



# CAPCOM

Year Ended March 31, 2006



## Annual Report 2006



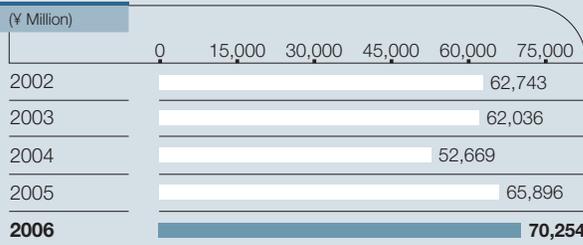
CAPCOM CO., LTD. AND ITS CONSOLIDATED SUBSIDIARIES  
YEARS ENDED MARCH 31

Financial Index

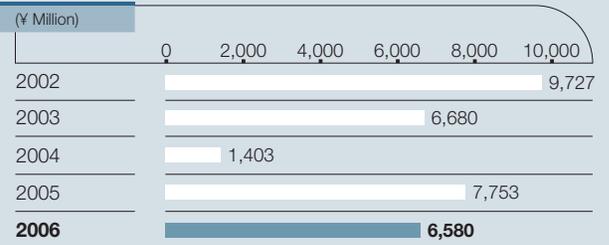
	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Net sales	¥ 70,254	¥ 65,896	\$ 600,462
Operating income	6,580	7,753	56,239
Net income	6,941	3,622	59,325
Total assets	98,457	106,361	841,513
Total shareholders' equity	39,464	32,491	337,299
	Yen		U.S. dollars
Net income per share	¥ 125.19	¥ 63.37	\$ 1.07
Cash dividends applicable to the year per share	20.00	20.00	0.17
Shareholders' equity per share	716.91	589.99	6.13
	%		%
ROE	19.3	11.3	19.3
ROA	6.8	3.6	6.8

Note: U.S. dollar amounts are translated from yen at the rate of ¥117=US\$1, the approximate exchange rate prevailing on the Tokyo Foreign Exchange Market on March 31, 2006.

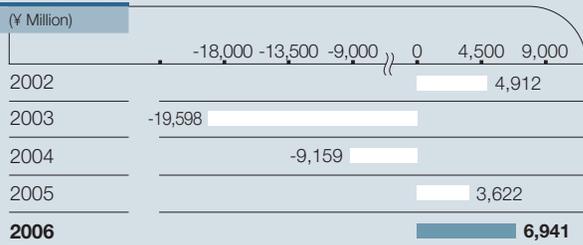
Net sales



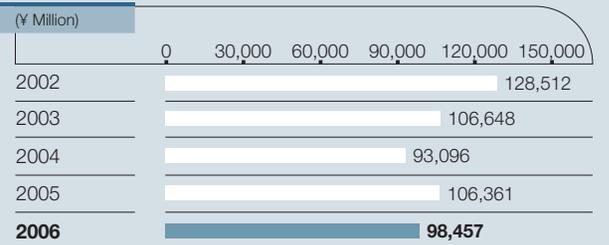
Operating income



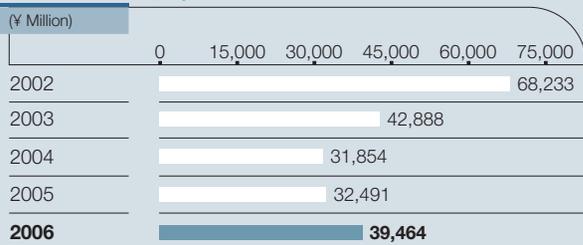
Net income (loss)



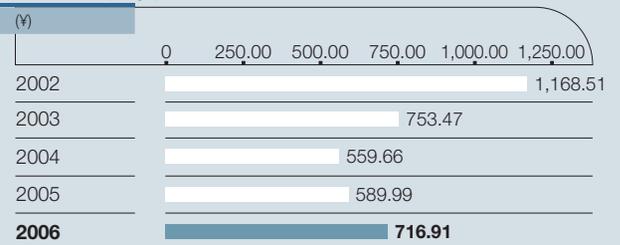
Total assets



Total shareholders' equity



Shareholders' equity per share



Capcom (consisting of Capcom Co., Ltd. and affiliated companies,) is engaged in a number of businesses in the entertainment field. With the development and distribution of home video game software as its core business, Capcom has been utilizing its intellectual property of original game content in diverse fields and promoting its multiple-use strategy. One of our goals as a creator of entertainment culture is to develop creative software that excites people and stimulates their senses.



### Home Video Games

The development and distribution of home video game software constitutes the core business of Capcom, with sales accounting for approximately 61% of total sales. By concentrating our management resources in this field, we have maintained a high level of game software development for a wide-range of consumers. We consider action and adventure games our forte, and have released many creative million-seller titles worldwide.



### Arcade Operations

We operate amusement facilities in Japan. By opening our arcades predominantly in large commercial complexes and launching various events to attract large numbers of customers, we have expanded our customer base to include women and families. We have also diligently followed our policy of "scrap and build" to achieve the utmost efficiency in arcade operations. Additionally we have recently accelerated the openings of our roadside arcades to further expand our arcade business.



### Arcade Games Sales

We develop, produce and distribute coin-operated arcade games in Japan. We concentrate our efforts on the development of coin-operated and prize-winning games and children's card-winning games, which are high in demand, as well as supply software for arcade video games to secure a stable customer base.



### Contents Expansion

In addition to developing, producing and distributing LCD devices and software for Pachinko and Pachislo machines, we develop and distribute game content for mobile phones. We will use our expertise in developing home video game software and commercial arcade games in a variety of fields as a means to secure new earnings.



### Other Businesses

We license and publish game guidebooks, novels, comic books, TV animations and movies featuring Capcom game characters. This promotes a synergy of enhanced name recognition of our game characters to expand the sales of our game software.



## Contents

<b>1</b> Consolidated Financial Highlights	<b>30</b> Business Risks and Other Risks
<b>2</b> Profile	<b>33</b> Consolidated Balance Sheets
<b>3</b> Capcom's Business Segments	<b>35</b> Consolidated Statements of Income
<b>5</b> To Our Shareholders	<b>36</b> Consolidated Statements of Shareholders' Equity
<b>11</b> COO's Overview of Capcom's Business and Projections for the Future	<b>37</b> Consolidated Statements of Cash Flows
<b>23</b> Corporate Governance	<b>46</b> Report of Independent Auditors
<b>25</b> Directors, Corporate Auditors and Corporate Officers	<b>47</b> Corporate & Products History
<b>27</b> Financial Section	<b>49</b> Corporate Data
<b>27</b> Financial Review	<b>50</b> Stock Data

## Disclaimer Regarding Forward-looking Statements

Management strategies, plans, projections and other statements excluding historical facts in this Annual Report are forecasts. Please note that the above business projections are based on the information that is available at the time of this announcement and certain assumptions that serve as the basis of rational judgments. Actual performance may vary substantially from these projections due to various contributing factors of the future. Additionally, changes in market environments, such as the diversification of user needs, may drastically affect the performance of this industry in which our company operates. Factors contributing to performance fluctuations include but are not limited to: (1) the presence or absence of strong-selling titles and the number of units sold in the home video game software business which accounts for not less than 50% of our total sales; (2) the progress of home video game software development; (3) the proliferation of home video game consoles; (4) overseas sales; (5) trends in stock prices and foreign exchange; (6) cooperation with other companies in development, sales, and operations; and (7) changes in market environments.

# Expanding our diverse entertainment businesses with Capcom's predominant contents.

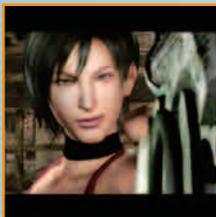
Through the development of home video game software, Capcom is engaged in the creation of a variety of original contents with wide appeal. Capcom's content has expanded beyond the video game field and to the entertainment arena to bring thrills and dreams to a greater number of people.



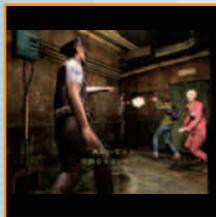
Our original contents are enticing a wide spectrum of customers in areas of home video games, arcade games, mobile phone games and PC online games. Even in non-game areas, we are expanding our horizons by engaging in the businesses of character merchandising, publications including novels and comic books, as well as movies, TV animated series and Pachinko and Pachislo machines. By utilizing a single intellectual property across a variety of fields, we are achieving the effects of a large-scale operation and appealing to a wide spectrum of users regardless of age and gender.

## “Resident Evil” (established 1996)

This masterpiece, which created the new game genre called “survival horror”, and its sequels have sold more than 30 million units to date. The player's mission is to escape from biohazard-affected towns and facilities by solving mysteries throughout the game. The game was also the basis of a Hollywood feature film that grossed more than \$200 million at box offices worldwide.



Resident Evil 4



Resident Evil Outbreak File 2



“Resident Evil” series of 41 titles



Resident Evil- The stories



Strategy guidebooks published in-house



Movie “Resident Evil: Apocalypse”





**“Mega Man” (established 1987)**

This action game series has charmed players of all ages and sold more than 26 million units since its debut in 1987. This best-selling franchise has also been turned into a TV animated series broadcast around the world.



“Mega Man” series of 110 titles



Mega Man Battle Network 6



Mega Man Battle Network: Phantom of Network



Mega Man Battle Chip Stadium



Mega Man figurine also sold overseas



Sales of strategy guidebooks are also solid



Animated movie “Mega Man Battle Network”

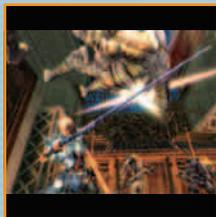


TV animation “Mega Man Battle Network Beast +”

©CAPCOM, Shogakukan, ShoPro, TV Tokyo 2002, 2006  
 ©CAPCOM, Shogakukan, ShoPro, TV Tokyo 2002, 2006 All Rights Reserved.

**“Onimusha” (established 2001)**

This survival-action game series centered in Japan’s civil war period is played against a backdrop of beautiful 3D graphics now having sold more than 7.5 million units since 2001. The Pachislo version of the game, “Onimusha 3”, has also been a record-breaking hit.



Onimusha Dawn of Dreams



Onimusha: Curtain of Darkness



“Onimusha” series of 11 titles



Drama CD



Delve deeper into the world of Onimusha games with the strategy guidebooks



Pachislo Machine “Onimusha 3”



©CAPCOM 2004/ ©Sammy ©RODEO



辻本憲三

**Kenzo Tsujimoto**

President and Chief Executive Officer (CEO)  
CAPCOM CO., LTD.

# We will strategically utilize the game content of our intellectual properties to further expand our profits.

Capcom has embarked on a series of group-wide structural reforms starting in the year ended March 31, 2003, to reinforce our earning structure, resulting in effects that have become apparent during Fiscal Year 2004 (the year ended March 31, 2005) and Fiscal Year 2005 (the year ended March 31, 2006). I would like to take this opportunity to answer any questions you may have regarding Capcom's performance for the current term and our future management policies.

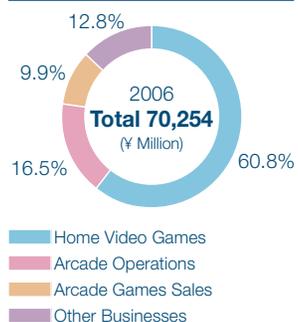
## Q.1 What is Capcom's performance for this fiscal year and your forecast for the next fiscal year?

### A.1 We are seeing the results of our structural reforms and despite being in an transition period, we maintained a profit ratio of 10%.

Breakdown of Sales by Segment under the New Structure



Breakdown of Sales by Segment under the Old Structure



(Year ended March 31)

Capcom is involved in a wide range of businesses in the entertainment arena including home video game software, arcade operations, arcade games, sales of LCD devices for Pachinko and Pachislo machines, content for mobile phones, publications, merchandise, motion pictures and a TV animated series based on our products and characters. By fully utilizing the contents of our intellectual properties, developed in our core business of home video game software and promoting our strategy of multiple usage of original content, we are seeing the effects among the different businesses and enhancing our corporate value.

The global market for game software is \$16.3 billion with Europe and North America accounting for more than 80% of the total market. Since this segment of sales continues to increase every year, expanding this overseas market share has become a major focus for all game software publishers. Capcom has strengthened its sales in the global home video game software market since the fiscal year ended March 31, 2003, which is in line with our medium-term objective of enhancing sales and profits based on the size of each market (North America 5, Europe 3, Japan 2). As a result of the Capcom's development structure to deploy personnel to the development process, we were able to achieve huge successes during this fiscal year with such hits as "Monster Hunter Freedom" and "Resident Evil 4". We have also strengthened our sales structure of our direct distribution system through the review of sales representatives in North America and enhancing our marketing structure. The effects of these efforts have been reflected in a decrease in product inventory, sales expense and market distribution inventory levels, and improved recognition of our software titles by our customers and retailers.

While achieving success in the home video game software business, Capcom has, at the same time, promoted the utilization of its intellectual properties, including its brand name, in other fields of business as well. As a result of these efforts, the resulting consolidated net sales increased to 70,254 million yen (up 6.6% from the previous year). In terms of profits, however, Capcom recorded a consolidated operating income of 6,580 million yen (down 15.1% from the previous year) due largely to sluggish growth in North America.

We reviewed the valuation reserve on the deferred tax assets and recorded adjustments in related accounts including corporate taxes. However, due to tax correction based on the transfer price taxation by the related authorities, the resulting net income for the current fiscal year was 6,941 million yen (up 91.6% from the previous year).

Historically new game consoles are released in the market every four to six years, and during the transitional phase, customers tend to refrain from purchasing new software. For this reason, we predict that the market for software during 2006, which happens to be a transitional year, will shrink to \$15.8 billion. However, we expect a full line-up of

#### Business Forecast

	2006	2007(Plan)
Net sales	70,254	<b>68,400</b>
Operating income	6,580	<b>7,000</b>
Net income	6,941	<b>3,900</b>

(¥ Million)

next-generation game consoles to be commercially released by the end of the year and the market to slowly rebound. Consequently, we are projecting a sustained market growth of more than 10% from 2007 onwards. We also anticipate the market size of online games to expand mainly in Asia, namely South Korea and China.

Capcom intends to embark on full-scale development of software for the next-generation game consoles. We plan to upgrade our product series by focusing development on software and online games for the global market and team up with other companies for product development. With the sales of LCD devices for Pachinko and Pachislo machines and other multifaceted uses of our content, we hope to rise above the competition. As for our performance projections for the next fiscal year, we anticipate net sales of 68,400 million yen, operating income of 7,000 million yen and net income of 3,900 million yen.

## Q.2 What are your targets in terms of management indices?

### A.2 We place our emphasis on cash flow in managing business.

Capcom places great importance on cash flow management which is real management that generates cash as the evaluation criteria in making management decisions and assessing enterprise value than on financial profits, which can fluctuate depending on accounting standards and procedures.

The cash flow from operating activities was 13,922 million yen, up 5,945 million yen from the previous fiscal year. This is due mainly to income before income taxes of 6,912 million yen, decrease in capitalized development costs by 3,051 million yen, and decrease in notes and accounts receivable by 1,795 million yen. Capcom will continue to work on increasing cash flow.



### On Structural Reforms

Capcom firmly believes that it must construct a solid financial foundation able to accommodate the rising trend in development costs and enhance its development, sales, and marketing structures in order to sustain global growth in the market for next generation hardware. Grounded on this principle, Capcom has been implementing structural reforms for the entire Group, both in Japan and abroad, since August 2002.

We have been making concerted efforts to improve our balance sheet and concentrate on our management resources by recording valuation losses on land and buildings in September 2002, and dissolving our financial services subsidiary in 2004.

Moreover, as part of the reinforcement of our research and development structure, we have made a clear distinction in the development process between the prototype development stage, where ideas and plans are worked out and the full development stage, where products

are placed into commercial production. Then, by thoroughly checking up on quality and cost during the various processes, we have endeavored to construct a highly efficient research and development structure. We have also established a total coordination room at the Research and Development Division which prepares a five-year title map based on a mid term plan and aims to enhance the software line-up from a medium- to long-term perspective.

As a means to fortify our sales and marketing structure, we have built a structure that is responsive to the global market by implementing measures to review our overseas sales agents and shift to a direct sales structure. In addition, we have recruited marketing experts to our team, who are veterans in gaming industry to meet the demands of our European and North American customers.

The above efforts have already resulted in lowering the cost-to-sales ratio and SGA- to-sales ratio and we anticipate even further improvements in our profitability in the future.

#### Concentration of management resources

- Accounted a loss on devaluation of land and buildings (FY2001)
- Dissolved a financial subsidiary (FY2003)

#### Fundamental reform of the development structure

- Split the planning and production functions
- Established a two-stage approval system for prototype development and full development

#### Reform of the marketing and sales structure

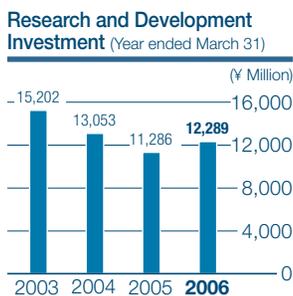
- Hired marketing specialists at local corporations overseas
- Reviewed distribution and strengthened the overseas direct sales structure

Improvement on the balance sheet

- Structural changes on management as well as administrative areas
- Management reinforcement and clarification of roles and responsibilities

**Q.3** There has been much talk about rising development costs. Tell us Capcom's position on investing in the next-generation consoles.

**A.3** We intend to ensure profitability by efficient development and a multi-platform strategy.



In addition to the Xbox 360, which has already been released, PlayStation 3 (hereinafter "PS3") and Wii will be introduced in the fall of 2006. Although these new game consoles will be capable of offering new ways of playing games and breathtaking graphics, there is some fear that profitability will be diminished due to high development costs of these highly advanced systems.

In view of the anticipated market growth beginning in 2007, we have initiated the development of several new titles including the latest in the "Resident Evil" and "Devil May Cry" series intended for next-generation game consoles. We are fully aware that the main market during the next fiscal year will be for current-generation game consoles and portable game consoles. For that reason, we are maintaining earnings based on the sales of our game titles intended for current-generation game consoles, which boast of established and prolonged popularity, while making advance investments in the development of software for next-generation game consoles.

In order to curtail development costs, we intend to implement a multi-platform strategy of marketing a single title for a number of different types of game consoles, thereby expanding sales and optimizing our profits. Furthermore, we expect to compensate for rising development costs incurred in the transition to next-generation game consoles by revising our development process and cost management structure, which we have done a number of times in the past. In addition, by creating a new development engine that can be commonly used for all next-generation game consoles, we are confident we can further improve the efficiency of our development.

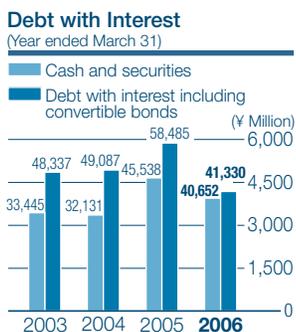
## Q.4 What is the future of the online game market?

### A.4 We believe online games to be a growing field and we have aggressive plans to expand business and business partnerships.

Despite mounting anticipation for the introduction of next-generation game consoles, especially with the Japanese game console market being in a transitional phase, the market appears to be in a stage of temporary decline. The online game market, on the other hand, has undergone rapid expansion thanks to the proliferation of home-use personal computers and broadband. We have been particularly successful with our “Monster Hunter” series game consoles and online play. Since we consider online games for PCs to be a growing market, we fully intend to pursue further business expansion in this field. An Online Business Division was established in April 2006 and in October 2006, in conjunction with the Dwango Group, we will establish a new company to operate a comprehensive communication portal site and construct a new business model based on the Japanese market. Later we plan to pursue this business in Europe and North America while forming business partnerships with local leading companies to expand our business in Asia, thus making this segment one of the pillars of Capcom.

## Q.5 What are your views on financing?

### A.5 We maintain a certain level of cash and cash equivalents while pursuing appropriate means of financing to improve our capital efficiency.



Software development for our core business of home video game software requires a period of approximately two years. With development investments necessary for next-generation game consoles and growth strategies in other fields of our businesses, it is necessary to accumulate a certain amount of cash and cash equivalents for financial security. Conversely, to improve capital efficiency, we must divest ourselves of unnecessary assets or at least decrease our assets. Therefore, for the time being, we intend to use currently available funds to pay off our interest-bearing debts and take measures to complement the liquidity of our funds by such means as setting up commitment lines. As for the fourth unsecured convertible bond worth 10,000 million yen that matures in March 2007, we intend to pay off the bond with the funds at hand.

## Q.6 What is Capcom's stance on mergers, acquisitions and partnerships?

### A.6 The major prerequisite for mergers, acquisitions and partnerships is for us to develop better content.

In order to ensure stable and sustained growth for us, we must further expand our business globally in home video game software and mobile content where there is ample room for growth. In our industry, there has been a recent flurry of M&A's for expanding the scale of business and securing important content. However, we have no plans to merge with any Japanese game company or toy manufacturer since it is unlikely the content would be popular in overseas markets or expand sales abroad. A merger could also restrict us to particular partners and limit licensing business.



