

## Mid-Term Financial Results (Consolidated basis) ended September 30, 2007 (Unaudited)

Company Name : CAPCOM Co., Ltd.

Code Number : 9697

(URL <http://www.capcom.co.jp/>)

Representative : Haruhiro Tsujimoto, President and COO

Contact Person : Kazuhiko Abe, Managing Corporate Officer

Filing Date for Mid-Term Financial Report: December 19, 2007

Date of Issue: November 8, 2007

Stock Listing : Tokyo, Osaka

Location of Headquarters : Osaka Prefecture

Tel: +81-6-6920-3605

Dividend Payment Date: November 30, 2007

### 1. Results of the Mid-Term ended September 30, 2007 (April 1, 2007 - September 30, 2007)

#### (1) Financial Results

Note: Numbers are rounded down at Million Yen

	Net Sales		Operating Income		Ordinary Income		Net Income	
	Million Yen	%	Million Yen	%	Million Yen	%	Million Yen	%
Mid-Term Ended Sept. 30, 2007	31,108	6.6	3,058	0.5	3,395	(10.3)	1,603	(16.4)
Mid-Term Ended Sept. 30, 2006	29,175	4.9	3,042	356.4	3,785	317.2	1,918	(38.6)
Year Ended March 31, 2007	74,542	-	9,602	-	10,600	-	5,852	-

Note: Percentage represents change against corresponding period of the previous year.

	Earnings per Share of Common Stock	Earnings per Share of Common Stock (Assuming Full Diluted)
	yen	yen
Mid-Term Ended Sept. 30, 2007	28.05	24.45
Mid-Term Ended Sept. 30, 2006	35.79	27.03
Year Ended March 31, 2007	107.52	84.81

Reference: Investment Profit / Loss on Equity Method

Mid-Term Ended Sept. 30, 2007: - million yen

Mid-Term Ended Sept. 30, 2006: - million yen

Year Ended March 31, 2007: - million yen

#### (2) Financial Position

	Total Assets	Total Shareholders' Equity	Shareholders' Equity Ratio to Total Assets	Shareholders' Equity per Share
	Million Yen	Million Yen	%	yen
Mid-Term Ended Sept. 30, 2007	86,725	48,574	56.0	823.04
Mid-Term Ended Sept. 30, 2006	96,168	37,213	38.7	709.33
Year Ended March 31, 2007	91,478	45,144	49.3	799.35

Reference: Net assets excluding minority interests

Mid-Term Ended Sept. 30, 2007: 48,574 million yen

Mid-Term Ended Sept. 30, 2006: 37,213 million yen

Year Ended March 31, 2007: 45,127 million yen

#### (3) Cash Flows

	Cash Flows from Operating Activities	Cash Flows from Investing Activities	Cash Flows from Financing Activities	Cash and Cash Equivalents at End of Year
	Million Yen	Million Yen	Million Yen	Million Yen
Mid-Term Ended Sept. 30, 2007	203	(1,276)	(1,205)	32,342
Mid-Term Ended Sept. 30, 2006	3,330	(3,895)	(4,141)	35,871
Year Ended March 31, 2007	16,063	(6,715)	(15,206)	35,020

### 2. Dividends

	Dividend per Share		
	Interim	Year-end	Annual
	yen	yen	yen
Year Ended March 31, 2007	15.00	15.00	30.00
Year Ended March 31, 2008	15.00		30.00
Year Ended March 31, 2008(Forecast)		15.00	

### 3. Forecast for the Fiscal Year ending March 31, 2008 (April 1, 2007 - March 31, 2008)

Note: Percentage represents change against corresponding period of the previous year.

