

FY2006 Interim Financial Results Question and Answer Summary

Q. How many “Wantame Music Channel” units have been installed to date, and what is the daily monetary intake?

A. As of the end of October, we have installed 900 units. It is our plan to continue the installation of new units and by the end of the year, we hope to have 1,500 units installed. The current rate of intake per machine is a little under 10,000 yen per day.

Q. Please tell us the ratio of titles still in development for future fiscal periods targeted for each of the different hardware platforms.

A. The latter half of this fiscal period is going according to (the latter half of) the plan we previously created. If an issue arises with the plan and we are unable to follow it, we will balance the ratio so that all platforms will receive the same amount of support.

Q. Please tell us your impressions of the next-gen systems.

A. The Xbox 360 is still not widespread in Japan, however; overseas it has been well received. We believe for the future, the Xbox 360 will need to have sufficient connectability with the upcoming PC operating system (Vista). As for the PS3, the PS2 was very well established, and barring a few issues, we believe the PS3 will be very profitable this generation as well. Furthermore, we think that through its organizational prowess, the Sony Group will expand their overall market. This includes their movies and home electronics.

As for the Wii, we believe that much like the Nintendo DS, this system will give birth to creative and interesting games, and that will be the big selling point which propels this system.

We believe that another important piece of hardware for the future is the mobile phone. Once believed as a market where little profit was to be made, this particular area is precisely where the horizontal expansion of the market will originate. Currently, various end user needs are being examined and solutions are being worked out, and we see this branch of the industry and its sales ratios expanding in the years to come.

Q. After the Clover Studios management shakeup, Capcom lost many famous creative minds. What kind of impact do you think this will have on Capcom?

A.

- 1) Even if a famous creator is assigned to a title, there is no guarantee that the end product will make a profit. There are two contradictory ideas at work here, with one being controlling the cost of production and profits and the other being the pursuit of quality. As we are a company, the most important factor towards growth is the increase of profit. We don't think that people leaving a company is the right way to take responsibility, however, some of the persons felt the company might think that their capabilities could be explorable in a small company, not a large organization like us.
- 2) Given how titles are developed now, they are not the creation of a single brilliant creator. The most important thing when it comes to the development of next-gen games is teamwork among the various staff members, all of whom are specialists in their area of expertise. It's true that a special kind of creator who brings fresh ideas to games is needed, however, the success of a title is not based solely on one person alone.
- 3) One thing we would like to point out is that both “Dead Rising” and “Lost Planet” were created by producers and directors who had never been in those positions before these two titles. While some creators may have left, their departure has created the opportunity for a new generation of creators to blossom and grow.

Q. It seems that new producers are joining Capcom, however; there have been concerns as to whether they are well suited to the titles they are working on, and this in turn has produced other concerns. What are your opinions on this?

A.

- 1) While it is possible that looking at the creators individually one may think such issues may exist, the important thing to remember here is that the R&D staff as a whole is comprised of highly trained professionals. Furthermore, it can be taken that this was a very natural change and progression. Each creator is given their

share of chances and there is competition among the creators to try and leave their mark with what they are given. We're sure there are those in the group who are probably more suited to a smaller, independent developer as apposed to a large development house like Capcom, however, we feel it is good for people to move around and try working at different locations.

- 2) The fruition of a title's concept, quality control and other important items of that nature are overseen by the director. The producer is in charge of overseeing the results of a title as well as its overall direction, and the director oversees the actual development and direction of the title. This sort of distribution of responsibilities is a recent trend and has produced great results.

Q. At what prices is "Lost Planet" planned to be sold at overseas?

A. The current plan is to sell it in the same price range as "Dead Rising", which would be \$59 US Dollars, and £ 49 British Pounds.

Q. Please tell us about the timing of any sequels or special versions of "Lost Planet" that may be released.

A. To answer this would reveal our strategy for this title, so please understand our wish to not comment on this issue. Right now we would like to see the market reaction.

Q. With regard to the Arcade Operations, please tell us your predictions and what trends you see within the market.

A. We have opened 6 arcade facilities as per our plan for this fiscal period. We plan to close a few of the weaker stores, and to improve the stores which are showing strong returns. To this end, we are planning to close 3 stores this fiscal period. Please be aware that due to some newly revised zoning laws that have taken effect, the number of new stores in large malls have dropped. This means that while we will continue to maintain stores in large malls, we also plan to increase the number of independent roadside facilities we open. Furthermore, we are conducting research into other business conditions under which we can open more stores. We believe it is necessary to look into other options and business techniques for the long term.

Q. Please tell us about the research and development staff and any trends you see.

A. The number of people applying as mid-career recruits is increasing. As of this moment, we have around 800 people in the research and development staff, which includes full-time company employees and contracted employees. The number of employees remains fairly consistent on average. Also, if we consider other factors such as efficiency and outsource companies that we employ then the actual number of people we employ fluctuates. From a short-term perspective, the departments that will increase in size will probably be teams such as the arcade games development team and the online games team.

Q. What is your prediction of software sales for the next fiscal period?

A. We are still in the process of calculating that, and as such it is difficult for me to go into specifics. However, we can say we think that a larger portion of our sales will be from our Best Price titles as well as the sales of our online games. We are also thinking of aggressively releasing more PC versions of our titles.