We maintain an open policy toward mergers and partnerships, provided that they lead to the *creation of superior content*. We have formed partnerships with a number of companies and we are making efforts to be responsive to our needs and those of our partners. We believe that achieving harmony between the unique attributes of our partners and us is the key to success in mergers and partnerships and to the growth of our enterprise.

## Q.7 Tell us about your dividend policy.

### A.7 Our basic policy is to continue paying out stable dividends.

One of our priorities is to provide stable and continuous dividends to all shareholders. In order to implement this objective, we strive to generate retained earnings in line with our future business strategies and our financial strength.

To remain stable, we are devising and implementing medium to long term growth strategies in each of our businesses. Consequently, a certain amount of internal reserves will be required for active investments in the fields of online and mobile games which is currently undergoing massive expansion, as well as in arcade operations, arcade games, and the development of LCD devices for Pachinko and Pachislo machines. Should these strategies allow us to maintain an ordinary income of 15% or more, we will consider the raising of dividends as part of our policy of returning profits to our shareholders.

We kindly request that all shareholders continue to give us your support.

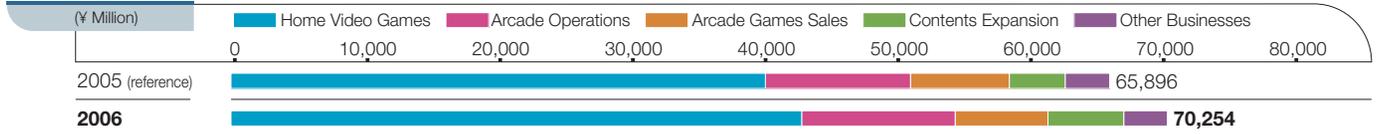
Note: Ordinary income is calculated by adding financial income or expenses to Operating income.

## Growth and reinforcement of our revenue base through enforcement of our strategy of multiple usage of original content.

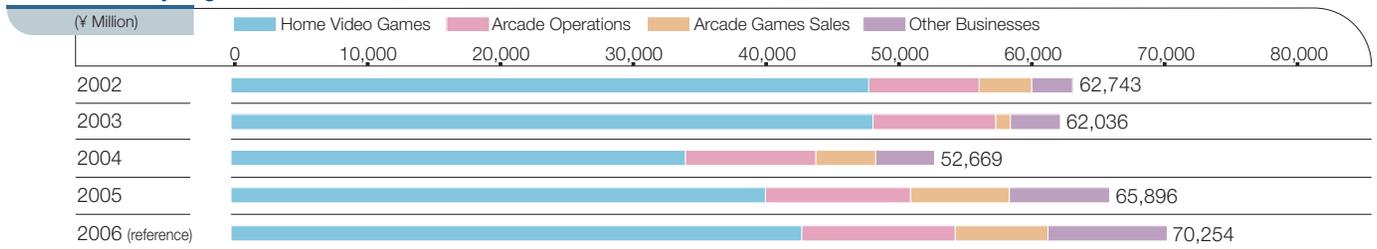
Capcom has achieved success in the promotion of inter-media strategy in recent years, increasing the recognition of Capcom's proprietary characters and expanding the sales of game software by producing movies and animated TV series featuring proprietary contents. Moving forward, we will strive for further growth as a comprehensive entertainment company and maximize our earnings by promoting the "multiple use of original content" strategy by using original content in various business areas, including arcade games and mobile phones as well as publications, movies, animated TV series and Pachinko and Pachislo machines.

### Trend in Sales by Segment under the New Structure

(Year ended March 31)



### Trend in Sales by Segment under the Old Structure



**Haruhiro Tsujimoto**  
 Director and Executive Vice President  
 Chief Operating Officer (COO)

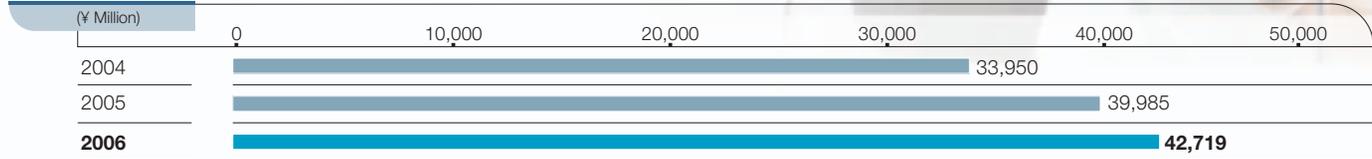


# Home Video Games

This division accounts for approximately 61% of Capcom Group's total sales from the development and sales of home video games. This is our core business and it generates numerous million-seller titles with its advanced game development capabilities for diverse users.



## Sales



### Market Trends

**Transitional period will continue through 2006 due to delay in launch of next-generation game consoles. Expected growth is the key is success in overseas markets.**

The home video game market shrank in 2005 for the first time in five years to 16.3 billion dollars (down 6.9% from the previous year, Cf. Diagram 1). This is due to the introduction of new models of home video game consoles and consumer tendency to refrain from purchasing new software during the hardware transition periods.

The unit price of software products tends to decrease as the years progress from the release of new game console models, and this is particularly prominent in overseas markets. However, unit prices are also related to the strengths of individual titles, and highly popular titles referred to as AAA are able to remain in the higher price range for long periods. As such, maintaining large numbers of well-established brand-name series titles means ensuring stable earnings.

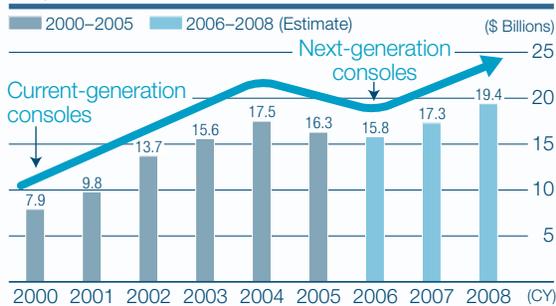
Furthermore, foreign markets account for 80% of the total game software market, which is comprised of North America, Europe and Japan at a proportion of 5:3:2(Cf. Diagram 2). Although the Japanese market accounted for 50% of the total in the past, the

percentage is decreasing each year due to the smaller number of children and globalization of the market. The breakdown of the 2005 market by region yields 7 billion dollars for North America (down 9.1% from the previous year), 6.6 billion dollars for Europe (up 4.8% from the previous year), and 2.7 billion dollars for Japan (down 22.9% from the previous year). Although various regions suffered the effects of the changeover period and the lack of major software products, the market was supported by the growth of portable game devices.

As for Capcom's market share in various regions, we are seeing increases at 2.2% in North America (up 0.5% from the previous year), 2.2% in Europe (up 1.0% from the previous year) and 6.1% in Japan (up 0.4% from the previous year, Cf. Diagram 3). Furthermore, Japanese software manufacturers ranking high in the Japanese market are rarely seen in the upper ranks in overseas markets. It is believed that this is due to the fact that numerous titles are not selling as well in overseas markets as in Japan, although a few are selling well on a global scale. Therefore, Capcom believes that the key to increasing our market share as we proceed forward is the development of software that will perform well overseas since this market is expected to grow even more.

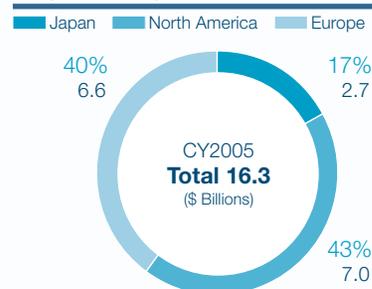
In terms of future market outlook, the game

**Diagram 1. Trend in the Game Software Market**



\*Source: IDG Report

**Diagram 2. Major Game Software Markets**



\*Source: IDG Report



## Home Video Games

software market is projected to shrink to 15.8 billion dollars in 2006, since it will still be in the transition period. However, all next-generation game consoles will be launched before the end of the year, re-energizing the market gradually. As such, the market is expected to increase from FY2007 and continue to grow thereafter at a rate of 10% or more, allowing software manufacturers to enjoy a harvest period (increase in unit prices and numbers of copies sold).

### Operating results for this fiscal year

#### “Monster Hunter” series a big hit. Higher revenue and lower profits due to stagnant demand from transition to next-generation game consoles.

Capcom’s strengths in this business is the ownership of numerous intellectual properties including million-seller titles and popular characters, global brand recognition, talent to develop highly popular action and adventures games, and ability to create sophisticated games that satisfy a diversified consumer (Cf. Diagram 4).

To promote our global business, Capcom works

closely with our European and North American subsidiaries to share market information and reorganize distribution systems. As a result, we reduced our sales expenses by re-examining our distributors and compressing inventory. We also increased our overseas earnings by partnering with developers to create software targeted for this market.

“Resident Evil 4” (for PlayStation2, hereinafter “PS2”), showed favorable growth with sales of 1.81 million units and continued strength as one of our key software titles and established brands. In the Japanese market, we launched “Monster Hunter Freedom” (for PlayStation Portable, hereinafter “PSP”) and “Monster Hunter 2 (Dos)” (for PS2) from the “Monster Hunter” series. The two titles became bigger hits than expected with sales of 1.15 million units, backed by their network capabilities which increased consumer appeal. They have become one of Capcom’s flagship products.

“Mega Man Battle Network 6” (for Game Boy Advance, hereinafter “GBA”), the latest title of the series, reported a solid sales increase by 610,000 units, boosting an already popular franchise. The title achieved stable earnings, selling a total of 5.4 million units (up

Diagram 3. Market Share by Region

#### Japanese Market

Company Name	Sales (¥ Million)	Share (%)
1. Nintendo	46,309	15.20
2. Bandai	33,776	11.09
3. Konami	31,392	10.30
4. Square-Enix	24,093	7.91
5. SCE	23,896	7.84
6. Namco	18,884	6.20
<b>7. Capcom</b>	<b>18,482</b>	<b>6.07</b>
8. Koei	14,170	4.65
Other	93,662	30.74
<b>Total</b>	<b>304,664</b>	<b>100.00</b>

\*Source: f-ism

#### North American Market

Company Name	Sales (US\$1,000)	Share (%)
1. EA	1,313,028	22.00
2. Nintendo	617,326	10.34
3. Activision	555,048	9.30
4. THQ	426,576	7.15
5. Sony	399,982	6.70
6. Take2	348,423	5.84
⋮	⋮	⋮
<b>14. Capcom</b>	<b>130,554</b>	<b>2.19</b>
Other	2,177,372	36.48
<b>Total</b>	<b>5,968,309</b>	<b>100.00</b>

\*Source: TRSTS Report

#### European(UK) Market

Company Name	Sales (GBP1,000)	Share (%)
1. EA	518,330	21.83
2. THQ	211,321	8.90
3. Sony	208,464	8.78
4. Activision	187,736	7.91
5. Nintendo	165,382	6.97
6. Ubisoft	158,360	6.67
⋮	⋮	⋮
<b>11. Capcom</b>	<b>52,203</b>	<b>2.20</b>
Other	872,614	36.74
<b>Total</b>	<b>2,374,410</b>	<b>100.00</b>

\*Source: Chart Track/ELSPA



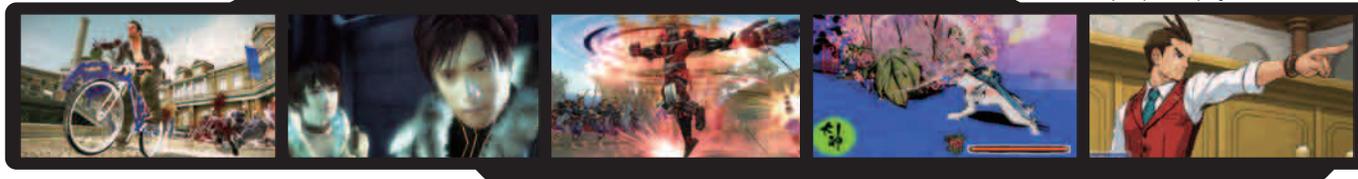
From left to right  
 “Devil Kings” for PS2  
 “Resident Evil 4” for PS2  
 “Monster Hunter 2 (Dos)” for PS2  
 “Onimusha Dawn of Dreams” for PS2

Diagram 4. Popular Game Series

(As of March 31, 2006)

Series	Number of Titles	Unit Sales (in thousands)
“Resident Evil” Series	41titles	30,000
“Mega Man” Series	110titles	26,000
“Street Fighter” Series	54titles	25,000
“Onimusha” Series	11titles	7,500
“Devil May Cry” Series	5titles	6,000
“Monster Hunter” Series	4titles	2,000

Character Wayne by ©Lee Byung Hun/FANTOM CO., LTD.



From left to right  
 "Dead Rising" for Xbox 360  
 "Lost Planet" for Xbox 360  
 "Devil Kings 2" for PS2  
 "Okami" for PS2  
 "Phoenix Wright 4" for NDS

31.7% from the previous year) in the domestic market.

"Onimusha Dawn of Dreams" (for PS2) and "Without Warning" (for PS2 and Xbox) struggled in overseas markets, due in part to the sluggish North America market and competition from foreign game manufacturers. The products sold only 640,000 and 200,000 units, respectively. Total overseas sales remained low at 8 million units (down 14.9% from the previous year).

Although 88 titles were released and 13.4 million units of software were shipped this fiscal year (down 0.7% from the previous year), net sales were 42,719 million yen (up 6.8% from the previous year), and the operating income was 2,927 million yen (down 25.1% from the previous year).

#### Projection for the next fiscal year

##### Growth through prompt response to next-generation consoles and global operational presence.

Although the transitional phase of the market is projected to continue into next fiscal year, Capcom will launch a number of software products to secure stable earning. This includes games for portable consoles which continue to be a growing market as well as current-generation game consoles that comprise a majority in the market. Shares of software manufacturers in the next-generation game console market are expected to change greatly depending on the platform (hardware), content and regional strategies. There are concerns that the escalation of development costs due to the higher performance and increasing functionality of game systems will result in lower profit margin.

Capcom's platform strategy is to introduce multi-platform products in order to increase sales, thereby maximizing profit. We will also invest aggressively in the development of software for next-generation game systems. Multiple titles are being developed already, including the latest titles of the "Resident Evil" and the "Devil May Cry" series.

Secondly, our content strategy is to promote "multiple usage of original content" through cooperation

among various business units in order to enhance the news value and profitability of the series titles. We will also work on the establishment of new franchise products to develop new genres. Our expectations are particularly high for "Lost Planet" (for Xbox 360), our first third-person perspective shooting game which is a highly popular genre in Europe and North America. The game is already eagerly anticipated as a result of enormous praise and attention from the press. Our development efficiency will improve by using a common development engine for next-generation game systems, which was created for the development of "Lost Planet".

Finally, our regional strategy is to establish a direct distribution system and reorganize the development structure in Europe and North America in order to continue to expand our share in these markets. Capcom will strive to increase its earnings by developing software products that respond to a global market and sales structure.

Based on the foregoing strategies, Capcom is expecting to achieve 31,500 million yen in net sales and 2,000 million yen in operating income for the next fiscal year by launching 77 game titles and shipping 10 million units of software.

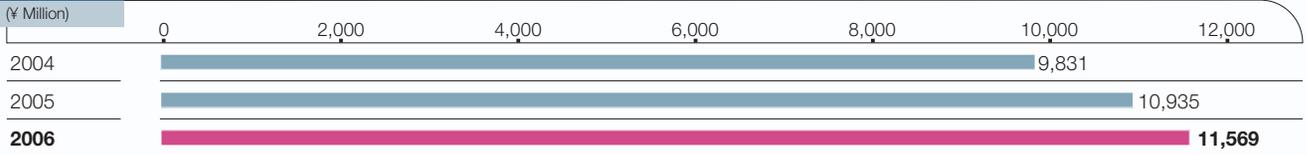


# Arcade Operations

Sales generated from Capcom's arcade operations account for approximately 17% of total sales and constitute a major support in Capcom's business, second only to the home video game software business.

Our arcade operations in Japan are maintaining stable growth and high operating profit margins.

## Sales



## Market Trends

**Arcade facilities are becoming larger in scale and the market has exhibited growth for three consecutive years. We predict this stable growth to continue into the future.**

The market for domestic arcade facilities is worth 649.2 billion yen (up 1.8% from the previous year) and has broken all sales records since 1997 by increasing year-on-year for the third consecutive year. However, net sales from existing arcades were confined to 96% of the sales of the previous year, whereas net sales last year were 101.1% of the year before, with the shortfall being made up by net sales generated from new arcades.

The number of overall facilities in this market fell to 25,044 (down 5.0% from the previous year), marking a decrease for six consecutive years. The number of arcade game machines installed in the arcades also decreased to 685,000 (down 1.3% from the previous year), thus recording an ongoing decrease for eight consecutive years.

As reflected by the trend toward increased market

sales and decreasing arcade facilities and installed arcade game machines, net sales per arcade and net sales per arcade game machine have reached record-breaking highs since 1997 (Cf. Diagram 5). This phenomenon is largely due to the closing of small-scale arcades, while the number of large-scale arcade facilities, such as those arcades located inside major shopping centers, has increased.

Looking back on the sales generated by arcade game machines by genre for the past ten years, sales from video game consoles, which had previously been the main source of revenue in the past, decreased from 39% to 7%, while sales from prize-winning games increased from 29% to 48%, and sales from coin-operated games grew from 22% to 27%. As arcade facilities have grown in scale, different types of games are being installed, ultimately causing a shift in game players from our former core customers to more females and families.

We predict that this current trend of fewer small-scale facilities and greater expansion of large-scale stores will continue, contributing to sustained market growth.

Diagram 5. Trend in the Arcade Operations Market



\*Source: Report in Amusement Industry

Diagram 6. Comparison of Arcade Operations Performance

Company Name	Sales (¥ Million)	% of Share (%)	Operating Income (¥ Million)	% of Operating Income (%)	Year-on-year rise (%)
<b>Capcom</b>	<b>11,569</b>	<b>4.0</b>	<b>2,439</b>	<b>21.1</b>	<b>105.8</b>
Aruze	16,011	5.5	1,927	12.0	99.0
Aeon Fantasy	34,483	11.9	3,733	10.8	119.5
Sega Sammy	106,245	36.6	9,244	8.7	127.7
Namco Bandai	78,792	27.1	2,506	3.2	96.3
Taito	43,526	15.0	656	1.5	103.0
<b>Total</b>	<b>290,625</b>	<b>100.0</b>	<b>-</b>	<b>-</b>	<b>-</b>

\*Source: Financial results and support documentation for the year ending March 31, 2006 published by each company (Figures for Aeon Fantasy from financial results for the year ending February 20, 2006)

### Operating results for this fiscal year

#### Recovery of sales from existing facilities to achieve 100% of last year's sales. Increased sales and increased profits from full-scale implementation of "scrap and build".

Capcom's strength in this business lies in the fact that it maintains a higher operating profit margin than its competitors and has established a competitive edge (Cf. Diagram 6).

Capcom has responded quickly to market trends and to the needs of our customers by adopting a policy of shifting to *Large-scale facilities* and *Opening arcade facilities in large-scale commercial complexes*. This move has ensured the attraction of a large number of customers through the sizeable customer base of such commercial facilities.

To attract more new customers including females and families, we have adopted a prize-winning, game-oriented style of arcade operations and placed our arcades in locations that appeal to customers.

In addition, we have been renovating our facilities as needed and by thoroughly implementing our policy of "scrap and build" to enhance the quality of each arcade. Through these efforts, we have achieved an operating profit margin of more than 20% or more.

We have also strived to improve customer satisfaction by increasing the number of units installed in our arcades to include not only our own proprietary machines, but popular machines made by other companies. This has allowed us to also effectively utilize these arcades as marketing opportunities for the development of our own arcade game machines.

The number of customers to our arcade facilities has increased, mainly from females and families due to various activities including bingo games, appearances of popular costumed characters, store renovations and a popular line-up of products. The renovations have also provided customers with a safe, clean and brighter environment. Despite the effects of heavy snowfall in certain areas, sales from existing arcade facilities reached 100% of last year's sales, in addition to strong performance recorded by our recently opened arcades including *Plaza Capcom Nogata*. An increase in the number of customers and opening new arcades, have

contributed to even further sales growth.

As part of our policy to diversify our arcade locations, we opened a large-scale roadside facility in Ibaraki Prefecture, the *Plaza Capcom Mito*. To attract a more mature audience, we toned down the interior and lighting of the arcade and installed a large number of coin-operated games designed to appeal to adults.

During this fiscal year two new facilities were opened and two unprofitable stores closed, giving us a total of 30 facilities for this term.

We recorded net sales of 11,569 million yen (up 5.8% from the previous year) and operating income of 2,439 million yen (up 6.2% from the previous year), an increase in both sales and profits and an operating profit margin of 21.1%.

### Projection for the next fiscal year

#### Efforts will be made to further expand profits by opening more large-scale roadside facilities and continuing the implementation of "scrap and build".

Against the backdrop of stable and sustained market growth, we intend to continue opening more facilities in large-scale commercial complexes, while also expanding our roadside facilities. However, due to the revised City Planning Law that restricts the opening of suburban facilities and which is scheduled for full enactment in November 2006, in addition to the fierce competition brewing among other companies in the trade, the future remains unclear for more openings by Capcom in large-scale commercial complexes.