	Net Sales		Operating Income		Ordinary Income		Net Income		Net Income per Share
	Million Yen	%	Million Yen	%	Million Yen	%	Million Yen	%	yen
Fiscal year	78,000	4.6	10,000	4.1	11,000	3.8	6,200	5.9	105.77

4. Others

(1) Changes in Major Subsidiaries during the Fiscal Year (changes in consolidated subsidiaries and affiliated companies with equity-method): No

(2) Changes in Accounting Principles, Procedures and Presentation for Interim Consolidated Financial Statements (those items listed under the “Major Changes in the Fundamental Items of Interim Financial Statements ended September 30, 2007”)

Changes resulting from the revision of the accounting principles: Yes

Changes other than : Yes

(3) Number of Shares Outstanding (Common Stock)

Number of shares outstanding at end of year (including treasury stock)

Mid-Term ended Sept. 30, 2007: 64,836,791	Mid-Term ended Sept. 30, 2006: 58,435,819	Year ended March 31, 2007: 62,269,007
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Number of treasury stock at end of year

Mid-Term ended Sept. 30, 2007: 5,817,604	Mid-Term ended Sept. 30, 2006: 5,973,148	Year ended March 31, 2007: 5,813,727
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# Operating Results

## 1. Operating Results

### (1) Overview of the Six-Month Period Ended September 30, 2007

The Japanese economy during this six-month period (ended September 30, 2007) underwent a healthy growth in general, supported by steady capital investments and better employment. However, we started to see signs of adverse business prospects with sluggish consumer spending, downturn in stock prices, and the accelerated appreciation of the yen.

As for the video game industry, the full-fledged release of new stationary game consoles is complete, and the diffusion of the new consoles is progressing across the world. However, this hardware market is still considered to be in a transitional period.

Meanwhile, portable games showed healthy growth, though their growth has slowed down.

Under these circumstances, the Capcom group introduced big-budget software titles along with other software developed under collaboration with partners, with the aim of satisfying diverse customer demands.

“Resident Evil 4 Wii edition” (for Wii) made a strong showing, especially in overseas markets, exceeding our projections. “Apollo Justice Ace Attorney” (for Nintendo DS) increased its sales steadily, and “Monster Hunter Freedom 2” (for PlayStation Portable), which was a huge hit in the previous term, also continued to grow. Consumer game software is one of our core business segments, and the favorable performance of this segment played a leading role in overall sales growth.

“Monster Hunter Freedom 2” (for PlayStation Portable) won the Grand Award at the “Japan Game Awards: 2007” (sponsored by the Computer Entertainment Supplier’s Association) for the recognition of the most outstanding title released from April 1, 2006 to March 31, 2007. Additionally, “Okami” (for PlayStation 2) and “Lost Planet Extreme Condition” (for Xbox 360), which was released in the previous term, received the “Award for Excellence”. Receiving awards reinforced the brand name titles of Capcom, while promoting the improvements of our product lineup.

The contents expansion business, namely the distribution of games to mobile phones and sales of LCD devices for Pachislo machines, grew steadily, increasing profits, thanks to the synergistic effects from our game software.

Daletto Co., Ltd. is an online portal site management company that Capcom established in 2006. The company started full scale operations with the objective of diversifying the business areas of Capcom.

Capcom was engaged in the aggressive participation in various events both domestically and internationally. “Chao & Chu-Chu Summer Festival 2007” is one of the largest national events for girls’ comics in Japan, and Capcom ran the “Wantame” booth at this event. We presented the Wantame Music Channel “Summer 2007 Sun x 2 Puppy,” and it was a huge success. Overseas, “Resident Evil: The Umbrella Chronicles” boasted great popularity in the “Comic-Con International 2007”, a comic convention in the US.

The resulting net sales increased to 31,108 million yen (up 6.6 % from the same term last year). As for profits, operating income increased to 3,058 million yen (up 0.5 % from the same term last year), and ordinary income decreased to 3,395 million yen (down 10.3 % from the same term last year) due to the loss on foreign exchange.

Net profits for the current mid-term period exceeded our forecast at 1,603 million yen (down 16.4 % from the same term last year), while we posted an extraordinary loss due to the reserve for retirement gratuities to directors from the previous periods.

## (2) Status of Each Operational Department

### Home Video Game

This business segment was a pleasant surprise with the achievement of sales far exceeding our projection. One of the supporting factors for this result was the strong sales of the popular “Resident Evil 4 Wii edition” (for Wii) mainly in the US and Europe.

