performance of the Consumer Online Games Business.

Net sales in the year ended March 2010 fell to 70.0% of the previous term, operating income dropped to 47.9%, and sales volume decreased to 12.5 million units. The chief reason for these downward trends was postponing the release of "Lost Planet 2" and "Super Street Fighter IV."

Our targets for the year ending March 2011 are as follows: 71.5 billion yen in net sales, 15.3 billion yen in operating income, an operating margin of 21.4%, 75 new title releases, and 20 million units in total sales volume.

The main reasons our forecasted profits are lower when compared with the fiscal year ended March 2009 can be attributed to the increasing marketing costs, and the rising development costs caused by the addition of various online functions and downloadable contents.

### **P.20-23 The Mobile Content Business**

Next, I would like to describe the current situation of our Mobile Content Business, which from this fiscal term will operate as an independent segment.

First of all, the spread of smartphones such as the iPhone has spurred the dramatic growth of the market. As sales of next generation mobile devices smoothly head into the future, the market is expected to expand globally at healthy rate through 2014.

Now I'd like to speak about Capcom's strategy this term for the Mobile Content Business.

Since last year the company has been vigorously developing video games for smartphone users, and the number of downloadable contents for our individual titles is increasing at good pace. Through the development of the "Visual Pad" system, which features our original technology, Capcom has earned a reputation for being a pioneer in this market. In this term we will continue to promote the development of video games for smartphones, primarily for iPhone and iPod Touch in Japan and overseas.

In addition, we also apply our "multiple platforms strategy" to mobile phones so we can flexibly cope with the diversification of terminals, just as we have been doing with home video games software. Likewise, we aim to boost video game sales and profits by coordinating the release dates for mobile contents with the launch of the corresponding home video game title, just like the way we launched "Street Fighter IV" for the iPhone.

We are also considering entering the social game market, which is enjoying tremendous success these days. The basic design is to add socializing functions to existing contents and create a system that allows game users to communicate as they play the game. Our goal is to stabilize earnings by using the continuous billing model.

In this term, we plan to achieve JPY 4 billion in net sales, 900 million yen in operating income, and an operating margin of 22.5%. Because this segment was recently reorganized, I would like to skip over the performance of this business in the previous term.

### **P.24-27 The Arcade Operations Business**

I would now like to describe our Arcade Operations Business.

The market for this business shrank considerably due to the continued economic slump and lack of popular arcade game machines in the previous term.

Although each company has sought to improve management efficiency by closing a large number of stores and cutting personnel, we think it will be incredibly difficult for this business to make a dramatic recovery.

To improve efficiency in business operations and secure profits, the company will continue its efforts to curb fixed costs and close unprofitable arcade stores.

Regarding our plan for opening and closing stores, we are planning to close one store this term, following the closing of two stores in the previous year. No new stores will be opened this year due to the market conditions. By the fiscal year ending March 2011, the total number of Capcom's arcade stores will be 37.

Our targets for the Arcade Operations Business are as follows: 11 billion yen in net sales, 600 million yen in operating income, and an operating margin of 5.5%, and achieving 97% of the previous year's level of like-for-like net sales. As you can see, though these figures indicate a slight drop, we still anticipate that exhaustively reducing costs will lead to an increase in profits.

#### **P.28-31 The Amusement Equipments Business**

The next topic I would like to draw your attention to is our Amusement Equipment Business.

This is the new business category we started this fiscal year, created by merging the former Arcade Games Sales Business and the Pachinko & Pachislo Business.

The first item I will discuss is the market scale of each business. Inextricably tied with the plunging arcade facility market, the size of the market for arcade games sales also shrank dramatically. Looking at the Pachinko & Pachislo market, a number of factors are causing the market to shrink, such as the sluggish conditions of the market, the decreasing number of pachinko parlors, and the fact that more customers now play one-yen pachinko.

Our business strategy this term for the Arcade Games Sales entails reviewing product development processes in an effort to stabilize our business performance and move back into the black. Regarding our sales targets for this term, we aim to sell 250 units of one medal game machine model. We didn't sell any arcade video game machines in the previous year, but are looking to sell 2,200 units of "Super Street Fighter IV" this term.

Because we recorded extraordinary losses for business restructuring expenses in the Pachinko & Pachislo Business, we will work to create a business structure that will steadily generate profits.

Also, as with our previous product "Viewtiful Joe", the company endeavors to improve sales networks and product quality. We will expand our entrusted business arena to stabilize our earnings.

Through these measures, we plan to achieve 5 billion yen in net sales, 1.2 billion yen in operating income, and secure an operating margin of 24% in the Amusement Equipment Business.

### **P.32-33 Other Businesses**

Now I will explain our strategies and plans for Other Businesses.

These businesses play a central role in Capcom's single-content-multi-use strategy, and we aim to enhance Capcom's brand value by primarily utilizing our video game character content. We will continue to strive to gain exposure by selling our character goods at around the same time as the release of home video game software, and creating films and screen images of our video games. These efforts will enable us to fully maximize our sales of game software. One specific example of our screen image production is the animated TV series "Sengoku BASARA 2", which is scheduled to begin being broadcast in July right at the time the latest game in the series is released. Looking at highly anticipated 3D movies, "Resident Evil: Afterlife" comes out in September 2010.

For this segment we expect 3.5 billion yen in net sales, 1 billion yen in operating income, and an operating margin of 28.6%.

### **P.34-35 Business performance forecast for the year ending March 31, 2011**

Lastly, I will discuss our business performance forecast for the year ending March 31, 2011.

In light of the anticipated V-shaped recovery in profits for our leading Consumer Online Games Business, we predict 95 billion yen in net sales, 15 billion yen in operating income, 14 billion yen in ordinary income, and 8 billion yen in net income.

Our net income per share will be 135.39 yen. With respect to dividends, our interim dividend will be 15 yen, and the year-end dividend will be 20 yen, totaling 35 yen for the year.

Once again Capcom will move forward together as one, and earnestly work to realize our goals this period. We greatly appreciate your continued advice and support.