Conversely, as far as roadside facilities are concerned, the large acreage and combination of different businesses enable us to actively promote a policy of becoming the first facility in the region and we plan to aggressively pursue this policy in the future. Moreover, we plan to increase our revenue by focusing our attention on improving the profitability of existing facilities.

In the next fiscal year, we intend to open six more facilities while closing down three, thus bringing the total to 33 facilities.

We anticipate net sales of 14,300 million yen and operating income of 2,900 million yen for the next fiscal year.

From left to right  
 "Plaza Capcom Nogata"  
 "Plaza Capcom Mito"  
 "Plaza Capcom  
 Chiba Marinpia Senmonkan"  
 "Plaza Capcom Chiba-Naganuma"

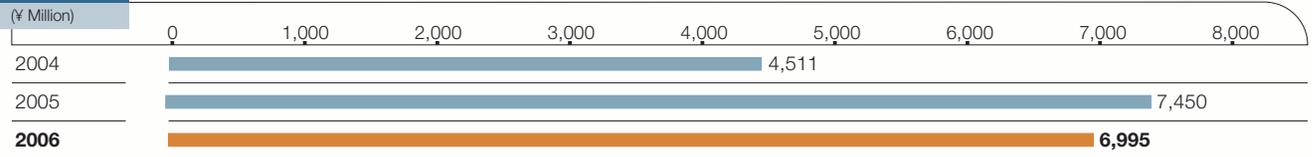




# Arcade Games Sales

Capcom's arcade game division is involved in the development, manufacture, and sales of arcade games in Japan, and its sales account for approximately 10% of Capcom's total sales. The reorganization of this division, which began in 2002, is currently in the midst of a substantial expansion of its business.

## Sales



From left to right  
 "Super Mario Fushigino Korokoro Party 2"  
 "Mega Man Battle Chip Stadium"  
 "Mecha Tore Party"  
 "Ghosts'n Goblins MEDAL EDITION"



MARIO PARTY5 ©2003 Nintendo ©2003 HUDSON SOFT ©2004 CAPCOM CO., LTD. ALL RIGHTS RESERVED.

## Market Trends

**With the surge in card games for children, the market has grown for the third consecutive year. In the future, card game machines and network packages will further drive sales in this market.**

The market for arcade games is worth 167.7 billion yen (up 2.3% from the previous year) for domestic games and 12.8 billion yen (down 7.7% from the previous year) for overseas games, for a total of 180.6 billion yen (up 1.5% from the previous year) (Cf. Diagram 7).

The Japanese market has been growing now for three consecutive years, marking record highs since 1997, while overseas sales have been decreasing for eight consecutive years.

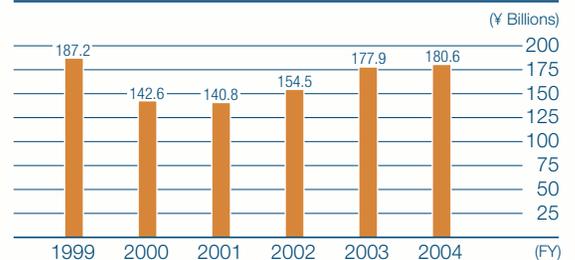
Analysis by genre indicates that prize-winning games and coin-operated games account for 50% of total sales (Cf. Diagram 8).

The recent expansion of arcades opening in commercial complexes and an increase in of families that make up the customer base has contributed to substantial growth in the past three years. Conversely, the lack of a clear market leader in FY2004 caused

sales to drop to 48.9 billion yen (down 14.8% from the previous year). Coin-operated Pachinko and Pachislo-type game machines appealing to casual users and Pusher-type coin-operated games have become models high in demand, resulting in record-breaking sales in the past two years. In FY2004, however, sales were down slightly to 37 billion yen (down 1.1% from the previous year).

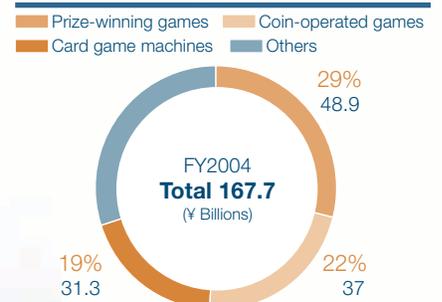
Sales generated from cards used in satellite-type mass video packages compatible with on-line networks and children's card games totaled 31.3 billion yen,

Diagram 7. Trend in the Arcade Game Market



\*Source: Report in Amusement Industry

Diagram 8. Breakdown of the Arcade Game Market by Game Type (in Japan)



\*Source: Report in Amusement Industry



accounting for nearly 19% of sales and have become the main impetus for sales in this market.

We predict that prize-winning games and coin-operated games will sustain stable growth accounting for nearly half of all sales in this market. We also believe that cards (IC cards, magnetic cards, trading cards, etc.) for children's card games and network-compatible machines will continue to thrive and greatly contribute to expand the market.

#### Operating results for this fiscal year

**Postponed sales of leading game machine models result in decreased sales and profits. We released a children's card game using the popular "Mega Man" IP.**

The strength of our arcade game operations is a result of our stable market growth in developing prize-winning games and coin-operated games, which make up nearly 50% of the market. Prior to FY2000 video game machines accounted for a large portion of the market and we concentrated our efforts on developing video game machines, which yielded high marginal profit ratios. However, after FY2001 as home video games grew astronomically, the arcade video game market diminished to fewer and fewer players.

With the recent trend toward larger scale facilities and arcades inside shopping centers popularized by a growing casual gamer customer base, we have increased our development on coin-operated games and game machines to support this growth.

Our company-managed arcade facilities allow us to quickly recognize trends in popular game machines and market movements and introduce new machines on a trial basis. Opinions gathered from both users and operators is utilized to develop even more popular games.

During the period under review, we strategically attracted more families to our customer base by using our own proprietary characters and other well-known characters in our machines. Consequently, such coin-operated game machines as "Super Mario Fushigino Korokoro Party" and "Donkey Kong Jungle Fever" that offer special appeal to families performed

particularly well. We also generated great interest by launching our latest innovations, "Ghosts'n Goblins MEDAL EDITION" and the children's card game, "Mega Man Battle Chip Stadium", which allows players to link their game characters on three different formats: arcade games, home video games and toys. Our increasingly popular video game console, "Mobile Suit Gundam SEED Federation vs. Z.A.F.T.", also increased sales.

However, due to the postponed sales of some major products until the next fiscal year, we were unable to achieve projected sales, resulting in net sales of 6,995 million yen (down 6.1% from the previous year). Moreover, changes in the product component ratio precipitated a rise in the cost ratio and consequently operating income declined to 1,116 million yen (down 42.6% from the previous year).

#### Projection for the next fiscal year

**Expansion of our business by utilizing internal and external content for the development of large game machines.**

As for projections for the next fiscal year, we intend to promote the development of large-scale coin-operated games in conjunction with the expanding size of arcade facilities. In the rapidly expanding children's card game machine market, machine rentals are spreading to toy stores and convenience stores. Consequently, we have teamed up with Takara Tomy Co., Ltd. in the joint development of two new models, including "Wantame Music Channel", to capture casual users. We also intend to actively promote the development of network-compatible machines.

Additionally, it is our intention to review our manufacturing processes and quality control structure to cut down on costs and improve our profit margin.

As a result of the above efforts, we predict net sales of 12,100 million yen and operating income of 2,200 million yen.

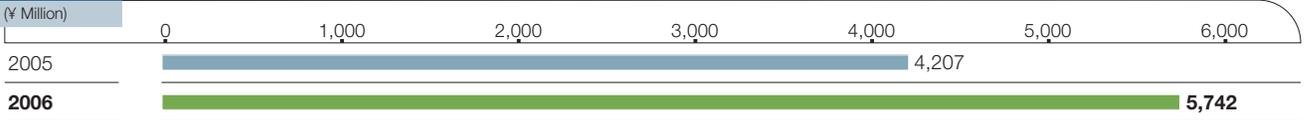


# Contents Expansion

The contents expansion business, which generates approximately 8% of Capcom's sales, was classified as a new business segment beginning this fiscal year.

This segment has achieved a high profit margin through the development, manufacture and distribution of LCD devices for Pachinko and Pachislo machines and the development and sales of content for mobile phone games.

## Sales



### Market Trends

**Increase in the number of users due to stronger visuals in the Pachinko and Pachislo market. Movement in the mobile content market toward global expansion primarily in Japan and North America.**

The contents expansion business, created to boost income through the development of game content and arcade game machines, was separated from the Other Businesses segment and classified as a new segment beginning this fiscal year.

This business comprises of two fields of development: the manufacture and sales of LCD devices for Pachinko and Pachislo machines and the development and distribution of mobile phone content.

The Pachinko and Pachislo machines market is worth approximately 30 trillion yen and has grown steadily as a leading segment of the amusement and leisure industry. Despite the trend toward fewer users than in the past, the frequency and amount of funds used per user is on the rise and the tendency of users to become heavy users is becoming apparent.

As a result of the Amendments to the Regulations on the Entertainment and Amusement Trade and the Implementation Rules for the Entertainment and Amusement Trades Rationalizing Act (hereinafter Entertainment and Amusement Trade Regulations) enacted in July 2004, the speculative (or gambling) aspect of Pachislo machines has come under stricter control, which has led to a stronger emphasis on the visual or entertainment aspect of the machines. There is some fear that diminishing the speculative side of the machines will discourage players, others predict that the

increase in games with high entertainment content that appeals to novice players will also attract a new class of players.

Pachinko machines enjoy greater freedom of development through an easing of regulations, thus enabling innovative product development that is expected to attract more users (Cf. Diagram 9).

The mobile content market has grown steadily in Japan and South Korea, where the market has been infiltrated by high-end handsets, but in China and North America, where high-function handsets are not yet the norm, the mobile content market is still in its infancy. With the recent lowering of prices on high-function handsets, the market for mobile content is expected to expand globally (Cf. Diagram 10). In the North America in particular, where there are twice as many cellular subscribers as in Japan, the spread of high-end handsets will hopefully result in rapid growth of the market. We believe the key to success in the global market is first succeeding in the mobile markets of North America and Japan.

Diagram 9. Trend in the Pachinko Game Market

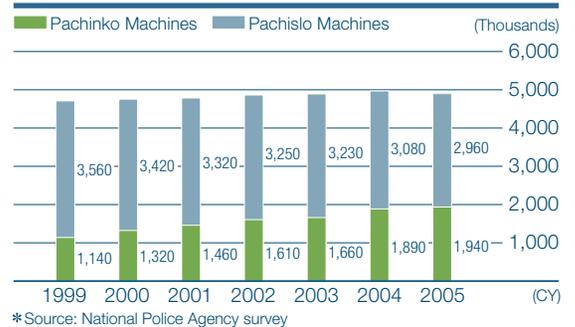
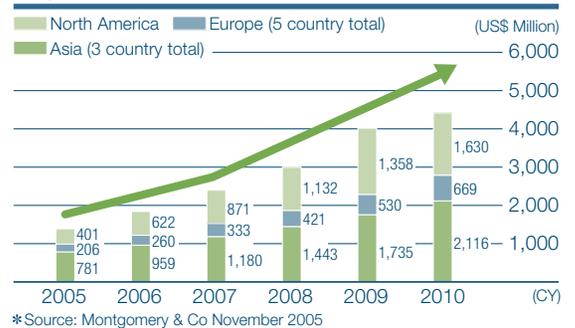


Diagram 10. Trend in the Mobile Phone Game Market

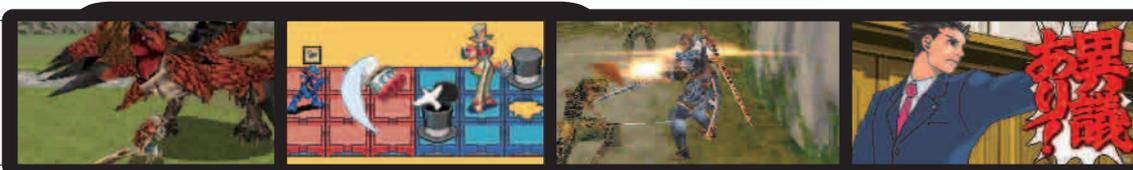


Pachislo machine "Onimusha 3"

©CAPCOM 2004/ ©Sammy ©RODEO



From left to right  
 "Monster Hunter"  
 "Mega Man Battle Network: Phantom of Network"  
 "Onimusha: Curtain of Darkness"  
 "Phoenix Wright 3"



### Operating results for this fiscal year

**Strong sales of LCD devices for Pachinko and Pachislo machines. Stable growth in the mobile contents business with the release of popular content.**

Capcom's strength in this business lies in the ability to utilize contents of its intellectual properties in a wide variety of areas that generate high profits.

In the Pachinko and Pachislo business, Capcom is developing attractive software for machines using internal and external content, and taking advantage of development capabilities to generate high-resolution graphics processing technology and distributing highly profitable LCD devices.

During the period under review, we developed on consignment LCD software for Pachinko machines using our development expertise, in addition to generating positive sales of the "Onimusha 3" LCD device for Pachislo machines and our own LCD devices.

In the mobile content business, we selected, optimized and distributed games that are popular in Japan and overseas. We are achieving steady growth by effectively utilizing the know-how cultivated through our home video game software business and our existing properties. To expand this growing market overseas we established a mobile business office in Los Angeles and enhanced the divisions devoted to sales and development at our European and North America subsidiaries.

During this fiscal year, we distributed "Onimusha: Curtain of Darkness" intended for the NTT DoCoMo's 902i series, which is linked to home video game software in Japan and features highly appraised graphics that make full use of the 3D functions of mobile phones. Our "Phoenix Wright" series and "Monster Hunter" products have also performed strongly. We have also released the "Resident Evil" and "Street Fighter II" content in the overseas markets.

As a result of these efforts, we recorded net sales of 5,742 million yen (up 36.5% from the previous year) and operating income of 2,362 million yen (up 35.5% from the previous year).

### Projection for the next fiscal year

**Pachinko and Pachislo business will strengthen with the distribution of software and hardware. Mobile content business will expand globally to increase market share.**

As for projections for the Pachinko and Pachislo business, we intend to promote to meet with growing demands of manufacturers as well as the market in tune with changes on Entertainment and Amusement Trade Regulations. We will concentrate our efforts on expanding the sales of three titles with strong visual effects utilizing the contents of Capcom and other companies and as well as our own LCD devices.

In the mobile content business, we will target markets in Japan and North America, where rapid growth is anticipated. In the first quarter of FY2006 we acquired a mobile company in Canada. By strengthening our partnership with our North American carrier and acquiring titles popular with casual users, we plan to build a structure that will enable expansion of our overseas markets, centering in North America. We intend to provide high-quality contents compatible with next-generation mobile phones having 3D capabilities, a number of titles from Capcom's popular series, to capture both casual and hard core users.

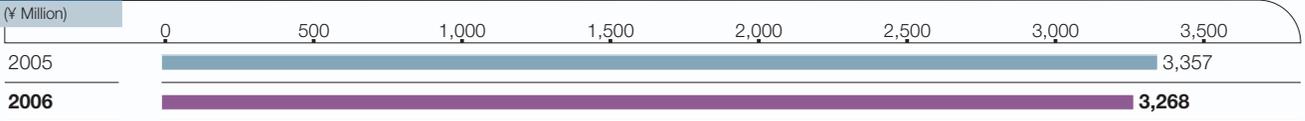
As a result of the above efforts, we predict net sales of 6,200 million yen and operating income of 1,700 million yen.



# Other Businesses

Sales from other businesses account for approximately 4% of Capcom's total sales. Accompanying the reclassification of the content expansion business as a new segment, the other business segment is now comprised of character-related licensing businesses and publishing.

## Sales



### Operating results for this fiscal year

#### Steady profits from the publishing and licensing businesses

Capcom's strength in this business lies in the strength of the home video game software business, through the multifaceted use of abundant content from our intellectual properties.

In our publishing business we predict improvements in our earning rate through our proprietary publishing as well as licensing to other publishers of our game guidebooks, books of illustrations and novels/comics based on our game story lines. To secure new distribution, we sell game software with the game guidebook as one package through book distribution channels.

Our licensing business generates royalty income through licensing agreements through the production of animations, feature films and merchandise based on Capcom's characters.

During this fiscal year, "Mega Man Battle Network", the popular TV animation series (Cf. Diagram 11), was broadcast worldwide which influenced home video game software sales for the brand. We are also generated additional revenue by launching a PSP UMD compatible movie-version of "Resident Evil".

As a result of these efforts, we recorded net sales of 3,268 million yen (down 2.7% from the previous year) and operating income of 197 million yen (down 16.2% from the previous year).

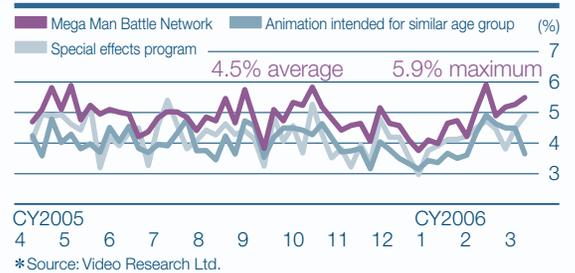
### Projection for the next fiscal year

#### Reinforce our revenue base through the implementation of multiple usage of original content

In terms of projections for the next fiscal year, we intend to continue our strategy of multiple usage of original content. We plan to promote Capcom's contents through its wide utilization of publications, toys and image contents, and expand recognition of Capcom's characters and sales of our video game software. By expanding beyond the business of licensing, we plan to develop a motion picture business based on Capcom's contents and a toy and hobby business including card games, to maximize the use of our content and actively form partnerships with other companies.

As a result of the above efforts, we predict net sales of 4,300 million yen and operating income of 1,000 million yen.

Diagram 11. "Mega Man Battle Network" TV Ratings (Kanto area by family unit)



From left to right  
 TV Animation "Mega Man Battle Network Beast +"  
 Movie "Resident Evil: Apocalypse"  
 In-house published book  
 Street Fighter figurine  
 Monster Hunter soft toy

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## Shipments of “Resident Evil 4” reach the 3 million mark.

The “Resident Evil” series, which incorporates the latest graphics technology and features an innovative storyline, is a hit series for Capcom and loved by game fans throughout the world. Two Hollywood feature movies were made based on this series, both grossing over 100 million dollars in box office sales, thus attesting to the franchise’s popularity not only among game players but also among entertainment fans worldwide. “Resident Evil 4”, the latest in the series, preserves the classic, chilling atmosphere of the original series but revamps the gameplay system to create an all-new engrossing experience that existing fans as well as new players can enjoy. It has been continuously praised on fan sites and in specialist publications as well as being recognized by experts in the industry as a revolutionary game. Consequently, Capcom broke all previous sales records and has shipped out 3 million units of the software globally to date.



“Resident Evil 4”  
for PS2/GC

## The “Monster Hunter” series becomes a smash hit.

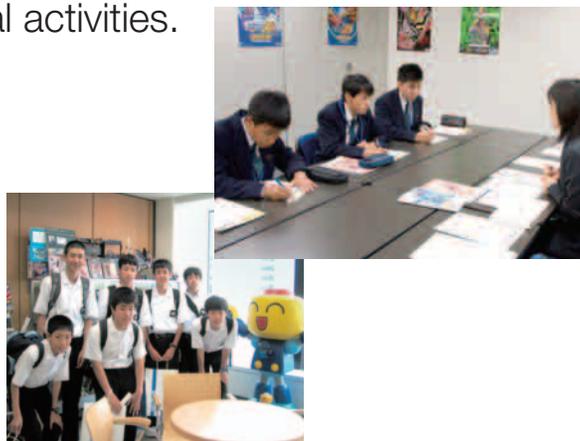
“Monster Hunter” is a series of action games where the player becomes a hunter roaming a vast wildness in search of incredibly strong, powerful monsters. Since being released in March 2004, word of the game’s accessibility spread widely, culminating in “the most distinguished game award” at the Computer Entertainment Software Association’s *Game Awards 2003–2004*. In being so highly rated and singularly unique, “Monster Hunter” had started a new trend in action games. In such a favorable climate, Capcom launched “Monster Hunter 2 (Dos)” and “Monster Hunter Freedom” during this fiscal year, with combined shipments topping the 1 million mark. Thus, the “Monster Hunter” series has evolved into one of the premier franchises that are the source of Capcom’s competitive edge.