In addition, “Apollo Justice Ace Attorney” (for Nintendo DS) achieved sales of over 500,000 copies, marking the highest sales of the series. “Monster Hunter Freedom 2” (for PlayStation Portable) was a huge hit in the previous term, and it continued to grow, contributing to the overall profit increase.

We released “Wantame Uranai Channel” (for Nintendo DS) as an attempt to attract more female users and ultimately to expand the entire customer base.

The resulting net sales increased to 16,323 million yen (up 3.7 % from the same term last year), and the operating income increased to 2,859 million yen (up 26.4 % from the same term last year), leading overall sales growth.

### Arcade Operations

In this softening market, we tried to create demand and attract more diversified customers including women and families. Holding various events and offering diverse game machines that satisfy customers’ demands are just a few examples of such efforts.

However, the existing arcades experienced a downturn, and overall sales remained at low levels. Some of the negative factors contributing to the performance were intensified competition, declining popularity of card dispensing games for children, and the record heat of the past summer.

As for new arcades, we opened “Plaza Capcom Iruma” in Saitama Prefecture and “Plaza Capcom Chiharadai” in Chiba Prefecture. The current number of “Plaza Capcom” at the end of this mid-term period totals 35 after these efforts.

The resulting net sales decreased to 6,375 million yen (down 1.4 % from the same term last year), and the operating income decreased to 682 million yen (down 40.0 % from the same term last year).

### Arcade Games

Under the stagnating market, the main activity of this business segment was the sale of peripheral products such as trading cards for “Wantame Music Channel”, a card-dispensing game machine.

The overall performance of this segment was forced to struggle due to the small product lineup with no powerful products to lead sales and a defect found in “Donkey Kong Banana Kingdom”.

The resulting net sales decreased to 1,377 million yen (down 68.5 % from the same term last year), and the operating loss was 971 million yen (operating income of the same term last year was 893 million yen).

### Contents Expansion

Under this business segment, the sale of “Devil May Cry 3”, an LCD device for Pachislo machines, increased satisfactorily, and the distribution of games to mobile phones, namely “Ace Attorney”, showed healthy growth. Solid performances of these two divisions lead the profit increase.

The resulting net sales increased to 5,644 million yen (up 323.2 % from the same term last year), and the operating income increased to 1,863 million yen (up 2484.0 % from the same term last year).

### Other Businesses

The net sales from other businesses, mainly character-related licensing royalties, increased to 1,411 million yen (up 9.3 % from the same term last year), and the operating income increased to 307 million yen (operating loss of the same term last year was 42 million yen).

### (3) Overview of Business Performance in Each Region

#### Japan

In the segment of home video game, “Apollo Justice Ace Attorney” (for Nintendo DS) achieved sales of over 500,000 copies, marking the highest sales of the series. Additionally, both “Resident Evil 4 Wii edition” (for Wii) and “Phoenix Wright : Ace Attorney Trials and Tribulations (Best Price!)” (for Nintendo DS) made a strong showing that exceeded our projection. “Monster Hunter Freedom 2” (for PlayStation Portable), which was a huge hit in the previous term, also received repeated orders and served as a sales growth engine.

The segment of arcade operations remained on a weak note due to the stagnating performance of the existing arcades, while the sale of arcade games continued to be soft because of the weak product lineup.

In the contents expansion business, the sales of “Devil May Cry 3,” an LCD device for Pachislo machines, increased satisfactorily, and the distribution of games to cellular phones, namely “Ace Attorney”, showed healthy growth.

The resulting net sales increased to 25,408 million yen (up 16.9 % from the same term last year), and the operating income increased to 4,515 million yen (up 53.5 % from the same term last year). These results reflect the fact that those healthy segments, including the home video game, absorbed the downturn of other struggling segments including the arcade games.

#### North America

“Resident Evil 4 Wii edition” (for Wii) underwent a healthy growth in overseas markets supported by its rooted popularity and strong brand name. However, overall sales stagnated because the majority of products were small-scaled, lower-priced, and lacked flagship titles.

The resulting net sales decreased to 4,664 million yen (down 31.2 % from the same term last year), and the operating income decreased to 56 million yen (down 94.1 % from the same term last year).

#### Europe

The sales “Resident Evil 4 Wii edition” (for Wii) kept increasing gradually since its release and achieved a solid growth. Other software titles were small-scale, and we did not introduce any leading products.

The resulting net sales decreased to 2,529 million yen (down 18.1 % from the same term last year), and the operating income decreased to 191 million yen (down 58.0 % from the same term last year).

#### Other Regions

Other major sales regions are in Asia, including Hong Kong and Taiwan. The problem of illegally copied software is still unresolved in these regions forcing the core of the Asian game market to be online games.

The game markets in Korea and China have been expanding steadily with online games. Korea supports its gaming industry with public-private cooperation whereas China is expected to become a giant market in the future.

Capcom was engaged in the sales of packaged products for home video game consoles. However, the overall performance was lackluster and reflected the current market situations in these countries.

The resulting net sales decreased to 257 million yen (down 52.2 % from the same term last year), and the operating loss was 9 million yen (operating income of the same term last year was 82 million yen).

### (4) Prospects for the Current Financial Year

It is expected that the competition in the game software industry will intensify because of the dominance of newly released consoles. Portable game consoles expanded the market of home video games, and they will have an influence on the restructuring of market share.

Under these circumstances, Capcom group will work to create demand through detailed marketing strategies and

improved customer satisfaction. In the previous term, both “Dead Rising” and “Lost Planet Extreme Condition” (for Xbox 360) achieved sales of one million copies partially due to their great popularity in the US and Europe. We will continue to pursue a competitive edge in overseas markets by bringing to the market software that appeal to overseas customers.

Other geographical areas we are targeting for market exploration are Australia and Asia. As part of such efforts, we established a corporation in Korea in March 2007. Capcom Entertainment Korea Co., Ltd., a full subsidiary of Capcom, will serve as a foothold to enhance online games and expand new business development in Asian markets.

We are pursuing time and cost reductions in software development through the usage of “MT Framework”, Capcom’s original software development tool. “MT Framework” makes it possible for us to share the development process among software for various hardware including “PlayStation 3”, “Xbox 360”, and PCs.

The other area we will focus on is the licensing of our popular contents to movies, music, and publications. The Hollywood movie “Resident Evil: Extinction” is just one example of such efforts. In September 2007, the movie will be shown in theaters, first in the US, and then will be released around the world.

## 2. Analysis of the Consolidated Financial Condition

### (1) Assets, Liabilities and Total Shareholders’ Equity

#### Total Assets

Total assets as of the end of this six-month period were decreased by 4,752 million yen from the previous fiscal year to 86,725 million yen. The primary reasons for this decrease were the following: a decrease in notes receivable and accounts receivable, and a decrease in cash and cash equivalents resulting from decreased accounts payable.

#### Liabilities

Liabilities as of the end of this six-month period were decreased by 8,183 million yen from the previous fiscal year to 38,150 million yen. This is primarily attributable to the payment on redemption of 4th unsecured convertible bonds and the exercise of the stock acquisition rights of Euro-Yen convertible bonds.

#### Total Shareholders’ Equity

Total shareholders’ equity as of the end of this six-month period amounted to 48,574 million yen. This is mainly attributable to an increase of 1,603 million yen in net income; an increase of 3,125 million yen in paid in capital; and a capital surplus resulting from the exercise of the stock acquisition rights of Euro-Yen convertible bonds.

### (2) Cash Flows

Cash and cash equivalents (hereafter referred to as “Cash”) as of the end of this six-month period decreased by 32,342 million yen from the previous fiscal year to 2,677 million yen. Cash flow positions for each activity are as stated below.

#### Cash Flows from Operating Activities

Net cash increase from operating activities amounted to 203 million yen, which is 3,126 million yen lower than that of the previous fiscal year, after recording the 3,249 million yen net income before tax adjustment. Offsetting the increase in cash flow were the following: 3,460 million yen increase of work-in-progress for game software, and 1,816 million yen decrease of accounts payable.