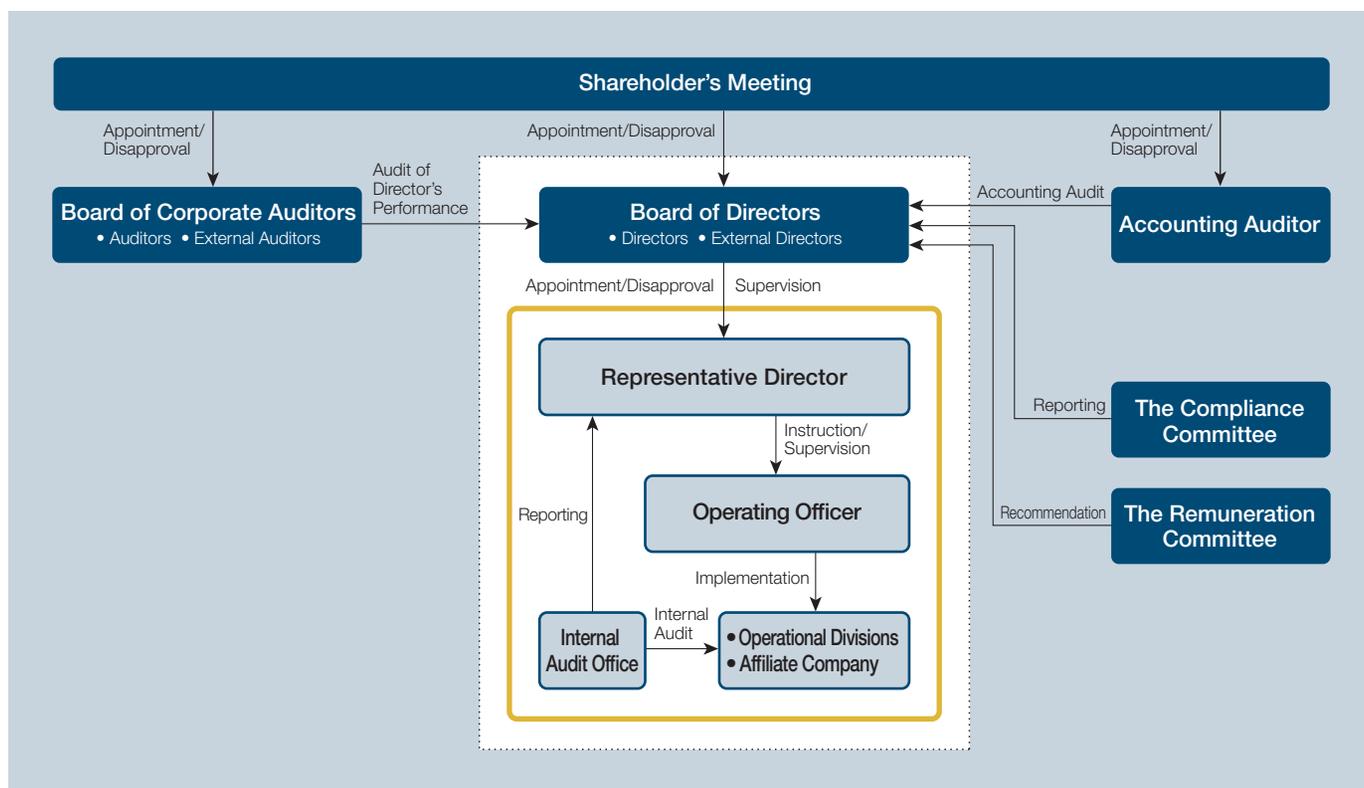


“Monster Hunter 2 (Dos)” for PS2  
“Monster Hunter Freedom” for PSP

## Contributing to children’s educational activities.

Striving to broaden the boundless creativity of children, as well as develop culture on a deeper level, Capcom has been involved in educational support activities for primary and middle school children since January 2005. By teaching children about the game creation process, from game planning to the stage where software products are actually placed on store shelves, we have been providing the opportunity for more children to experience the joy of creating something through our program. Thus far, our program has been conducted at about 30 schools as of June 2006. As a highly respected corporate citizen, we hope to continue taking an active role in helping to develop an enriched society.





**Three external auditors have been appointed to improve the transparency and reliability of the Company's management.**

We have adopted a Board of Corporate Auditors that currently consists of four members including three external auditors. The Board of Corporate Auditors decides upon such matters as auditing policy and discusses audit results, while presenting auditing matters to the president and exchanging opinions and information with the accounting auditors as needed. The Company also adopted the Operating Officer System in order to clearly distinguishing between the Board of Directors which decides matters of management policy and the Operating Officers, who are responsible for executing operations. This structure has promoted timely decision-making and the expeditious execution of duties.

The Board of Directors comprises of nine members who meet monthly in regular monthly meetings and convene special meetings as needed. Of the nine members, three are external

directors, whose opinions, advice, and checks are instrumental in rejuvenating and heightening the transparency and reliability of the Board of Directors, while at the same time serve to strengthen the management monitoring function of the Board. Moreover, a Remuneration Committee headed by an external director has been established to ensure fair and appropriate decisions on directors' compensation.

We have also set up an Audit Office as an internal audit organization, independent of the business operations divisions and under the direct control of the president. In order to guarantee and verify the legality and efficiency of the Company's operations, the Audit Office works closely with the Corporate Auditors in conducting internal audits on all divisions of Capcom. The Audit office is also responsible for making recommendations to the relevant divisions on issues and processes to be improved based on the audit results, thus ensuring that internal control functions effectively in all divisions of Capcom.

**We are endeavoring to instill full compliance by consolidating the corporate structure.**

To manage the various risks facing the Company, we have established a Compliance Committee that includes an attorney as one of its external members and which meets every three months.

The Compliance Committee conducts Periodic Compliance Checks every three months to confirm the implementation status of risk management and reports the results to the Board of Directors, in addition to alerting, advising, and counseling the parties concerned as necessary.

Furthermore, we have instituted the Capcom Codes of Conduct to strengthen our internal control system, and by instilling these corporate ethics throughout the Company, we have prevented illegal and illicit acts while ensuring legal compliance by the Company.

In order to guarantee full compliance with the Personal Information Protection Law, which

became effective in April 2005, we have taken necessary measures that include the formulation of the Personal Information Protection Program prior to enforcement of the law, and the implementation of Basic Policies of Information Security and the Personal Information Protection Rules. We have also disclosed and disseminated our privacy policies within the Company and to the public, while simultaneously promoting educational campaigns and reforms to raise the awareness of our employees so that the systems intended to protect personal information will function effectively.

Compliance not only lies at the root of corporate governance, it also represents the foundation on which the Company exercises its Corporate Social Responsibility. Therefore, we fully intend to make sustained efforts to establish the concept of full compliance among all of our directors and employees at Capcom.

**Basic IR Policies**

**1. Basic Policy on Disclosure**

Capcom believes that it is the responsibility of a listed company, as well as a necessity in terms of corporate governance, to disclose information to shareholders and investors in a timely and appropriate manner and fulfill its accountability adequately. As such, Capcom will maintain high transparency in the management of its business by taking the following basic stance in promoting IR activities:

- (1) Establishment of a responsible IR system,
- (2) Satisfactory information disclosure, and
- (3) Establishment of a system for timely disclosures.

**2. Disclosure Standards**

Capcom follows the “Security Exchange Law” and related regulations, and the “Timely Disclosure Regulations” established by the “Tokyo Stock Exchange” (hereinafter TSE) in order to provide accurate, fair and timely disclosures to the extent possible.

Capcom also intends to establish a policy of timely and fair disclosure of corporate information to meet investors’ demands, such as briefings of financial results through our website as well as printed materials, which are not subject to the above regulations.

**3. Quiet Period**

To prevent any financial information from being divulged during the preparation of financial data, prior to its announcement, a three to four week preparation period is designated the “Quiet Period”.

During this period, we refrain from responding to questions pertaining to the finances and operations of Capcom. However, if it becomes apparent that the financial results will substantially vary from the previously released projection, we will disclose information in accordance with the “Timely Disclosure Regulations”.

**4. Framework for IR Activities**

The President/CEO and the IR director is proactively engaged in IR activities with respect to domestic and foreign shareholders and investors, with an IR team four full-time employees as support.

Please direct IR-related inquiries, including questions on financial results, to the following:



Director of Investor Relations and Investor Relations staff



Presentation to individual investors

**Public Relations & Investor Relations Section**  
PHONE: 81-6-6920-3623  
E-mail: ir@capcom.co.jp  
\*Business Hours: 9:00-12:00, 13:00-17:30  
(excluding weekends and public holidays)

## Directors



President and Chief Executive Officer (CEO)

### Kenzo Tsujimoto

- 1983 Representative Director of the former CAPCOM Co., Ltd.
- 1985 President and Representative Director of the Company (to present)
- 2001 Chief Executive Officer (CEO) of the Company
- 2006 Chief Executive Officer (CEO), In charge of IT Dept. of the Company (to present)

Director and Executive Vice President  
Chief Operating Officer (COO)

### Haruhiro Tsujimoto

- 1987 Entered into the Company
- 1997 Director of the Company
- 1999 Managing Director of the Company
- 2001 Senior Managing Director and Chief Operating Officer (COO) of Sales of the Company
- 2004 Director and Executive Corporate Officer, COO and Head of Sales and Marketing of the Company
- 2005 Director and Executive Corporate Officer, COO and Head of Development, Home Video Games Business Strategies, Character Contents Business of the Company
- 2006 Director and Executive Vice President and Chief Operating Officer (COO), In charge of Home Video Games, Online Business, R&D, R&D Administration and Character Contents Business of the Company (to present)

Director and Executive Corporate Officer

### Sumitaka Hatsuno

- 1989 Entered into the Company
- 1993 General Manager of Arcade Operations Dept. of the Company
- 1999 Officer & General Manager of Arcade Operations Dept. of the Company
- 2004 Managing Corporate Officer of the Company
- 2005 In charge of Domestic Business Operations of the Company
- 2005 Director of the Company
- 2006 Director, Executive Corporate Officer, In charge of Arcade Operations, Arcade Game Sales and Pachinko and Pachislo Business of the Company (to present)

Director and Managing Corporate Officer

### Hiroshi Tobisawa

- 1997 Entered into the Company
- 1998 General Manager of Corporate Planning Dept. of the Company
- 1999 Officer & General Manager of Home Video Games Domestic Sales Division of the Company
- 2001 Managing Corporate Officer of the Company
- 2004 President of CAPCOM U.S.A. Inc. and CE EUROPE Ltd.
- 2005 Director of the Company, Managing Corporate Officer (to present)

Director and Managing Corporate Officer

### Kazuhiko Abe

- 1987 Entered into The Mitsubishi Bank, Limited (currently Tokyo-Mitsubishi UFJ Bank, Limited)
- 1994 Deputy Manager of New York Branch, The Mitsubishi Bank, Limited
- 2000 Executive Officer, Hikari Tsushin, Inc.
- 2002 Executive Officer, Intuit Kabushiki Kaisha (currently Yayoi Co., Ltd.)
- 2003 Entered the Company
- 2003 General Manager of Management Planning Dept.
- 2004 Corporate Officer and General Manager of Management Planning Dept.
- 2006 Managing Corporate Officer, Head of Corporate Strategy and Affiliated Companies' Management Dept.
- 2006 Director, Managing Corporate Officer, Chief Financial Officer (CFO), In charge of Corporate Dept. and Head of Corporate Strategy and Affiliated Companies' Management of the Company.

Director

### Tamio Oda

- 1969 Entered into The Sanwa Bank Limited (currently Tokyo-Mitsubishi UFJ Bank, Limited)
- 1997 Branch Manager of Nakanoshima Branch of the Bank
- 2001 Advisor of the Company
- 2001 Director of the Company
- 2003 Managing Director of the Company
- 2004 Director, Executive Corporate Officer, Chief Financial Officer (CFO) and In charge of Corporate Strategies, Administration, President's Office and Affiliated Companies' Management of the Company
- 2006 Director of the Company and Assigned to special missions (to present)

## Auditors



Corporate Auditor (full-time)

### Shoji Yamaguchi

- 1962 Entered into National Tax Administration Agency
- 1990 Nagoya Regional Tax Tribunal Chief Appeals Judge
- 1992 Councilor of Business Promotion Dept. of The Sumitomo Trust & Banking Co., Ltd.
- 2001 Corporate Auditor of the Company (full-time) (to present)

Corporate Auditor (full-time)

### Kazushi Hirao

- 1975 Entered into Hitachi Zosen Corporation
- 1987 Assistant Manager of the said company
- 1988 Entered into the Company
- 1997 General Manager of Overseas Business Dept. of the Company
- 1999 Corporate Officer, General Manager of Overseas Business Dept. of the Company
- 2002 General Manager of General Affairs Dept. of the Company
- 2004 Corporate Auditor of the Company (full-time) (to present)

Corporate Auditor

### Morio Kuroda

- 1954 Entered into National Tax Administration Agency
- 1980 Kumamoto Regional Tax Tribunal Chief Appeals Judge
- 1982 Entered into KYOCERA Co., Ltd.
- 1989 Advisor of the Company
- 1990 Corporate Auditor of the Company (full-time)
- 2001 Corporate Auditor of the Company (to present)
- 2002 Corporate Auditor (full-time) of CAPTRON Co., Ltd. (to present)

Corporate Auditor

### Yoshio Nakayama

- 1956 Entered into National Police Agency
- 1980 Chief of Ehime Police Headquarters
- 1983 Councilor of Security Bureau of National Police Agency
- 1985 Chief of Kanagawa Police Headquarters
- 2001 Corporate Auditor of the Company (to present)

Notes 1: Kyouji Kitamura, Kouichi Hori and Masanao Iechika are external directors as prescribed under Article 2, Section 15 of the Corporate Law of Japan.  
 2: Shoji Yamaguchi, Morio Kuroda and Yoshio Nakayama are external auditors as prescribed under Article 2, Section 15 of the Corporate Law of Japan.

## External Directors



Director

### Kyouji Kitamura

1956 Entered into Ministry of Finance  
 1973 Director-General of Research Dept. of Osaka Regional Taxation Bureau  
 1983 Director-General of Inspection Dept. of Banking Bureau  
 1986 Director-General of Securities Bureau  
 1994 President & CEO of The Osaka Securities Exchange  
 2001 Advisor of the Company  
 2001 Director of the Company (to present)

Having served as president of the Osaka Securities Exchange and as an external director, I paid particular attention to properly timed disclosure procedures and corporate governance.

With the enactment of the Corporation Law and the Financial Instruments and Exchange Law based on the revised Securities and Exchange Law, among others, the environment surrounding enterprises has undergone drastic changes. Consequently, the function to monitor management has become indispensable for companies in ensuring compliance, legality, and transparency. I believe it is here that external directors, who are required to maintain their independence, play a particularly vital role.

Recently Capcom received a notice of tax assessment from the Osaka Regional Tax Bureau regarding the transfer price used in transactions with its overseas subsidiaries. Contrary to the opinion of the Taxation Bureau, the Company believes that the said transfer price is fair and has filed a request for reconsideration of this notification. In view of the importance we ascribe to our disclosure policy, we have decided to go ahead and promptly disclose this information to the public as a source of possible risk.

Regarding corporate governance, the Company has been requested to submit *A Corporate Governance Report* by the Tokyo and Osaka Securities Exchanges, both of which list the Company's shares. Knowing the Osaka Securities Exchange as I do, I am duly concerned with this matter. In keeping with one of the requirements of disclosure, I will offer my perspective as an external director and take this opportunity as a step toward business reform.



Director

### Kouichi Hori

1989 President and Representative Director of Boston Consulting Group  
 2000 President and Chief Executive Officer of Dream Incubator Inc.  
 2001 Director of the Company (to present)  
 2006 President and Representative Director of Dream Incubator Inc. (to present)

Based on my lengthy experience in the corporate consulting business both in Japan and abroad, I offer objective guidance and advice to the management of Capcom, as well as express my unrestrained opinions at the Board of Directors Meetings.

As a result of factors including the reorganization of the past few years, the game industry has been witnessing a vast structural transformation.

The Company's bold attempts at structural reforms has recorded a certain amount of success in its performance and seen an improved profit margins of its domestic home video game sales segment.

It must be noted, however, that with the onslaught of powerful manufacturers from Europe and North America market conditions have become more severe, thus preventing the Company from achieving its goals. Consequently, I am determined to continue counseling the Company on a wide range of subjects, including the marketing of new products for diverse customers, creation of a new business model, and construction of a structure that can weather changes in the business environment.



Director

### Masanao Iechika

1962 Lawyer (to present)  
 1981 Vice President of Osaka Bar Association  
 1981 Director of Japan Federation of Bar Association  
 1988 Member of Commercial Law Committee of Judicial System and Research Dept. of Ministry of Justice  
 2002 Director of the Company (to present)

I utilize my knowledge and experience as a lawyer to offer advice and make recommendations to establish compliance in all aspects of Capcom's corporate management.

In May of 2006, the Corporation Law was enacted that requires large corporations, such as Capcom, to compile a *Basic Policy on the Internal Control System* based on the focal points of *Compliance and Increased Business Efficiency*. Beginning next fiscal year, companies must disclose in their business reports the contents of resolutions passed by their board of directors.

I had the honor of contributing to the construction of the internal control system for the Company. I will continue to fulfill my official duties as a director by monitoring and supervising the effective functioning of the internal control system, as well as implement and operation risk and information management systems.

## Corporate Officer



Managing Corporate Officer  
 Head of Research & Development Management Department

Yoshifumi Yamashita



Managing Corporate Officer  
 Head of Research & Development and Online Business

Keiji Inafune



Managing Corporate Officer  
 Head of Home Video Games Business

Katsuhiko Ichii



Managing Corporate Officer  
 Head of IT Department

Yoshiki Noro



Corporate Officer  
 Head of President's Staff Department

Setsuo Yamada



Corporate Officer  
 Head of Pachinko and Pachislo Business

Yoichi Egawa



Corporate Officer  
 Head of Character Contents Business

Toshihiro Tokumaru



Corporate Officer  
 Head of Arcade Operations Business

Motohide Imaizumi



Corporate Officer  
 Head of Arcade Game Business

Osamu Izumi



Corporate Officer  
 Head of Business Management and Finance & Accounting Department

Kazuo Tanigawa



Corporate Officer  
 Head of Administration Department

Koji Yokota



Corporate Officer  
 Deputy Head of Research & Development Department

Nobuyuki Matsushima

## Five Year Summary

CAPCOM CO., LTD. AND ITS CONSOLIDATED SUBSIDIARIES. YEAR ENDED MARCH 31

	Millions of yen					Thousands of U.S. dollars (Note 1)
	2006	2005	2004	2003	2002	2006
Net sales	¥ 70,254	¥ 65,896	¥ 52,669	¥ 62,036	¥ 62,743	\$ 600,462
Operating income	6,580	7,753	1,403	6,680	9,727	56,239
Income (loss) before income taxes	6,912	7,006	( 6,901)	( 30,049)	7,420	59,077
Net income (loss)	6,941	3,622	( 9,159)	( 19,598)	4,912	59,325
	Yen					U.S. dollars
Net income (loss) per share	125.19	63.37	( 160.91)	( 338.01)	84.21	1.07
Cash dividends applicable to the year per share	20.00	20.00	20.00	20.00	20.00	0.17
Shareholders' equity per share	716.91	589.99	559.66	753.47	1,168.51	6.13
	Millions of yen					Thousands of U.S. dollars
Total assets	98,457	106,361	93,096	106,648	128,512	841,513
Total shareholders' equity	39,464	32,491	31,854	42,888	68,233	337,299
Depreciation & Amortization	1,936	2,101	2,081	2,203	2,172	16,547
Capital expenditure	1,601	1,666	4,678	2,290	4,182	13,684
R&D expenses	1,864	1,324	1,124	1,151	1,067	15,932
	%					
ROE	19.3	11.3	( 24.5)	( 35.3)	7.5	19.3
ROA	6.8	3.6	( 9.2)	( 16.7)	4.1	6.8
Net worth ratio	40.1	30.5	34.2	40.2	53.1	40.1

Note1: U.S.dollar amounts are translated from yen at the ratio of ¥117=US\$1, the approximate exchange rate prevailing on the Tokyo Foreign Exchange Market on March 31, 2006.  
 2: Amounts per share are computed based upon weighted average number of shares of common stock outstanding during each fiscal year and adjusted for the stock splits.

## Financial Review

## 1. Operating Results

In fiscal year 2005, the year ended March 31, 2006, the resulting consolidated net sales increased to 70,254 million yen (up 6.6% from the previous year). As for profits, the consolidated operating income decreased to 6,580 million yen (down 15.1% from the previous year) due to the increase in COGS, sales costs and SGA expenses. We reviewed the valuation reserve on the differed tax assets and recorded adjustments in related accounts including corporation taxes. However, Osaka Regional Taxation Bureau sent us a correction notice of tax assessment based on the transfer price adjustments for prior fiscal years and this resulted in additional income taxes of 1,833 million yen.

## 2. Status of Each Business Segment

## (1) Home Video Games

In this business segment, "Resident Evil 4" (for PlayStation 2), one of our key software titles, showed a favorable sales growth backed by the strength of its established brand name. The introduction of "Monster Hunter 2 (Dos)" (for PlayStation 2) and online-capable "Monster Hunter Freedom" (for PlayStation Portable) heightened the appealing power of the series and both of these titles became hits. Their performance was beyond our projection, and they are growing into one of the flagship products of Capcom.

Sales of "Mega Man Battle Network 6" (for Game Boy Advance), the latest title of the series, achieved solid sales supported by its firm popularity. "Phoenix Wright" (for Nintendo DS) was developed by adding a

new episode to the first edition of the software for Game Boy Advance, and it also increased its sales on a steady basis.

“Onimusha Dawn of Dreams” (for PlayStation 2), “Without Warning” (for PlayStation 2 and Xbox), and “Beatdown” (for PlayStation 2 and Xbox) were forced to struggle especially in the overseas markets partially due to the sluggish US market and the competition with foreign game manufacturers.

The resulting net sales increased to 42,719 million yen (up 6.8% from the previous year), and the operating income decreased to 2,927 million yen (down 25.1% from the previous year).

## (2) Arcade Operations

As more people recognized arcades as easily accessible amusement facilities, the interregional competition intensified. Under this circumstance, we tried to diversify our customer base by attracting more females and families while continuing to hold on to current customers. Such efforts included creating a safe, clean, bright, and comfortable space for customers, holding a variety of events, renovating arcades, and offering thorough product line-ups that closely satisfy customers' needs. Selecting the right location to open a new facility based on customers' preference was another key point on which we focused.

Though heavy snowfall had negative effects on sales in certain areas, our existing arcade business remained generally constant. Those relatively new arcades that started operating in recent years grew satisfactorily, serving as a sales growth engine.

We opened “Plaza Capcom Nogata” in Fukuoka Prefecture and “Plaza Capcom Mito” in Ibaraki Prefecture, while closing down two unprofitable arcades during this fiscal year. “Plaza Capcom Nogata”, which resembles New York City, is in a shopping mall, whereas “Plaza Capcom Mito” is a new type of roadside large-scale facility offering a mature atmosphere that appeals to adult customers.

The current number of “Plaza Capcom” totals 30 after these activities.

The resulting net sales increased to 11,569 million yen (up 5.8% from the previous year), and the operating income increased to 2,439 million yen (up 6.2% from the previous year).

## (3) Arcade Game Sales

The video game console, “Mobile Suit Gundam

SEED Federation vs. Z.A.F.T.”, increased its sales backed by its rooted popularity. “Super Mario Fushigino Korokoro Party”, a medal game machine released in the previous fiscal year, also continued to grow.

“Donkey Kong Jungle Fever” and “Ghosts'n Goblins” won first and second positions, respectively, in the single-medal division during last year's Amusement Machine Show, and the release of these two games received considerable publicity.

However, sales lacked driving power, and we were not able to achieve the projected sales partially because the release of some major products was postponed to next year.

We brought an innovative product called “Megaman Battle Chip Stadium” to the market. The game offers a new type of entertainment by making it possible for players to link their game characters to different devices: arcade games, home video games and toys.

The resulting net sales decreased to 6,995 million yen (down 6.1% from the previous year), and the operating income decreased to 1,116 million yen (down 42.6% from the previous year).

## (4) Contents Expansion

In this business segment, the LCD device for game machines grew on a strong note serving as a growth engine. The distribution of games, including the “Phoenix Wright” series and “Monster Hunter” to cellular phones also showed a healthy performance.

In addition, we worked on strengthening collaboration with other companies. One example of such activities is that we focused on the contract work of developing software for the LCD device of PACHINKO machines utilizing our expertise in the field. The resulting net sales increased to 5,742 million yen (up 36.5% from the previous year), and the operating income increased to 2,362 million yen (up 35.6% from the previous year).

## (5) Other Businesses

The net sales from other businesses, mainly character-related licensing royalties and income from real estate leasing, decreased to 3,268 million yen (down 2.6% from the previous year), and the operating income fell to 197 million yen (down 16.1% from the previous year).

### 3. Overview of Business Performance in Each Geographic Area

#### (1) Japan

The market size of home video game software expanded thanks to the new portable game consoles that led the market recovery and made the year-end sales thrive.

“Resident Evil 4” (for PlayStation 2), one of our key software titles, showed a favorable sales growth backed by the strength of its established fan base. The “Monster Hunter” series, namely “Monster Hunter Freedom” (for PlayStation Portable) and “Monster Hunter 2 (Dos)” (for PlayStation 2), also performed beyond our projection and became hits. These titles are growing into the flagship products of Capcom.

“Mega Man Battle Network 6” (for Game Boy Advance), the latest title of the series, achieved solid sales, whereas “Onimusha Dawn of Dreams” (for PlayStation 2) and small-scale titles remained stagnant.

Supported by new arcades that started operation in recent years, the income from arcade operation increased.

As for the arcade game sales, the video game console “Mobile Suit Gundam SEED Federation vs. Z.A.F.T.” expanded its sales. However, overall sales remained weak partially because the release of some major products was postponed to next year.

In the contents expansion business, the sales of LCD device for game machines as well as the distribution of games to cellular phones, performed satisfactorily.

The resulting net sales increased to 54,304 million yen (up 12.5% from the previous year) and the operating income increased to 8,749 million yen (up 5.4% from the previous year).

#### (2) North America

In the weakening world’s largest game market, “Resident Evil 4” (for PlayStation 2) along with “Darkwatch” (for PlayStation 2 and Xbox) showed healthy performance, and other lower-priced software titles also recorded constant sales.

However, the overall sales in this region remained soft, and satisfactory sales results were not achieved because “Onimusha Dawn of Dreams” (for PlayStation 2) struggled, “Without Warning” (for PlayStation 2 and Xbox) and “Beatdown” (for PlayStation 2 and Xbox) turned flat, and other titles were small-scale.

The resulting net sales were 12,213 million yen (down 18.3% from the previous year), and the operating income was 173 million yen (down 87.9% from the previous year).

#### (3) Europe

While “Resident Evil 4” (for PlayStation 2) underwent favorable growth, the sales in this region remained weak. Some of the negative factors contributing to the result were that “Onimusha Dawn of Dreams” (for PlayStation 2) struggled, and neither “Without Warning” (for PlayStation 2 and Xbox) nor “Beatdown” (for PlayStation 2 and Xbox) achieved their projected sales.

The resulting net sales were 9,167 million yen (up 9.3% from the previous year), and the operating income was 40 million yen (down 89.6% from the previous year).

#### (4) Other Regions

Asia is one of the major markets, besides North America and Europe, which is expected to grow in the future. However, the problem of pirated software is still unsolved, and there are numerous illegal copies in the market. This situation places limitation on the sales of the packaged products for home video game consoles, resulting in the core of the Asian game market being on-line games for PCs mainly in South Korea and China. Thus, the overall sales performance in the region remained low.

The resulting net sales increased to 718 million yen (up 68.2% from the previous year), and the operating income was 73 million yen (loss of 16 million yen in the previous year).

### 4. Financial Conditions

Cash and cash equivalents (hereafter referred to as “Cash”) as of this fiscal year period decreased by 4,886 million yen from the previous fiscal year to 40,652 million yen. Cash flow positions for each activity were as stated below.

#### (1) Cash Flows From Operating Activities

Net cash provided by operating activities increased to 13,922 million yen, increased by 5,945 million yen in comparison with the previous year. This was attributed to the following; Net income before tax adjustment resulted in 6,912 million yen, a decrease of capitalized development costs by 3,051 million yen and a decrease of notes and accounts receivable by 1,795 million.

#### (2) Cash Flows From Investing Activities

Net cash used in investing activities decreased to 1,780 million yen, which was increased by 680 million yen in comparison with the previous year. This decrease was attributable to the expense of 1,512 million yen for the acquisition of property and equipment for amusement facilities.

**(3) Cash Flows Increase From Financing Activities**

Net cash used in financing activities was 18,260 million yen. This was attributable to redemption of convertible bond of 12,262 million yen, repayment of borrowings by 4,893 million yen, and payment of dividend by 1,100 million yen.

**Trends of Cash Flow Indicators**

	Year ended March	Year ended March	Year ended March
	2006	2005	2004
Ratio of capital stock (%)	40.1	30.5	34.2
Ratio of capital stock based on fair market value (%)	67.5	54.1	63.1
Debt amortization schedule (number of years)	0.4	2.8	4.4
Interest coverage ratio (times)	82.6	30.0	20.3

Ratio of capital stock = Capital stock / Total assets

Ratio of capital stock based on fair market value = Total of the capital stock at market price / Total assets

Debt amortization schedule = Interest-bearing debt / Cash flows from operating activities

Interest coverage ratio = Cash flows from operating activities / Interest payments

(1) Indicators are calculated using financial numbers in consolidated basis.

(2) Cash flows from operating activities use the “cash flows from operating activities” in the consolidated statements of cash flows. The interest-bearing debt refers to the debts posted in the consolidated balance sheets for which we are paying interests.

**Business Risks and Other Risks**

CAPCOM CO., LTD and its consolidated subsidiaries are exposed to risks which may affect its operating results, financial status, stock price and its operational environments, including but not limited to those stated below, which are based on information that is available as of March 31, 2006 and certain assumptions that serve as the basis on rational judgments.

**1. Risks related to Home Video Games****(1) Increase in Development Costs**

In recent years, home video game consoles have become sophisticated partly due to the adoption of computer graphics technology, and the development costs have tended to increase. Therefore, there is a risk that the development costs may become irrecoverable with respect to some software titles, including those which have failed to fulfill the sales plan.

**(2) Obsolescence of Game Software**

Game users are mainly children and young people. In addition, competition against other industries which have the same customer base is intensifying, including cellular phones and the Internet. Therefore, the life of products is not necessarily long, and games become outdated quickly; there is a risk that product inventory may increase and development costs may become irrecoverable.

**(3) Dependency on Popular Series**

We release many game software titles in the market.

Among them, a handful of titles tend to be dominant in terms of popularity. Further, sequel titles undergo limited volatility in terms of sales, and help stabilize our business performance. However, we may lose users in the event of any problem in these popular software titles or any change in the market environment. There is a risk that it may result in having an adverse effect on our future business strategies and business performance.

**(4) Violent Scenes and Depictions**

Some of our popular software titles have provocative graphics and text, such as violent and grotesque scenes. Accordingly, in the event of violent incidents and other criminal cases involving juveniles, we may be subject to a smear campaign by some sections of the mass media which often point out the correlation between crime and games. Therefore, there is a risk that it may result in having an adverse effect on our business performance, corporate value and narrowed distribution channel under instructions by the relevant authorities.

**(5) Seasonal Fluctuations**

Trends in the demand for games fluctuate substantially throughout the year. As the market experiences peak demand during the Christmas season until New Year's Day, the first quarter of the year tends to be relatively quiet. In this manner, there is a risk that business performance may substantially fluctuate from quarter to quarter.

#### **(6) Trends in Proliferation of Home Video Game Consoles**

Our home video game software titles are primarily supplied to game consoles made by Sony Computer Entertainment Inc., Nintendo Co., Ltd. and Microsoft Corporation. Therefore, there is a risk that our business strategies and business performance may be adversely affected in the event of any setback in the proliferation trends or any problem in their game consoles.

#### **(7) License Agreement with Console Manufactures**

We take a multi-platform approach, which involves supplying home video game software titles to all existing game platforms. Accordingly, we have a license for manufacturing and distributing game software from Sony Computer Entertainment Inc., Nintendo Co., Ltd. and Microsoft Corporation, who are also our competitors. However, there is a risk that amendments to the licensing agreements and new terms and conditions of the agreements may have an adverse effect on our future development strategies and business performance.

#### **(8) Technological enhancement of Home Video Game Platforms**

New home video game platforms have been released every four to six years in the past. In the hardware transition stage, users tend to be reluctant to purchase new software. Therefore, there is a risk that our business performance may be adversely affected by sluggish sales in the transition stage.

#### **(9) Expansion of Used Software Market**

Currently, the used software in the domestic market is estimated as a third of the new one, and is tending towards expansion. Also, the flood of pirated copies in the Asian market is becoming increasingly serious. Therefore, it is gradually becoming more difficult to recover the development costs. There is a risk that it may adversely affect our operating results, depending on the trends in the market.

### **2. Risks related to Other Businesses**

#### **(1) Arcade Operations**

There is a risk that customer traffic and the unit value of customers may be adversely affected by the popularity of installed machines, diversification of entertainment, falling birth rate, intensified competition and changes in the market environment and other such factors.

#### **(2) Arcade Games**

There is a risk that our business performance may be adversely affected by the closing gap between arcades and home video game consoles, the decline in facility operators' purchasing power, changes in the business environment and uncertainties for growth.

### **3. Risks related to Overseas Operations**

(1) There is a risk that our business strategies and business performance may be adversely affected by market trends and the existence of competitors in other countries within our sales territory, in addition to other various country risks including political, economic, legislative, cultural, religious, custom and foreign currency risks.

(2) As the volume of the overseas transaction expands, it is possible that the loss or expense burden (i.e.; tax rates and custom duties) will increase depending on the regulations or the interpretation of the accounting laws by the regulatory agencies. The operating results and financial position of the Capcom group may be affected negatively by these conditions.

(3) There is a risk that our business performance may be adversely affected by the increase in expenses and the failure to recover overseas investment in the event of unforeseeable circumstances which cannot be predicted by feasibility studies.

### **4. Risks related to Financial Status and Operating Results**

(1) As mentioned before, home video game software, which is our principal business, is exposed to the risk of increasing inventories, as the products generally have a short life and become obsolete quickly. There is a risk that our financial status and operating results may be adversely affected by their obsolescence.

(2) As already explained, our business performance may substantially fluctuate from quarter to quarter, as the market environment may change throughout the year in our industry. Also, cash flows may not be generated as originally planned, due to the fall in sales, changes in management strategies and other factors. There is a risk that it may result in having an adverse effect on the operating results in the following years.

### 5. Risks related to Development Technologies

Products relating to game machines including home video game consoles are subject to rapid technological progress, and are constantly evolving. Therefore, there is a risk that sales opportunities may be lost due to delays in responding to technological progress, which may result in having an adverse effect on our operating results and product quality.

### 6. Legislative Risks

Arcade operations are controlled by the “Entertainment Establishments Control Law” and its related regulations and ordinances. Due to the amendment and establishment of the laws and ordinances in the future, the scope of business activities may be subject to changes or preliminary examination, inspection and other procedures carried out by regulatory agencies may become stricter. There is a risk that it may result in impeding our business plans, and adversely affecting the business and operating results.

### 7. Risks related to Intellectual Property Rights

The development and distribution of game software involve intellectual property rights such as patent rights, trademark rights, utility model rights, design rights, copyrights, etc.

Therefore, there is a probability that the development and distribution of game software may become difficult if we cannot acquire intellectual property rights. Also, one cannot deny the risk of a third party's intellectual property rights being violated by us. There is a risk that they may adversely affect our operating results.

### 8. Risks related to lawsuits

Capcom sells various products including software and hardware, and we have filed lawsuits and have had lawsuits filed against us for the infringement of intellectual property rights in the past. The risk of being a target of this kind of lawsuit continues to exist in our business. Therefore, the operating results and financial positions of the Capcom group may be affected negatively by damages because of these lawsuits.

### 9. Risks related to the leakage of private information

Capcom established the guidelines regarding the protection of personal information. It is our mission to disseminate the guidelines to all of our employees and to heighten the awareness about this critical matter.

As part of such efforts, we are conducting an in-house education program once a week in which our employees review and study the Private Information Protection Law. If private information leaks outside of the company, not only the corporate image of Capcom will be destroyed, but we will be responsible for damages. Therefore, the operating results and financial position of the Capcom group may be negatively affected by these incidents.

### 10. Development and assurance of human resources

The expression, “the business is all about its people”, means that the future success and growth of any corporation depends upon competent employees. Although Capcom group is actively engaged in recruiting, educating, and securing excellent human resources, the mobility of personnel is relatively high in the game industry, and it is possible that our business activities will be disturbed if any of our talented employees decide to resign or to move to our competitors. Therefore, the operating results and financial position of the Capcom group may be affected negatively by these factors.

### 11. Risks related to Dilution of Stock Value

The aggregated convertible bonds balances of 36,500 million yen was outstanding as at March 31, 2006. If the conversion rights are exercised, dilution of stock value will occur, there is a risk that it may affect our stock price.

### 12. Risks related to Stock Price Volatility

Our stock price has substantially fluctuated in the past, and there is a possibility that it will dramatically fluctuate in the future, due to the risk factors stated above, changes in the market environment, unexpected circumstances and other causes. The risk factors vary widely, including but not limited to those attributable to Capcom, changes in the business environment of the game industry, analysis data of research agencies such as securities analysts and investor trends, and stock market conditions.

CAPCOM CO., LTD. AND ITS CONSOLIDATED SUBSIDIARIES. MARCH 31, 2006 AND 2005

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	2006
<b>Assets</b>			
<b>Current assets:</b>			
Cash and cash equivalents (Note 3)	¥ 40,652	¥ 45,538	\$ 347,453
Notes and accounts receivable	12,813	14,418	109,513
Short-term loans receivable	1,278	1,286	10,923
Inventories (Note 4)	3,742	3,913	31,983
Capitalized development costs	6,348	9,400	54,256
Prepaid expenses	422	816	3,607
Deferred tax assets (Note 10)	3,266	4,004	27,915
Other	850	638	7,265
Allowance for doubtful accounts	( 1,296)	( 1,129)	( 11,077)
<b>Total current assets</b>	<b>68,075</b>	<b>78,884</b>	<b>581,838</b>
<b>Fixed assets:</b>			
<b>Property and equipment, net of accumulated depreciation (Note 6)</b>			
Land (Note 8)	4,480	4,473	38,291
Buildings and structures (Note 8)	6,367	6,678	54,419
Amusement facilities	2,064	1,878	17,641
Machinery, equipment and other	836	780	7,145
Construction-in-progress	74	72	632
<b>Total property and equipment</b>	<b>13,821</b>	<b>13,881</b>	<b>118,128</b>
<b>Intangible fixed assets (Note 7)</b>	<b>333</b>	<b>636</b>	<b>2,846</b>
<b>Investments and other assets</b>			
Investments in securities (Note 5)	2,306	1,483	19,709
Investments in affiliated company	—	80	—
Long-term loans receivable	807	865	6,897
Deferred tax assets (Note 10)	8,624	6,030	73,709
Other	5,203	4,913	44,471
Allowance for doubtful accounts	( 712)	( 411)	( 6,085)
<b>Total investments and other assets</b>	<b>16,228</b>	<b>12,960</b>	<b>138,701</b>
<b>Total fixed assets</b>	<b>30,382</b>	<b>27,477</b>	<b>259,675</b>
<b>Total assets</b>	<b>¥ 98,457</b>	<b>¥ 106,361</b>	<b>\$ 841,513</b>

The accompanying notes are an integral part of these statements.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	2006
<b>Liabilities, minority interest and shareholders' equity</b>			
<b>Current liabilities:</b>			
Short-term borrowings	¥ —	¥ 4,193	\$ —
Current portion of long-term debt (Note 8)	10,700	12,962	91,453
Notes and accounts payable	7,214	8,473	61,658
Accrued expenses	2,084	2,499	17,812
Accrued income taxes (Note 10)	2,197	559	18,778
Allowance for sales returns	349	211	2,983
Other	4,399	2,447	37,598
<b>Total current liabilities</b>	<b>26,943</b>	<b>31,344</b>	<b>230,282</b>
<b>Long-term liabilities:</b>			
Long-term debt (Note 8)	30,630	41,330	261,795
Accrued retirement benefits for employees (Note 11)	816	741	6,974
Other	604	455	5,163
<b>Total long-term liabilities</b>	<b>32,050</b>	<b>42,526</b>	<b>273,932</b>
<b>Shareholders' equity:</b>			
Common stock, Authorized - 150,000,000 shares			
Issued - 58,435,819 shares at March 31, 2006 and 2005	27,581	27,581	235,735
Additional paid-in capital (Notes 12 and 13)	15,336	15,337	131,077
Retained earnings (accumulated deficit) (Notes 12 and 13)	1,100	( 4,682)	9,402
Unrealized holding gains and losses on available-for-sale securities (Notes 5 and 13)	793	471	6,778
Cumulative translation adjustments	( 229)	( 1,104)	( 1,958)
Treasury stock (Note 14)	( 5,117)	( 5,112)	( 43,735)
<b>Total shareholders' equity</b>	<b>39,464</b>	<b>32,491</b>	<b>337,299</b>
<b>Commitments and contingent liabilities (Note 17)</b>			
<b>Total liabilities, minority interest and shareholders' equity</b>	<b>¥ 98,457</b>	<b>¥ 106,361</b>	<b>\$ 841,513</b>

The accompanying notes are an integral part of these statements.

CAPCOM CO., LTD. AND ITS CONSOLIDATED SUBSIDIARIES. YEAR ENDED MARCH 31

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	2006
<b>Net sales</b>	<b>¥ 70,254</b>	¥ 65,896	<b>\$ 600,462</b>
<b>Cost of sales</b>	<b>47,938</b>	43,152	<b>409,727</b>
<b>Gross profit</b>	<b>22,316</b>	22,744	<b>190,735</b>
Selling, general and administrative expenses	13,872	13,667	118,564
Research and development expenses	1,864	1,324	15,932
<b>Operating income</b>	<b>6,580</b>	7,753	<b>56,239</b>
<b>Other income (expense):</b>			
Interest and dividend income	522	230	4,462
Interest expense	( 171)	( 266)	( 1,462)
Exchange gain, net	493	340	4,214
Provision for allowance for doubtful accounts	( 317)	( 626)	( 2,709)
Loss on write-down of investments in securities	( 64)	( 315)	( 547)
Other, net	( 131)	( 110)	( 1,120)
<b>Income before income taxes</b>	<b>6,912</b>	7,006	<b>59,077</b>
<b>Income taxes (Note 10):</b>			
Current	551	628	4,709
Prior year's adjustments	1,833	( 58)	15,667
Deferred	( 2,413)	2,814	( 20,624)
	( 29)	3,384	( 248)
<b>Net income</b>	<b>¥ 6,941</b>	¥ 3,622	<b>\$ 59,325</b>

	Yen		U.S. dollars (Note 1)
	2006	2005	2006
<b>Per share data</b>			
Net income			
Basic	<b>¥ 125.19</b>	¥ 63.37	<b>\$ 1.07</b>
Diluted	<b>93.49</b>	50.28	<b>0.80</b>
Cash dividends paid	<b>20.00</b>	20.00	<b>0.17</b>

The accompanying notes are an integral part of these statements.