#### Cash Flows from Investing Activities

Net cash decrease from investing activities amounted to 1,276 million yen, a decrease of 2,619 million yen from the previous fiscal year. This decrease was attributable to the expense of 2,386 million yen for the acquisition of property, plants and equipment for amusement facilities, while recording income of 1,431 million yen from collecting loans.

### Cash Flows from Financing Activities

Net cash decrease from financing activities amounted to 1,205 million yen. The primary reason for this decrease was the repayment of long-term debt for 350 million yen, as well as the disbursement of dividend for 846 million yen.

#### ( Reference ) Trends of Cash Flow Indicators

	Year ended March 2005	Year ended March 2006	Year ended March 2007	Mid-Term ended Sept. 30, 2007
Net worth ratio (%)	30.5	40.1	49.3	56.0
Net worth ratio based on fair market value (%)	54.1	67.5	104.4	180.3
Debt amortization schedule (number of years)	2.8	0.4	0.3	10.4
Interest coverage ratio (times)	30.0	82.6	237.3	3.3

Net worth ratio = Net assets excluding minority interests / Total assets

Net worth ratio based on fair market value = Total market value of shares / Total assets

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

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

(Note 1) Total market value of shares is calculated based on the number of shares as of the end of fiscal year excluding treasury stock.

(Note 2) The interest-bearing debt refers to the debts posted in the consolidated balance sheets for which we are paying interests.

(Note 3) The amount of the Mid-Term debt amortization is doubled for converting cash flows from operating activities into a yearly basis.

#### 3. Principle related to Dividends

One of our management priorities is on stable and continuous dividends to all shareholders, taking account of our future business strategies as well as our management environment. We paid interim dividends of 15 yen per share, and we plan to pay year-end dividends of 30 yen per share.

#### 4. Business Risks and Other Risks

Capcom is 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 November 8, 2007 and certain assumptions that serve as the basis of rational judgments.

##### (1) Risks relating to Home Video Games

###### 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.

###### 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 mobile 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.

###### Dependency on Popular Series

Capcom releases 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.

#### 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.

#### 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.

#### 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.

#### 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.

#### 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.

#### 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 relating to Other Businesses

#### 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.

#### 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.



#### Contents Expansion

The number of customers to whom we provide peripheral devices for game machines is quite limited. And the performance of “Contents Expansion Business” relies heavily on the sale of these devices. Under the provision of the “Entertainment and Amusement Trade and the Implementation Rules for the Entertainment and Amusement Trades Rationalizing Act”, we are allowed to sell the peripheral devices for only those machines which passed the test of the Security Electronics and Communications Technology Association. The performance of this business segment may be affected significantly by the trend of such industry systems. Thus, it is possible that changes in such a trend could negatively affect the operating results of the entire Capcom Group.

#### (3) Risks relating to Overseas Operations

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.

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 audit authorities. The operating results and financial position of the Capcom group may be affected negatively by these conditions.

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 relating to Financial Status and Operating Results

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.

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 relating 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 relating 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 relating to Lawsuits

As we are engaged in content business, we have been to a court of law both as a plaintiff and as a defendant. Due to the nature of our business, there is a possibility that we may be taken to court in the future. There is a risk that they may adversely affect our operating results, depending on the type of the lawsuit and the amount claimed in the lawsuit. We were claimed by Aeon Fantasy Co., Ltd. on October 15, 2007 at Tokyo District Court for return of undue profit as well as damages causing by cancellation of individual sales orders and defect of the product.

(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. If private information should leak 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

We issued unsecured convertible bonds and convertible bond, issued after April 1st 2002. 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 relating 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.

## Status of Capcom Corporate Group

Major businesses of Capcom corporate group (Capcom Co., Ltd. and its affiliated companies) positioning of each affiliated company within the business segments are as described below.