CAPCOM CO., LTD. AND ITS CONSOLIDATED SUBSIDIARIES. YEAR ENDED MARCH 31

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	2006
<b>Common stock:</b>			
<b>Balance at end of year</b>	<b>¥ 27,581</b>	¥ 27,581	<b>(\$ 235,735)</b>
<b>Additional paid-in capital:</b>			
Balance at beginning of year	¥ 15,337	¥ 24,852	\$ 131,085
Cash dividends	—	( 569)	—
Loss on sale of treasury stock	( 1)	( 0)	( 8)
Transfer to accumulated deficit	—	( 8,946)	—
<b>Balance at end of year</b>	<b>¥ 15,336</b>	¥ 15,337	<b>\$ 131,077</b>
<b>Retained earnings (accumulated deficit):</b>			
Balance at beginning of year	( ¥ 4,682)	( ¥ 16,728)	( \$ 40,017)
Net income for the year	6,941	3,622	59,325
Transfer from additional paid-in capital	—	8,946	—
Cash dividends	( 1,099)	( 565)	( 9,393)
Increase of retained earnings due to the change of reporting entities	—	43	—
Bonuses to directors and statutory auditors	( 60)	—	( 513)
<b>Balance at end of year</b>	<b>¥ 1,100</b>	( ¥ 4,682)	<b>\$ 9,402</b>
<b>Unrealized holding gains and losses on available-for-sale securities</b>	<b>¥ 793</b>	¥ 471	<b>\$ 6,778</b>
<b>Cumulative translation adjustments</b>	<b>( ¥ 229)</b>	( ¥ 1,104)	<b>( \$ 1,958)</b>
<b>Treasury stock</b>	<b>( ¥ 5,117)</b>	( ¥ 5,112)	<b>( \$ 43,735)</b>

The accompanying notes are an integral part of these statements.

CAPCOM CO., LTD. AND ITS CONSOLIDATED SUBSIDIARIES. YEAR ENDED MARCH 31

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	2006
<b>Cash flows from operating activities:</b>			
Income before income taxes	¥ 6,912	¥ 7,006	\$ 59,077
Adjustments to reconcile income before income taxes to net cash provided by operating activities -			
Depreciation and amortization	1,936	2,101	16,547
Loss on write-down of investments in securities	64	315	547
Increase in allowance for doubtful accounts	459	544	3,923
Increase (decrease) in allowance for sales return	138	( 489)	1,179
Decrease (increase) in notes and accounts receivable	1,795	( 5,400)	15,342
Decrease in inventories	193	455	1,650
Decrease in capitalized development costs	3,051	241	26,077
Increase (decrease) in notes and accounts payable	( 1,334)	3,930	( 11,402)
Increase (decrease) in other liabilities	1,342	( 583)	11,470
Other, net	( 147)	169	( 1,256)
Cash generated from operations	14,409	8,289	123,154
Interest and dividends received	514	239	4,393
Interest paid	( 168)	( 266)	( 1,436)
Income taxes paid	( 833)	( 285)	( 7,120)
<b>Net cash provided by operating activities</b>	<b>13,922</b>	<b>7,977</b>	<b>118,991</b>
<b>Cash flows from investing activities:</b>			
Acquisition of property and equipment	( 1,512)	( 1,321)	( 12,923)
Proceeds from sale of property and equipment	52	0	444
Acquisition of investments in securities	( 62)	( 5)	( 530)
Proceeds from sale of investments in securities	45	219	385
Decrease in short-term loans receivable	66	42	564
Other, net	( 369)	( 35)	( 3,154)
<b>Net cash used in investing activities</b>	<b>( 1,780)</b>	<b>( 1,100)</b>	<b>( 15,214)</b>
<b>Cash flows from financing activities:</b>			
Net repayment of short-term borrowings	( 4,193)	( 1,402)	( 35,838)
Repayment of long-term debt	( 700)	( 700)	( 5,983)
Proceeds from issuance of bonds	—	11,500	—
Redemption of convertible bonds	( 12,262)	—	( 104,803)
Payment for purchase of treasury stock	( 6)	( 2,013)	( 51)
Cash dividends paid	( 1,100)	( 1,133)	( 9,402)
Other, net	1	0	9
<b>Net cash provided by (used in) financing activities</b>	<b>( 18,260)</b>	<b>6,252</b>	<b>( 156,068)</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b>	<b>1,232</b>	<b>278</b>	<b>10,530</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>( 4,886)</b>	<b>13,407</b>	<b>( 41,761)</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>45,538</b>	<b>32,131</b>	<b>389,214</b>
<b>Cash and cash equivalents at end of year</b>	<b>¥ 40,652</b>	<b>¥ 45,538</b>	<b>\$ 347,453</b>

The accompanying notes are an integral part of these statements.

## 1. MAJOR POLICIES IN PREPARING CONSOLIDATED FINANCIAL STATEMENTS:

The accompanying consolidated financial statements of CAPCOM CO., LTD. (hereinafter referred to as the "Company") and its subsidiaries, after modification to enhance readers' understanding, are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company as required by the Securities and Exchange Law of Japan.

In addition, the notes to the consolidated financial statements include financial information which is not required under accounting principles generally accepted in Japan, but is presented herein as additional information. The notes to the consolidated financial statements are derived from the original text written in Japanese, and the scope and nature of information is limited to those disclosed therein.

The rate of ¥117=U.S.\$ 1, the approximate current rate of exchange prevailing on March 31, 2006, has been used for the purpose of presentation of the U.S. dollar amounts in the accompanying consolidated financial statements. These U.S. dollar amounts are included solely for convenience and should not be construed as representations that the Japanese yen amounts actually represent, have been or could be converted into U.S. dollars at this or any other rate.

## 2. SIGNIFICANT ACCOUNTING POLICIES:

### (1) Principles of consolidation

The consolidated financial statements consist of the accounts of the Company and those of its 11 majority-owned subsidiaries (all 12 companies are referred to collectively as the "Companies") at the relevant balance sheet date. All significant inter-company transactions and accounts have been eliminated. The investment in 20% to 50% owned companies (hereinafter referred to as "Affiliated companies") is accounted for under the equity method.

In the event of a change in reporting entities, the consolidated financial statements are not restated, but the effect of the change on retained earnings at the beginning of the period is directly debited or credited to retained earnings (accumulated deficits) during the period.

### (2) Cash and cash equivalents

Cash and cash equivalents include all highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and are so near maturity that they present an insignificant risk of change in value.

### (3) Translation of foreign currencies

All foreign currency monetary assets and liabilities are translated into Japanese yen at the rates prevailing at the balance sheet date. Income and expenses in foreign currency are translated at the rates prevailing at the time of the transactions. The resulting exchange gains or losses are credited or charged to income as incurred. In preparing the consolidated financial statements, the assets and liabilities of foreign subsidiaries are translated into Japanese yen at the

rates in effect at the balance sheet date. The income and expenses of foreign subsidiaries are translated into Japanese yen at the monthly average rate for the year then ended. Shareholders' equity in foreign subsidiaries is translated into Japanese yen at the rates prevailing at the time when the transactions occurred. Cumulative translation adjustments, resulting from the above translation procedures, have been reported as a separate component of "Shareholders' equity" on the consolidated balance sheet.

### (4) Inventories and capitalized development costs

Inventories are stated at the lower of cost or market value, cost being principally determined by the average cost method.

Capitalized development costs for game software, including development costs incurred by subcontractors for game machines, are stated at accumulated cost on a specific project basis.

### (5) Financial instruments

#### ① Investments in securities

Available-for-sale securities with market quotations are stated at fair value at the fiscal year end. Net unrealized gains or losses on these securities are recorded as a separate component of "Shareholders' equity", at the net of tax amount. The cost of securities sold is determined based on the average cost of all such securities held at the time of sale.

Other securities without market quotations are stated at cost, cost being determined by the average cost method.

#### ② Hedge accounting

The Companies mainly use the deferral method of hedge accounting for interest rate swaps.

##### a. Hedging instruments and hedged items

Hedging instruments: Derivative transactions (Interest rate swaps)  
Hedged items : Items with exposure to fluctuations in market interest rates (Variable interest payable with regard to long-term debt)

##### b. Hedging policy

In accordance with the risk management policy defined in the Company's internal accounting rules, the Company hedges the risk of changes in interest rates.

##### c. Method of assessing the effectiveness of hedging

For interest rate swap transactions, the Company assesses the effectiveness of its hedging by computing the ratio between the amount of change accumulated, from the beginning to date, in the cash flows of the hedged items and that of the hedging instruments.

### (6) Allowance for doubtful accounts

Allowance for doubtful accounts is provided at the aggregate of the maximum amount, which is calculated based on prior loss experience and the estimated amount of probable individual bad debts at the accounting period end. This amount is considered sufficient to cover possible losses on collection.

#### (7) Property and equipment

Property and equipment is stated at cost. The Company and its domestic subsidiaries compute depreciation of tangible fixed assets using the declining balance method at rates based on the estimated useful lives of the respective assets, except for buildings (excluding leasehold improvements and auxiliary facilities attached to buildings), for which depreciation is computed using the straight-line method. Foreign subsidiaries compute depreciation on a straight-line basis in accordance with the accounting standards of the countries in which they are located.

#### (8) Intangible fixed assets

Amortization of intangible fixed assets, except for computer software for internal use, is computed by the straight-line method over the individual estimated useful life of the asset. Amortization of computer software for internal use is computed by the straight-line method and the related useful life is determined by the estimated period of internal use (5 years).

#### (9) Accounting for leases

Capital leases which do not transfer ownership of the leased assets to the lessee at the end of the lease term are principally accounted for as operating leases.

#### (10) Impairment of fixed assets

On August 9, 2002, the Business Accounting Council in Japan issued "Accounting Standard for Impairment of Fixed Assets", and on October 31, 2003, the Accounting Standard Board of Japan (ASB) issued ASB Guidance No.6, "Guidance for Accounting Standard for Impairment of Fixed Assets". The standards require that fixed assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss shall be recognized in the income statement by reducing the carrying amount of impaired assets or a group of assets to the recoverable amount to be measured as the higher of net selling price or value in use. These standards became effective from the fiscal year beginning April 1, 2005.

The Company has adopted these new standards since April 1, 2005, however, no significant impairment loss was recognized as a result of the initial adoption.

#### (11) Allowance for sales returns

An allowance for sales returns is provided for estimated losses resulting from sales returns subsequent to the balance sheet date based on prior loss experience.

#### (12) Income taxes

The statements of income of the Companies include many income and expense items for financial reporting purposes which are not currently deductible or taxable. With respect to all such temporary differences, the Companies follow the practice of inter-period tax allocation based on methods generally accepted in the respective countries where each entity is located.

#### (13) Accrued retirement benefits for employees

Accrued retirement benefits for employees are calculated based on the estimated amount of projected benefit obligations and the fair value of the plan assets at the year-end. The unrecognized net transition obligation is amortized over 15 years. Unrecognized actuarial net gains or losses are amortized over 13 years, the average remaining service period, commencing from the period following that in which they arise.

#### (14) Revenue recognition

Revenue from the sale of products is recognized when those products are shipped to customers.

#### (15) Research and development expenses

Research and development expenses (including basic research and development expenses) for the improvement of existing products or the development of products, other than the capitalized cost of game software, are charged to income when incurred.

#### (16) Per share data

The computation of net income per share is based on the weighted average number of common stock shares outstanding during each year. Cash dividends per share are based on the number of shares outstanding at the end of each period and reflect the appropriations applicable to each period rather than to the period in which shareholder approval is obtained.

#### (17) Use of estimates

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires the company's management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### (18) Reclassifications

Certain reclassifications of previously reported amounts have been made to conform with current classifications.

### 3. CASH FLOW INFORMATION:

Cash and cash equivalents at March 31, 2006 and 2005 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Cash and deposits	¥ 40,453	¥ 43,539	\$ 345,752
Commercial paper	199	1,999	1,701
	¥ 40,652	¥ 45,538	\$ 347,453

**4. INVENTORIES:**

Inventories at March 31, 2006 and 2005 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Finished goods and merchandise	¥ 2,834	¥ 2,821	\$ 24,222
Work-in-progress	732	877	6,256
Raw materials	144	114	1,231
Supplies	32	101	274
Total	¥ 3,742	¥ 3,913	\$ 31,983

**5. SECURITIES:**

Investments in securities as of March 31, 2006 and 2005 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Marketable securities	¥ 1,696	¥ 814	\$ 14,496
Others	610	669	5,213
Total	¥ 2,306	¥ 1,483	\$ 19,709

The following tables contain a summary of investments in securities that were classified as available-for-sale securities at March 31, 2006 and 2005:

As of March 31, 2006	Millions of yen			
	Acquisition cost	Gross unrealized gains	Gross unrealized losses	Book value (Estimated fair value)
Equity securities	¥ 356	¥ 1,340	—	¥ 1,696

As of March 31, 2006	Thousands of U.S. dollars			
	Acquisition cost	Gross unrealized gains	Gross unrealized losses	Book value (Estimated fair value)
Equity securities	\$ 3,043	\$ 11,453	—	\$ 14,496

As of March 31, 2005	Millions of yen			
	Acquisition cost	Gross unrealized gains	Gross unrealized losses	Book value (Estimated fair value)
Equity securities	¥ 343	¥ 472	(¥ 1)	¥ 814

**6. PROPERTY AND EQUIPMENT:**

Depreciation charges for the years ended March 31, 2006 and 2005 amounted to ¥1,567 million (\$13,393 thousand) and ¥1,736 million, respectively. The estimated useful lives of the major classes of depreciable assets ranged from 3 to 50 years for buildings and structures and from 3 to 20 years for amusement facilities.

Accumulated depreciation at March 31, 2006 and 2005 comprised the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Buildings and structures	¥ 1,885	¥ 1,458	\$ 16,111
Amusement facilities	5,053	4,551	43,188
Machinery, equipment and other	2,683	2,429	22,932
Total	¥ 9,621	¥ 8,438	\$ 82,231

**7. INTANGIBLE FIXED ASSETS:**

The amortization charge for the years ended March 31, 2006 and 2005 amounted to ¥336 million (\$2,872 thousand) and ¥334 million, respectively.

**8. LONG-TERM DEBT:**

Long-term debt at March 31, 2006 consisted of the following:

	Millions of yen	Thousands of U.S. dollars
Convertible bonds		
No interest- due March 30, 2007	¥ 10,000	\$ 85,470
No interest- due March 31, 2009	15,000	128,205
No interest- due October 8, 2009	11,500	98,291
Loans payable to banks and other financial institutions due 2006-2009, with interest ranging from 1.15% - 1.75% Secured	4,830	41,282
	¥ 41,330	\$ 353,248
Less: portion due within one year	( 10,700)	( 91,453)
Total	¥ 30,630	\$ 261,795

The aggregate annual maturities of long-term debt as at March 31, 2006 were as follows:

Year ending March 31:	Millions of yen	Thousands of U.S. dollars
	2007 (current portion)	¥ 10,700
2008	700	5,983
2009	16,960	144,957
2010	11,920	101,880
2011 and thereafter	1,050	8,975
Total	¥ 41,330	\$ 353,248

The no interest convertible bonds, due March 31, 2009, were issued on December 20, 2001 and are convertible into common stock at a conversion price of ¥3,020.00 per share. From February 1, 2002 the Company can redeem all of the bonds if the closing price of the shares for each of the 20 consecutive trading days is more than 130% of the conversion price in effect on each such trading day.

The no interest convertible bonds with stock acquisition rights (the "Conversion Rights"), due October 8, 2009, were issued on October 8, 2004. Conversion Rights are exercisable on or after October 15, 2004, up to and including October 2, 2009, unless previously redeemed or purchased and cancelled, and the bonds are convertible into common stock at a conversion price of ¥1,217.00 per share, subject to adjustment in certain events.

At March 31, 2006, the following assets were pledged as collateral for long-term debt:

	Millions of yen	Thousands of U.S. dollars
Land	¥ 3,902	\$ 33,350
Buildings and structures, net of accumulated depreciation	5,251	44,881
Total	¥ 9,153	\$ 78,231

## 9. DERIVATIVE FINANCIAL INSTRUMENTS:

The Companies use derivative financial instruments ("derivatives") to reduce their exposure to the adverse impact of fluctuations in interest rates. The principal derivatives used by the Companies are interest rate swaps.

The derivatives are subject to market risk and credit risk. Market risk means that gains or losses in the value of the derivatives could result from fluctuations in interest rates. Gains or losses on the derivatives are, however, effectively offset by gains and losses on the underlying liabilities since they also result from fluctuations in interest rates.

Credit risk means that the Companies are exposed to losses which could result from the default of counter parties. The Company believes, however, that risk of loss due to default by counter parties is extremely low because the Companies limit their dealings with counter parties to only financial institutions with high credit ratings.

## 10. INCOME TAXES:

The Company is subject to several taxes based on income which, in aggregate, resulted in a statutory tax rate of approximately 40.6% in the period ended March 31, 2006 and 2005.

Reconciliation of the difference between the statutory tax rate and the effective income tax rate at March 31, 2006 and 2005 comprised the following.

	2006	2005
Statutory tax rate	40.6%	40.6%
Change in valuation allowance	△ 66.5%	2.9%
Foreign tax credit	5.0%	1.9%
Elimination of unrealized profits among consolidated companies	△ 6.0%	3.5%
Income of foreign subsidiaries taxed at lower than the Japanese statutory tax rate	△ 0.5%	△ 1.1%
Income taxes paid for prior years	26.5%	—
Other	0.5%	0.5%
Effective income tax rate per consolidated statement of income	△ 0.4%	48.3%

Income taxes for prior years with regard to transfer pricing taxation were paid in 2006 as a result of an assessment by tax authorities.

The significant components of deferred tax assets at March 31, 2006 and 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
<b>Deferred tax assets:</b>			
Inventories	¥ 854	¥ 521	\$ 7,299
Allowance for doubtful accounts	639	466	5,462
Accrued expenses	961	1,577	8,214
Accrued retirement benefits for employees	331	280	2,829
Loss on disposal of inventories	1,896	1,693	16,205
Tax loss carry-forwards in the Company	8,361	7,505	71,462
Tax loss carry-forwards in the consolidated subsidiaries	1,517	4,590	12,966
Other	747	705	6,384
Sub-total	15,306	17,337	130,821
Less: valuation allowance	( 2,706)	( 7,303)	( 23,129)
Deferred tax assets	¥ 12,600	¥ 10,034	\$ 107,692
<b>Deferred tax liabilities:</b>			
Unrealized gains and losses on available for sale securities	(¥ 542)	¥ —	(\$ 4,632)
Cumulative translation adjustments	( 168)	—	( 1,436)
Deferred tax liabilities	( 710)	—	( 6,068)
Net Deferred tax assets	¥ 11,890	¥ 10,034	\$ 101,624

**11. ACCRUED RETIREMENT BENEFITS FOR EMPLOYEES:**

The Company and its domestic consolidated subsidiaries have unfunded lump-sum benefit plans and funded non-contributory pension plans, generally covering all employees. Under the terms of the Company's and its domestic subsidiaries' retirement plans, substantially all employees are entitled to a lump-sum payment at the time of retirement. The amount of the retirement benefits is, in general, based on the length of service, basic salary at the time of retirement, and reason for retirement.

The non-contributory pension plans of the Company and its domestic consolidated subsidiaries, which cover those employees who have served with those companies for more than 10 years and who have reached the age of 45, generally provide for pension payments for a period of 10 years subsequent to retirement (or a lump-sum payment at the retiring employee's option). The annual charge for current service costs in respect of these plans is determined actuarially and funded currently through outside trustees.