### [ Home Video Games ]

This division develops and distributes home video game software. Capcom Co., Ltd., Capcom Entertainment, Inc. (consolidated subsidiary) and Blue Harvest, Llc. (consolidated subsidiary) founded in August 2007, develop video game software. Capcom Co., Ltd., Capcom Entertainment, Inc., Capcom Asia Co., Ltd. (consolidated subsidiary), CE Europe Ltd. (consolidated subsidiary), CEG Interactive Entertainment GmbH (consolidated subsidiary) and Capcom Entertainment Korea Co., Ltd. (consolidated subsidiary) are responsible for distribution of the game software. Daletto Co., Ltd. (consolidated subsidiary) is engaged in the online portal site management. Clover Studio Co., Ltd. (consolidated subsidiary) is now under process of dissolution. Flagship Co., Ltd. is also to be consolidated into Capcom Co., Ltd. in June, 2007.

### [ Arcade Operations ]

This division operates amusement facilities. Capcom Co., Ltd. conducts arcade operations at various shopping malls and facilities in Japan.

### [ Arcade Games ]

This division develops, manufactures, and distributes commercial game equipments and integrated circuit boards. Capcom Co., Ltd. develops and manufactures products while Capcom Co., Ltd. is responsible for distribution of the products.

### [ Contents Expansion ]

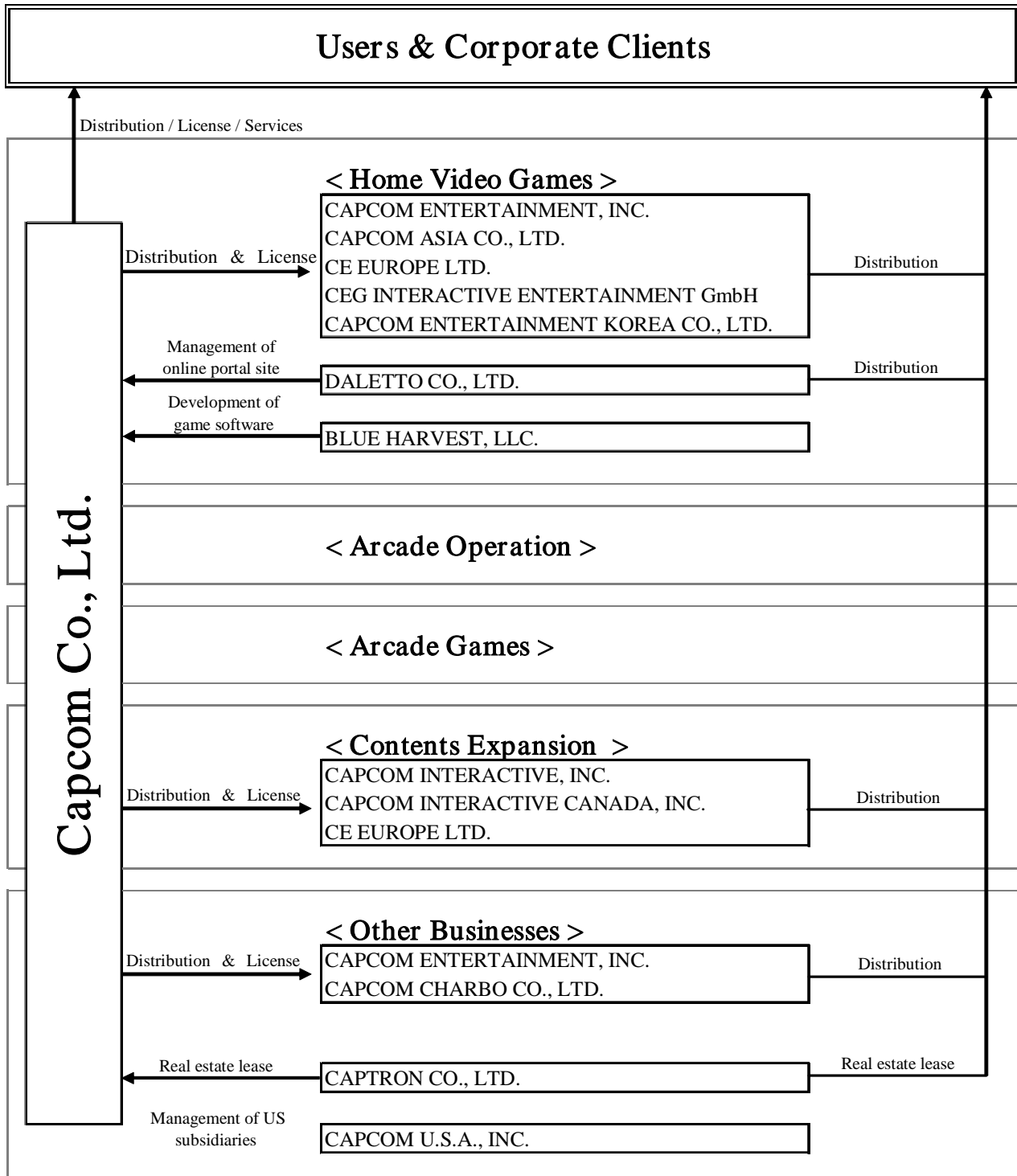
This division develops and distributes mobile contents as well as LCD display. As for mobile contents being developed by Capcom Co., Ltd., Capcom Interactive Canada, Inc. (consolidated subsidiary) and CE Europe Ltd., Capcom Co., Ltd., Capcom Interactive, Inc. (consolidated subsidiary), Capcom Interactive Canada, Inc. and CE Europe Ltd. undertake their distribution through their telecommunications companies. Capcom Co., Ltd. develops, manufactures and distributes LCD display.