The following tables set forth the changes in the projected benefit obligations, plan assets and funded status of the Company and its domestic consolidated subsidiaries at March 31, 2006 and 2005:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Projected benefit obligations at end of year	¥ 2,003	¥ 1,959	\$ 17,120
Fair value of plan assets at end of year	( 790)	( 596)	( 6,752)
Funded status:			
Projected benefit obligations in excess of plan assets	1,213	1,363	10,368
Unrecognized transition obligation	( 331)	( 368)	( 2,829)
Unrecognized actuarial differences	( 66)	( 254)	( 565)
Accrued pension liability recognized in the consolidated balance sheet	¥ 816	¥ 741	\$ 6,974

The retirement and pension costs of the Company and its domestic consolidated subsidiaries for the years ended March 31, 2006 and 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Service costs	¥ 176	¥ 187	\$ 1,505
Interest costs	22	22	188
Expected return on plan assets	( 15)	( 14)	( 128)
Amortization:			
Transition obligation	37	37	316
Actuarial differences	26	30	222
Net periodic benefit costs	¥ 246	¥ 262	\$ 2,103

The assumptions used to account for the defined benefit plans for the years ended March 31, 2006 and 2005 were as follows:

	2006	2005
Method of attributing the projected benefit obligations to periods of service	Straight-line basis	Straight-line basis
Discount rate	1.5%	1.5%
Long-term rate of return on plan assets	2.5%	2.5%
Amortization period for transition obligation	15years	15 years
Amortization period for actuarial differences	13years	13 years

Also, foreign consolidated subsidiaries in the USA have a defined contribution savings plan for eligible employees, and contributed ¥24 million (\$205 thousand) and ¥25 million for the years ended March 31, 2006 and 2005, respectively.

**12. ADDITIONAL PAID-IN CAPITAL AND RETAINED EARNINGS (ACCUMULATED DEFICIT):**

On the accompanying consolidated financial statements, "Additional paid-in capital" consists of the capital reserve pursuant to the Japanese Commercial Code, amounts transferred from common stock and/or the capital reserve and proceeds from the resale of treasury stock in excess of its cost (collectively, the "other capital reserves") etc., and "Retained earnings (accumulated deficit)" consists of the earned reserve pursuant to the Japanese Commercial Code, voluntary reserves, and unappropriated retained earnings (undisposed accumulated deficit), etc.

**13. APPROPRIATION OF UNAPPROPRIATED RETAINED EARNINGS:**

The Japanese Commercial Code requires that all appropriations of unappropriated retained earnings, except for interim cash dividends, be approved at an ordinary general meeting of shareholders. In accordance with customary practice in Japan, the appropriation of unappropriated retained earnings is not accrued in the financial statements for the year to which it relates, but is recorded in the subsequent accounting year after shareholder approval has been obtained.

The Japanese Commercial Code provides that an amount equal to at least 10% of cash dividends and directors bonuses etc. paid be appropriated and set aside as the earned reserve. No further appropriation is required when the sum of the earned reserve and the capital reserve pursuant to the Japanese Commercial Code (collectively, the "legal reserves") equals 25% of common stock. The legal reserves may be used to eliminate or reduce a deficit by resolution of the shareholders or may be capitalized by resolution of the Board of Directors.

The maximum amount that the Company can distribute as dividends is calculated based on the unconsolidated financial statements of the Company in accordance with the Japanese Commercial Code. In addition, unrealized holding gains on available-for-sale securities, net of related taxes, are not available for distribution as cash dividends or bonuses to directors and/or statutory auditors. Under the amended Japanese Commercial Code, amounts transferred from common stock and/or the capital reserve are available for distribution as cash dividends.

The following appropriations of retained earnings of the Company were proposed by the board of directors and approved at the general meeting of shareholders held on June 23, 2006.

	Millions of yen	Thousands of U.S. dollars
Balance of retained earnings at March 31, 2006	¥ 6,708	\$ 57,333
Appropriations -		
Cash dividends (¥10 per share outstanding at March 31, 2006)	549	4,692
Bonuses to directors and statutory auditors	60	513
Balance of retained earnings after appropriations	¥ 6,099	\$ 52,128

#### 14. TREASURY STOCK:

Under the amended Japanese Commercial Code, the Company is allowed to acquire its own shares to the extent that the aggregate cost of treasury stock does not exceed the maximum amount available for dividends. Treasury stock is stated at cost within "Shareholders' equity" on the accompanying consolidated balance sheets. Net gains on the resale of treasury stock are included in "Additional paid-in capital" on the accompanying consolidated balance sheets.

3,471,091 of the Company's common stock shares were outstanding at March 31, 2006.

#### 15. BALANCES AND TRANSACTIONS WITH RELATED PARTIES:

Balances and transactions of the company with companies owned by the director are presented below:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Cross Road limited private company			
Long-term leasehold deposit	¥ 2	—	\$ 17
Lease of office	¥ 2	—	\$ 17
Dream Incubator inc.			
Accrued expenses	¥ 47	—	\$ 402
Consulting fee	¥ 90	—	\$ 769

Balances and transactions of the company with an affiliated company accounted for under the equity method are presented below:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
KOKO CAPCOM CO., LTD.			
Accounts receivable-trade	¥ 64	¥ 54	\$ 547
Net sales	¥ 10	¥ 59	\$ 85

#### 16. SEGMENT INFORMATION:

##### (1) Business segments

Effective from April 1, 2005, the Companies changed their business segmentation from 4 business segments to 5 business segments. The business with regard to mobile phones contents and LCD display base boards, which was included in the "Other" segment in 2005, was separately disclosed as the "Contents Expansion" segment in 2006. On the segment information tables, the "Contents Expansion" segment in 2005 is also disclosed separately to conform with current classification.

The Companies have 5 business segments. The "Home video games" segment develops and distributes home video game software. The "Arcade operations" segment operates amusement facilities. The "Arcade games" segment develops, manufactures and distributes arcade game software and hardware to amusement facility operators. The "Contents Expansion" segment develops and distributes contents for mobile phones and develops, manufactures and distributes LCD displays base boards for amusement machines. The segment titled "Other" includes the licensing out of the game characters.

The following tables present certain information regarding the business segments for the years ended March 31, 2006 and 2005:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
<b>Net sales:</b>			
Home video games:			
Customers	¥ 42,719	¥ 39,985	\$ 365,120
Arcade operations:			
Customers	11,569	10,935	98,880
Arcade games:			
Customers	¥ 6,956	¥ 7,412	\$ 59,453
Inter-segment	39	38	333
	6,995	7,450	59,786
Contents Expansion:			
Customers	5,742	4,207	49,077
Other:			
Customers	3,268	3,357	27,932
Sub-total	70,293	65,934	600,795
Eliminations and corporate	( 39)	( 38)	( 333)
Consolidated	¥ 70,254	¥ 65,896	\$ 600,462

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
<b>Cost of sales and direct expenses:</b>			
Home video games	¥ 39,792	¥ 36,077	\$ 340,103
Arcade operations	9,130	8,638	78,034
Arcade games	5,879	5,505	50,248
Contents Expansion	3,380	2,464	28,889
Other	3,071	3,123	26,247
Sub-total	61,252	55,807	523,521
Eliminations and corporate	2,422	2,336	20,702
Consolidated	¥ 63,674	¥ 58,143	\$ 544,223

**Operating income:**

Home video games	¥ 2,927	¥ 3,908	\$ 25,017
Arcade operations	2,439	2,296	20,846
Arcade games	1,116	1,945	9,538
Contents Expansion	2,362	1,743	20,188
Other	197	235	1,685
Sub-total	9,041	10,127	77,274
Eliminations and corporate	( 2,461)	( 2,374)	( 21,035)
Consolidated	¥ 6,580	¥ 7,753	\$ 56,239

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
<b>Total assets:</b>			
Home video games	¥ 20,686	¥ 28,931	\$ 176,803
Arcade operations	8,400	7,814	71,795
Arcade games	5,921	7,056	50,607
Contents Expansion	3,341	2,245	28,556
Other	5,274	3,993	45,077
Sub-total	43,622	50,039	372,838
Eliminations and corporate	54,835	56,322	468,675
Consolidated	¥ 98,457	¥ 106,361	\$ 841,513

**Depreciation:**

Home video games	¥ 359	¥ 410	\$ 3,068
Arcade operations	831	855	7,103
Arcade games	40	47	342
Contents Expansion	17	10	145
Other	405	485	3,462
Sub-total	1,652	1,807	14,120
Eliminations and corporate	284	294	2,427
Consolidated	¥ 1,936	¥ 2,101	\$ 16,547

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
<b>Capital expenditure:</b>			
Home video games	¥ 297	¥ 224	\$ 2,538
Arcade operations	1,096	1,218	9,368
Arcade games	147	58	1,256
Contents Expansion	18	4	154
Other	0	28	0
Sub-total	1,558	1,532	13,316
Eliminations and corporate	43	134	368
Consolidated	¥ 1,601	¥ 1,666	\$ 13,684

**(2) Geographic areas**

The following tables present certain geographic area information for the years ended March 31, 2006 and 2005:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
<b>Net sales:</b>			
<b>Japan:</b>			
Customers	¥ 48,683	¥ 42,359	\$ 416,094
Inter-segment	5,621	5,928	48,043
	54,304	48,287	464,137
<b>North America:</b>			
Customers	11,748	14,721	100,411
Inter-segment	465	236	3,974
	12,213	14,957	104,385
<b>Europe:</b>			
Customers	9,105	8,389	77,820
Inter-segment	62	—	530
	9,167	8,389	78,350
<b>Other:</b>			
Sub-total	76,402	72,060	653,009
Eliminations and corporate	( 6,148)	( 6,164)	( 52,547)
Consolidated	¥ 70,254	¥ 65,896	\$ 600,462

**Cost of sales and direct expenses:**

Japan	¥ 45,555	¥ 39,989	\$ 389,359
North America	12,040	13,523	102,906
Europe	9,127	8,003	78,009
Other	645	443	5,512
Sub-total	67,367	61,958	575,786
Eliminations and corporate	( 3,693)	( 3,815)	( 31,563)
Consolidated	¥ 63,674	¥ 58,143	\$ 544,223

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
<b>Operating income (loss):</b>			
Japan	¥ 8,749	¥ 8,298	\$ 74,778
North America	173	1,434	1,479
Europe	40	386	341
Other	73	( 16)	624
Sub-total	9,035	10,102	77,222
Eliminations and corporate	( 2,455)	( 2,349)	( 20,983)
Consolidated	¥ 6,580	¥ 7,753	\$ 56,239

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
<b>Total assets:</b>			
Japan	¥ 37,050	¥ 42,269	\$ 316,667
North America	4,961	5,952	42,402
Europe	4,120	5,408	35,214
Other	398	201	3,401
Sub-total	46,529	53,830	397,684
Eliminations and corporate	51,928	52,531	443,829
Consolidated	¥ 98,457	¥ 106,361	\$ 841,513

### (3) Foreign sales

The following table presents certain information regarding sales of the Companies outside Japan for the years ended March 31, 2006 and 2005:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
<b>Net sales:</b>			
North America	¥ 12,024	¥ 15,526	\$ 102,769
Europe	8,944	8,697	76,444
Other	1,071	506	9,155
	¥ 22,039	¥ 24,729	\$ 188,368

	Percentage	
	2006	2005
Percentage of such sales included in consolidated net sales	31.4%	37.5%

## 17. LEASES:

### (1) Financing leases

#### Lease transactions as a lessee

Payments in respect of financing leases that do not transfer ownership of the leased assets to the lessee, for the years ended March 31, 2006 and 2005, were ¥1,346 million (\$11,504 thousand) and ¥1,287 million, respectively.

The future lease payments at March 31, 2006 and 2005, excluding amounts representing interest, are as shown below:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Due within one year	¥ 1,172	¥ 1,094	\$ 10,017
Due after more than one year	872	1,106	7,453
	¥ 2,044	¥ 2,200	\$ 17,470

### (2) Operating leases

Future lease payments under non-cancelable operating leases at March 31, 2006 and 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Due within one year	¥ 1	¥ 1	\$ 9
Due after more than one year	1	1	8
	¥ 2	¥ 2	\$ 17

## 18. SUBSEQUENT EVENTS:

Through a resolution of the Board of Directors held on May 23, 2006, the Company repurchased 1,000,000 shares of the Company's common stock at an aggregate cost of ¥1,232 million (\$10,530 thousand) in the period from May 24, 2006 to June 8, 2006.

To the Board of Directors and  
Shareholders of  
CAPCOM CO., LTD.

We have audited the accompanying consolidated balance sheets of CAPCOM CO., LTD. and its consolidated subsidiaries as of March 31, 2006 and 2005, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in Japanese Yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of CAPCOM CO., LTD. and its consolidated subsidiaries as of March 31, 2006 and 2005, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

As described in Note 16, effective from April 1, 2005, CAPCOM CO., LTD. and its consolidated subsidiaries changed their business segmentation.

The amounts expressed in U.S. dollars, which are provided solely for the convenience of the reader, have been translated on the basis set forth in Note 1 to the accompanying consolidated financial statements.

*ChuoAoyama PricewaterhouseCoopers*

Osaka, Japan  
June 23, 2006

Capcom was founded in 1983 with origins as a developer and distributor of electronic applied game machines. We entered into the development and sales of coin-operated game software and expanded the size of our business through synergies in the home video game business and had unexpected rapid growth. To date, we have released many hits including the blockbuster franchises of "Street Fighter II", "Mega Man", "Resident Evil" and "Onimusha". We have constantly pushed frontiers in developing new fields and solidifying our status in the amusement industry. We will continue to be a creator of entertainment culture that excites people and stimulates their senses.

1983

**Jul.** Released our first originally developed coin-op "Little League".

**Oct.** Released the coin-op "Fever Chance".

**Dec.** Opened "Acty 24", a video arcade under the direct management of Capcom.

1984

**May.** Released our first arcade video game "Vulgar".

**Dec.** Released the arcade video game "1942".



1985

**May.** Released the arcade video game "Commando".

**Sep.** Released the arcade video game "Ghosts'n Goblins".

**Dec.** Released our first home video game "1942" for Nintendo Entertainment System (NES).



1986

**Jun.** Released "Ghosts'n Goblins" for NES.

**Sep.** Released "Commando" for NES.

1987

**Aug.** Released the arcade video game "Street Fighter".

**Dec.** Released "Mega Man" for NES.

1989

**Dec.** Released the arcade video game "Final Fight".

1990

**Dec.** Released "Final Fight" for Super Nintendo Entertainment System (Super NES).



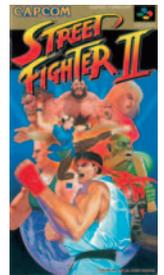
1991

**Mar.** Released the arcade video game "Street Fighter II" and it triggered the "Street Fighter II" boom.



1992

**Jun.** Released "Street Fighter II" for Super NES, and it was a mega-hit.



1993

**Apr.** Released "Breath of Fire" for Super NES.

**Jul.** Opened "CapcoCircus Nigata East", the largest arcade in Nigata.



1994

**Aug.** Premiere of the animated movie "Street Fighter II".

**Dec.** Premiere of the Hollywood movie "Street Fighter".



## 1979 >>>

**May. 1979**  
Established I.R.M Corporation (capital of 10 million yen) with objectives of developing and selling electric applied game machines in Matsubara, Osaka.

**May. 1981**  
Established the subsidiary JAPAN CAPSULE COMPUTER Co., Ltd .

**Sep. 1981**  
Corporate name was changed to SANBI Co., Ltd., and the head office was moved to Habikino, Osaka.

**Jun. 1983**  
Established old CAPCOM Co., Ltd., (capital of 10 million yen) in Hirano, Osaka for the purpose of selling software.

**Oct. 1983**  
Established Tokyo Branch in Shinjuku, Tokyo.

## 1985 >>>

**Aug. 1985**  
Established CAPCOM U.S.A., Inc., in California for distribution of Capcom's products in the U.S.A.

**Jan. 1989**  
Old CAPCOM Co., Ltd., was merged with SANBI. Corporate name was changed to CAPCOM Co., Ltd., and the head office was moved to Higashi-ku, Osaka.

**Aug. 1989**  
Established a resident office in U.K.

## 1990 >>>

**Oct. 1990**  
Stocks registered as OTC securities with the Japan Securities Dealers Association.

**Feb. 1991**  
Purchased YUNIKA Co., Ltd., and turned it into a 100% subsidiary.

**Dec. 1991**  
Changed the name of YUNIKA Co., Ltd., to CAPTRON Co., Ltd.

**Jul. 1993**  
Established CAPCOM ASIA Co., Ltd. in Hong Kong for distribution of Capcom's products in Southeast Asia.

**Oct. 1993**  
Stock was listed on the Second Section of the Osaka Securities Exchange.

**May. 1994**  
Constructed Ueno facility in Mie.

**Jul. 1994**  
Constructed head office, which was relocated to Uchihirano-machi, Chuo-ku, Osaka.



**1995**

**Apr.**  
Began broadcasting the TV animation "Street Fighter IV".

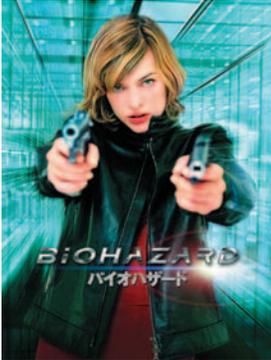
**1996**

**Mar.**  
Released "Resident Evil" for PlayStation, a long selling title which had record breaking sales, and established the genre of survival horror.

**1999**

**Jul.**  
Released "Dino Crisis" for PlayStation, and it was a mega-hit.



**2001**

**Jan.**  
Released "Onimusha" for PlayStation 2, and it sold over a million copies, a first for a PlayStation 2 title.

**Aug.**  
Released "Devil May CRY" for PlayStation 2, and it was a mega-hit.

**Oct.**  
Released "Phoenix Wright" for Game Boy Advance, and it drew public attention as a courtroom battle title.




**2002**

**Mar.**  
Began broadcasting the TV animation based on the hit title "Mega Man Battle Network".

**Mar.**  
Premiere of the Hollywood movie "Resident Evil" which recorded sales of 102 million dollars worldwide.

**2003**

**Jun.**  
Released "Viewtiful Joe" for Nintendo Game Cube.

**2004**

**Feb.**  
Entered the publishing business and released the first strategy guidebook for "Onimusha 3".

**Sep.**  
Premiere of the Hollywood movie "Resident Evil: Apocalypse", and it grossed 100 million dollars worldwide.



**Oct.**  
"Monster Hunter" won the grand award at the 8th annual CESA GAME AWARDS.

**Oct.**  
Began broadcasting the TV animation based on the hit title "Viewtiful Joe".



**2005**

**Mar.**  
Premiere of the animated movie "Mega Man".



**Dec.**  
Opened roadside arcade "Plaza Capcom Mito" in Ibaraki Prefecture.



**2006**

**Jun.**  
Developed "Mega Man Battle Chip Stadium" arcade game consistent with Mega Man game software and toys.

**Feb.**  
Sales of "Monster Hunter Freedom" software for PSP reached the 500,000 mark in Japan.

**Feb.**  
Worldwide sales of "Resident Evil 4", the new title in the monster hit Resident Evil series, reached the 3 million mark.

## 1995 >>>

## 2000 >>>

## 2005 >>>

**Jun. 1995**  
Established CAPCOM COIN-OP, Inc., CAPCOM ENTERTAINMENT, Inc., and CAPCOM DIGITAL STUDIOS, Inc. (currently CAPCOM STUDIO 8, Inc.), which CAPCOM U.S.A., Inc., holds for the purposes of enhancing and maximizing functions such as management, distribution, and R&D in U.S.A.

**Apr. 1997**  
Established FLAGSHIP Co., Ltd., with a view of game scenario creation.

**Jul. 1998**  
Established CAPCOM EUROSOFT Ltd. in U.K.

**Sep. 1999**  
Stock changed listing to the First Section of the Osaka Securities Exchange.

**Oct. 2000**  
Stock was listed on the First Section of the Tokyo Stock Exchange.

**Sep. 2001**  
Established 100% subsidiary CAPCOM CHARBO Co., Ltd., for the purpose of offering support services for communication tools such as mobile phones.

**Nov. 2002**  
Established CE EUROPE LTD. in U.K.

**Feb. 2003**  
Established CEG INTERACTIVE ENTERTAINMENT GmbH in Germany.

**Jul. 2004**  
Established CLOVER STUDIO Co., Ltd., for the purpose of software R&D.

**May. 2006**  
Acquired Canadian mobile game maker Cosmic Infinity Inc. and made it a full subsidiary of Capcom.



Head Office



Tokyo Branch



R&amp;D Building

## Corporate Profile

<b>Name of Company</b>	Capcom Co., Ltd.
<b>Date of Establishment</b>	May 30, 1979
<b>Date of Initiation</b>	June 11, 1983
<b>Business Segments</b>	<ol style="list-style-type: none"> <li>1. Planning, development and sale of home video games</li> <li>2. Planning, development, manufacture and sale of arcade games</li> <li>3. Management of amusement arcades</li> </ol>

<b>Paid-in Capital</b>	¥ 27,581 million
<b>End of Term</b>	March 31
<b>Number of Employees</b>	1,028 (Capcom Co., Ltd.) 1,212 (including consolidated subsidiaries)

## Capcom's Subsidiaries

- CAPCOM U.S.A., Inc. (U.S.A.)**  
 475 Oakmead Parkway, Sunnyvale, California 94085 U.S.A.  
 PHONE: 1-408-774-0500 FAX: 1-408-774-3994  
<http://www.capcom.com/>  
 Paid-in Capital: US\$ 159,949 thousand  
 Business Segment: Holding company and administration of subsidiary in U.S.
- CAPCOM ENTERTAINMENT, Inc. (U.S.A.)**  
 475 Oakmead Parkway, Sunnyvale, California 94085 U.S.A.  
 PHONE: 1-408-774-0500 FAX: 1-408-774-3995  
 Paid-in Capital: US\$ 1 million  
 Business Segment: Sale of home video games
- CAPTRON Co., Ltd.**  
 3-1-3 Uchihirano-machi, Chuo-ku, Osaka, 540-0037, Japan  
 PHONE: 81-6-6920-3626 FAX: 81-6-6920-5126  
 Paid-in Capital: ¥ 1,640 million  
 Business Segment: Rent, lease and operation of real estate properties
- CAPCOM ASIA Co., Ltd. (Hong Kong)**  
 Units 1510-1511, North Tower Concordia Plaza, No.1 Science Museum Road, Tsimshatsui East, Kowloon, Hong Kong  
 PHONE: 852-2366-1001 FAX: 852-2366-1985  
<http://www.capcomasia.com.hk/>  
 Paid-in Capital: HK\$ 21,500 thousand  
 Business Segment: Sale of home video games
- FLAGSHIP Co., Ltd.**  
 3-2-8 Uchihirano-machi, Chuo-ku, Osaka, 540-0037, Japan  
 PHONE: 81-6-6966-0973 FAX: 81-6-6920-7695  
 Paid-in Capital: ¥ 70 million  
 Business Segment: Planning and development of game software
- CAPCOM CHARBO Co., Ltd.**  
 3-1-3 Uchihirano-machi, Chuo-ku, Osaka, 540-0037, Japan  
 PHONE: 81-6-6920-3616 FAX: 81-6-6920-5170  
<http://www.juden.net/>  
 Paid-in Capital: ¥ 300 million  
 Business Segment: Rental, maintenance and lease of electronic game machines
- CE EUROPE Ltd. (U.K.)**  
 9th Floor, 26-28 Hammersmith Grove, Hammersmith, London W6 7HA, U.K.  
 PHONE: 44-20-8846-2550 FAX: 44-20-8741-4176  
<http://www.capcom-europe.com/>  
 Paid-in Capital: £ 1 million  
 Business Segment: Sale of home video games
- CEG INTERACTIVE ENTERTAINMENT GmbH**  
 Barmbeker Str.4b 22303 Hamburg Germany  
 PHONE: 49-40-6965-620 FAX: 49-40-6965-6222  
 Paid-in Capital: 25 thousand  
 Business Segment: Sale of home video games

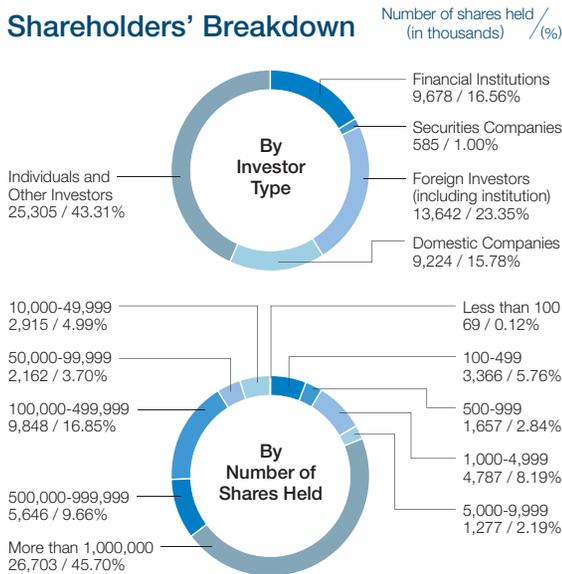
## Major Offices

<b>Head Office</b>	3-1-3 Uchihirano-machi, Chuo-ku, Osaka, 540-0037, Japan PHONE: 81-6-6920-3600 FAX: 81-6-6920-5100
<b>R&amp;D Building</b>	3-2-8 Uchihirano-machi, Chuo-ku, Osaka, 540-0037, Japan PHONE: 81-6-6920-7600 FAX: 81-6-6920-7698
<b>Tokyo Branch</b>	Shinjuku Mitsui Building 2-1-1 Nishi Shinjuku, Shinjuku-ku, Tokyo, 163-0425, Japan PHONE: 81-3-3340-0710 FAX: 81-3-3340-0711
<b>Ueno Facility</b>	3902 Hatta, Iga, Mie, 518-1155, Japan PHONE: 81-595-20-2030 FAX: 81-595-20-2044

Stock Data

<b>Stock Exchange Listings</b>	Tokyo, Osaka
<b>Number of Shares Authorized</b>	150,000,000 shares
<b>Number of Shares Issued</b>	58,435,819 shares
<b>Number of Shareholders</b>	25,505 shareholders

Shareholders' Breakdown

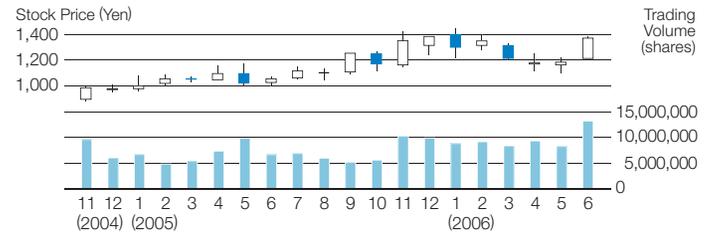


Major Shareholders

Major Shareholders	Number of Shares Held (in thousands)	Investment Ratio (%)
Crossroad Limited	6,771	11.59
Japan Trustee Services Bank, Ltd. (Trust Account)	3,650	6.25
Kenzo Tsujimoto	2,900	4.96
Yoshiyuki Tsujimoto	1,669	2.86
Ryozo Tsujimoto	1,545	2.65
Haruhiro Tsujimoto	1,545	2.65
Morgan Stanley & Co., Inc.	1,459	2.50
Master Trust Bank of Japan, Ltd. (Trust Account)	1,289	2.21
STATE STREET BANK AND TRUST COMPANY 505019	1,229	2.10
KENZO Ltd.	1,170	2.00

Note: Capcom owns 3,471,000 stocks as treasury stocks. The stocks owned by the company are excluded from the above list.

Stock Price Range / Trading Volume



Capcom Investor Relations Website <http://ir.capcom.co.jp/english/>

We also operate an Investor Relations (IR) website to provide shareholders and investors with up-to-date information about Capcom on a timely basis. We are committed to making this website as useful as possible and regularly renew the contents, adding new features such as a stock quote on the top page and an archive of IR presentation materials. Please visit the website and utilize it for all of your information needs.



Capcom's IR website has been highly acclaimed in various website rankings for the extensiveness of information it provides and its ease of use.

What's New

Appearing in the center of the IR top page, the What's New section lists notable new IR information and has an RSS (Really Simple Syndication) option which sends new information and press releases out using an RSS feed, enabling users to view the latest information as soon as it becomes available.

IR Presentation Materials

This section contains an extensive archive of information, including easy-to-read graphs and tables of market data and popular software sales, as well as video streams of financial result briefings.



Stock Quote

The current stock price and a detailed stock price chart appear on the IR top page.

Capcom IR Mail

Register your email address here to receive information about press releases and financial results by e-mail.

Mobile Phone Access

<http://m-ir.jp/c/9697>



In addition to financial result summaries and stock information, Capcom's closing stock price and latest press release information can be obtained by accessing the Capcom website from a mobile phone. If you have a mobile phone that reads QR codes (two-dimensional bar codes), scan the image on the left for easy access to the site.

\* See your mobile phone manual for information on how to scan QR codes. \* This service supports only Japanese.



**CAPCOM**



**CAPCOM CO., LTD.**

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<http://www.capcom.co.jp/>

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## Corporate Profile

### Name of Company

Capcom Co., Ltd.

### Date of Establishment

May 30, 1979

### Date of Initiation

June 11, 1983

### Business Segments

1. Planning, development and sale of home video games
2. Planning, development, manufacture and sale of arcade games
3. Management of amusement arcades

### Paid-in Capital

¥27,581 Million

### End of Term

March 31

### Stock Exchange Listings

Tokyo, Osaka

### Number of Employees

1,028 (Capcom Co., Ltd.)  
 1,212 (including consolidated subsidiaries)

### Major Offices

#### Head Office

3-1-3 Uchihirano-machi, Chuo-ku, Osaka, 540-0037, Japan  
 PHONE: 81-6-6920-3600  
 FAX: 81-6-6920-5100

#### R&D Building

3-2-8 Uchihirano-machi, Chuo-ku, Osaka, 540-0037, Japan  
 PHONE: 81-6-6920-7600  
 FAX: 81-6-6920-7698

#### Tokyo Branch

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Research & Development

## Company Guide

~Developer Viewpoints~

# Monster Hunter Multiplayer Gaming Anywhere, Anytime

Kaname Fujioka

Director, Planning Section,  
R&D Strategic Planning Department

“Monster Hunter” is an action game in which the player’s mission is to hunt and capture gigantic monsters. With four-player multiplayer being the primary appeal of the series, players can work cooperatively to hunt the beasts.

Although multiplayer online games have been around for a while, the length of each game session made it difficult for many people to pick up and play them. “Monster Hunter” addresses this deficiency by incorporating “easy join and leave” features as well as shorter event sequences.

However, despite these advances, there are still many people who either do not have access to a network for playing online or are reluctant to start playing due to the usage fees incurred. This is why we released “Monster Hunter Freedom” for Sony’s portable PSP system. The PSP’s wireless communication function allows the gamer to play with other people in a close-knit group. It is a fun and easy way to connect with friends.

The first “Monster Hunter” release was a commercial success, but not an immediate one. To increase recognition, we further developed the ideas that could not be incorporated into the first title and released the sequels with those ideas in quick succession. This approach has met with a very positive response from players, as shown by the huge queue in front of the “Monster Hunter 2 (Dos)” booth at the Tokyo Game Show in 2005. We intend to maintain our commitment to the series to keep all of our dedicated fans satisfied in the future.



## New Linked Gameplay

Right from the initial planning stages, we intended to link “Monster Hunter Freedom” with the latest installment in the series, “Monster Hunter 2 (Dos)”. The two titles were released at almost the same time and by connecting them we have been able to significantly expand the Monster Hunter world. Linking the games doubles the enjoyment by triggering the emergence of new monsters, increasing the variety of items available for purchase and making it easier to create weapons and protective gear. However, it is more than just a one-time event as the “rewards” also vary with the timing of the linking – this makes it fun to link frequently. We wanted to create a new style of play that connects a console game and a portable game, something that is still very rarely seen with other titles.



### High-precision graphics

The monsters are huge and their movements are hyper-real and smooth. Markets, bars and other set pieces are depicted in great detail, as is the mystical beauty of the vast wilderness.



### Passage of time and season

To highlight the hunter’s lifestyle, the concept of warm and cold seasons has been introduced. The day-night cycle is also elaborately reproduced – even the monsters that inhabit the area vary with the timing of play.



### Linking of two titles

The consoles used for playing “Monster Hunter 2 (Dos)” and “Monster Hunter Freedom” can be easily connected via a USB cable. When this is done, various “changes” occur in the game.



### “Monster Hunter 2 (Dos)” showcased

The buzz surrounding the popular series saw many visitors to the 2005 Tokyo Game Show lining up for up to three hours to get their chance to play the fifteen-minute trial version.

## MANAGEMENT

### A Creator's Motivation – The Key to Success

Keiji Inafune Managing Corporate Officer,  
Head of Research & Development and Online Business

Good games really only take shape when the creator succeeds in expressing what he/she wants to communicate. Likewise, the decision to serialize a title is not made solely on the basis of the sales of the previous installment – we attach the utmost importance to the production staff’s drive to make a success of the new game. Thus, the decision to serialize “Monster Hunter” was based not only on the large number of people wanting a sequel and the success of the game’s new style of online play, but also on the strong motivation of our staff. The management of game development can be judged by how it boosts the motivation of the production staff and the environment in which they can express their ideas. At the same time, cost control and schedule management are also important. At Capcom, experienced staff checks the progress of a project at regular, predetermined points. The system is fairly unobtrusive, but it allows us to improve certain aspects of the game, overcome delays, and ultimately, produce better games by adding new, entertaining ideas.



Lost Planet Extreme Condition

# High-quality Graphics for Next-gen Consoles

Jun Takeuchi

General Manager,  
R&D Strategic Planning Department

“Lost Planet”, which is scheduled for release this winter, is a Sci-Fi action shooting game for the Xbox 360™ – the 360 being the first next-generation game system to be launched by a major console manufacturer.

In “Lost Planet”, the main character fights against formidable, other-worldly creatures in extreme snow and ice conditions. Particularly noteworthy are the high-quality graphics made possible on the Xbox 360. It was a challenge to fully realize the potential of the system's new technologies, but we are very satisfied with the results. The trial version we made available for download in May received a tremendous amount of positive feedback, both in Japan and North America.

We believe the title has won praise in North America not only because it has been developed specifically for the Xbox 360, a widespread platform in the region, but also because it adopts a third-person shooter format, which is also highly popular there. The genre is less common in Japan, and it was chosen as a result of planning the game in close cooperation with our North American subsidiary. Another distinctive feature of the title we are promoting to the international market is its multiplayer online mode, which allows a large group of players to join in on the action. The game was developed from the start with the intention of worldwide rollout, but it has also been spiced up with several elements to entertain Japanese players.

While producing our first round of next-generation titles, we designed a versatile, proprietary development engine as groundwork for future next-generation game production at Capcom. Now that the engine is in place, we truly appreciate the significance of this game – not just for its superior finish, but also its role in facilitating cost control and management for future development.



## Visually stunning graphics

The biggest appeal, and selling point of “Lost Planet” is its hyper-realistic graphics, made possible by pushing the performance limits of the Xbox 360. Careful detail must be paid to the graphics in order to entice gamers to buy a title.

Unlike any other game that has come before it, the snowscape in “Lost Planet” is rendered in particularly impressive detail. This includes the snowflakes that dance mystically in the air to the deep snow cover and snowstorms that obstruct the movement of the main character. This character is modeled on Lee Byung Hun, a South Korean actor and self-professed game enthusiast – which has helped to generate additional buzz for the game. A demo version of the game was on display at the 2006 Electronic Entertainment Expo (E3) held in the United States last May. E3 is the world's largest game show and “Lost Planet” became the most anticipated title of the year after it won the Best Action Game award in a showdown with other action titles.



The main character modeled on Lee Byung Hun  
Character Wayne by ©Lee Byung Hun/FANTOM CO., LTD.



### Hyper-realistic snow effects

The snow cover, snowstorms, and other snow effects on the sub-zero planet are exquisitely reproduced on-screen. Even the snow blasted by stray bullets during combat looks real.



### Third-person shooter

In this type of game the player sees the world from a viewpoint above and behind the main character. The viewpoint closely simulates that of the character and generates a stronger visual impact. This game genre is one that is highly prominent in North America.



### Computer calculated movement

The movement of things such as tumbling objects is automatically calculated by the computer, giving objects in motion and other physics related elements a high degree of realism.

### Improved rendering power

Light reflection and the visualization of sunlight are processed by a programmable shader for hyper-realistic rendering. Even the way a character's eyes focus is realistically simulated.

## MANAGEMENT

# The Balance between Quality and Efficiency

Keiji Inafune Managing Corporate Officer,  
Head of Research & Development and Online Business

From my own experience, Capcom's conventional game development teams, organized on a departmental basis, were too competitive with each other and tended to be reluctant to share expertise. However, the time required to develop each title is increasing along with the sophistication of the hardware – it now takes two to three years for a single game. Without sharing expertise and improving efficiency, it would take even longer to release a new title. To address this, Capcom has transferred the authority over teams from the respective departments to the Research & Development Division and collectively placed the teams under the Head of the Division. This eliminated the former barriers between teams and led to information sharing, which, in turn, has resulted in shorter development periods.

In addition, we anticipated that the development of software for next-generation game systems would be far more time-consuming and costly than that for standard consoles. The production of “Lost Planet” worked as a trigger here, encouraging us to design a new development engine that could be used in the creation of all software targeted at the Xbox 360, as well as other next-generation systems. We believe this proprietary engine will further improve the efficiency of future development projects.



# Mega Man Battle Chip Stadium Bringing Consumers into Game Arcades



**Kazuhiro Nojo**

Manager of Tokyo R&D Team,  
Arcade Games R&D Department

"Mega Man Battle Chip Stadium" is a game based on a machine-readable plastic data chip similar to the one used by the main character in the console game and animated TV series. This game attracts players of the home video game into game arcades, and motivates fans of the animated version to collect the chips required to play "Mega Man". The game system seems to have become a hit with children because of its accurate reflection of the original game concept.

Another strategy often used for arcade games targeted at children is the "adoption" of characters developed by other companies. Capcom also does

this, using high-profile figures such as "Super Mario" and "Donkey Kong" in our coin-operated games to appeal to the family market. With colorful presentation providing entertainment value and easy-to-understand rules, it is becoming increasingly common for families to play together in the coin-operated games section, an area that was previously dominated by adults.

We intend to continue incorporating appealing characters to our games, while maintaining our flexible approach to machine development and the creation of new ways to play.

## Navi Link System: The Joy of Sharing Information on Three Types of Hardware

Mega Man Battle Chip Stadium      Link PET EX



© TAKARA CO.,LTD.2006

# Pachislo Machine Onimusha 3 Stunning Graphics on Big-screen Pachislos



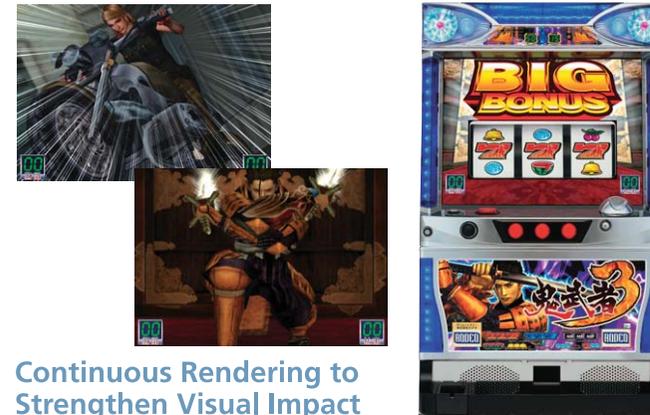
**Kazuo Yamawaki**

Director of Product Development Team,  
P&S Development Department

The development of "Onimusha 3" for Pachislo machines, a type of video slot game, started about two years ago following an offer by a Pachislo manufacturer. In contrast to home video games, which give us a few minutes to evoke emotions, Pachislo machines must generate a sense of excitement in seconds – the time it takes a player to pull down the lever and press one of the buttons. This means the presentation of graphics and use of visual effects are very important at every moment in the game. The strongest sales point of "Onimusha 3" is that it uses a proprietary board with a performance roughly equivalent to that of a home game console. Its large 20-inch LCD generates stunning graphics, giving it a

powerful presence. The home video game version of "Onimusha 3" succeeded by winning the hearts of fans with many of the same familiar and appealing characters. However, as Capcom is, in effect, the supplier of the graphics displayed on the LCD, we must first and foremost meet the requirements of the Pachislo manufacturer. At times, we asked to rework games. We hope the next game we create will be a hit as its development will also be based on data collected during our visits to Pachinko parlors to see the machines in action. Our goal is to create innovative and entertaining graphics that not only meet but rather exceed the expectations of Pachislo manufacturers and players.

## Transferring home game versions to Pachislos



© CAPCOM 2004/ © Sammy © RODEO

## Continuous Rendering to Strengthen Visual Impact

## MANAGEMENT

# Sharing the Operator's Perspective

**Osamu Izumi** Corporate Officer and Head of Arcade Game Business

These days many game arcades have a bright image, such as the ones making their way inside shopping malls, which are attracting an increasing number of casual users such as families and couples. Operators want game machines that will not only entertain this new audience but that will also generate profits and pull in more customers.

Capcom is able to identify the trends affecting game machines by observing the situation at Plaza Capcom facilities, the chain of amusement arcades we own and operate. New machines are always initially tested at a Plaza Capcom to gather feedback from both players and operators. These opinions are then collated to help us develop better game machines.

As demonstrated by the rental expansion of "Mega Man Battle Chip Stadium" to toy and convenience stores, etc., we are in the process of aggressively growing our market.

## MANAGEMENT

# Business Expansion Inspired by Makers of Pachinko/Pachislo Machines

**Yoichi Egawa** Corporate Officer, Head of P&S Business and General Manager of the P&S Development Department

What manufacturers of Pachinko and Pachislo machines need from us as a game company are high-resolution image processing technologies and the ability to develop entertainment that appeals to a large number of people as well as capitalizing on the attractive characters from our games. As the gambling aspects of Pachinko and Pachislo machines are now subject to regulation, following the amendment of the Enforcement Regulations for the Adult Entertainment Business Control Law in July 2004 and its relevant regulations. There is an increased tendency to enhance the entertainment elements of the games as a means of attracting players. Capcom views this as a business opportunity, and we have been seeking to highlight these entertainment elements by emphasizing the development of graphics, presentation and effects—all areas in which we excel. In this development, we take pride in consistently fulfilling both the entertainment requirements of players and the quality and speed demands of manufacturers that adhere to a strict schedule. We will maintain our current close relationships with manufacturers, while continuing to expand our business and develop its profitability.