### [ Other Businesses ]

Capcom Co., Ltd. conducts various licensing businesses. The Company licenses Capcom characters and game contents out. Capcom Entertainment, Inc. and Capcom Co., Ltd. are responsible for licensing. Capcom Charbo Co., Ltd. (consolidated subsidiary) provides support services in mobile communications including cell phones. In addition, Captron Co., Ltd. (consolidated subsidiary) is responsible for a real estate leasing business.

Capcom U.S.A., Inc. (consolidated subsidiary) is a holding company of its US subsidiaries; Capcom Entertainment, Inc. and Capcom Interactive, Inc. and their respective managements are under the control of Capcom U.S.A., Inc..

All the explanations described above are shown in the following organizational diagram.



\* All companies shown in the above chart are consolidated subsidiaries.

## Business Policy

### 1. Management Principle

Our principle is to be a creator of entertainment culture. Through development of highly creative software contents that excite people and stimulate their senses, we have been aiming to offer an entirely new level of game entertainment. Our management objectives are also on strengthening relationships with shareholders, clients and our employees to satisfy demands and to bring about prosperous benefits.

### 2. Business Targets

As financial conditions in Japan change, such as the implementation of new accounting standards, we believe “Cash-Flow Management” (real management that generates cash) has become an important factor - more important than to make up financial statements utilizing changes in accounting standards. We do not set actual target figures on specific fields because we understand “Cash-Flow Management” as a very important factor for evaluating decision-making processes and corporate values.

### 3. Medium and Long Term Business Strategy

In addition to the sharp rise in development costs, the video game industry is facing external challenges as well. International competitions are getting fiercer struggling for survival being resulting in an increase in mergers, acquisitions and business integrations as corporate restructuring becomes more intense.

Under this severe situation, we believe that establishing a management system capable of adapting to changes in the business environment is one of our most important managerial goals. In order for us to accomplish this goal, we will reinforce R&D to reform profit structure. We will also work on revitalizing the corporation in order to create corporate values by reforming organization and staff perception including implementing a performance-based incentive program and clarifying accountabilities for management, officers and staff.

- (1) Focusing on our core business - developing and marketing creative home video game software - by concentrating our resources.
- (2) Strengthening and exploring multi platform strategy for home video game software based on market demands.
- (3) Expanding arcade operations business, which has become the second largest source of business for us, in order to continuously secure stable revenues.
- (4) Strengthen the on-line game business with the improvement of the telecommunication infrastructure.
- (5) Expanding sales overseas by aggressive business deployment, including establishing overseas offices.
- (6) Pioneer business opportunities by enhancing our product contents to create new markets and expanding our share in existing markets. Exploit new business opportunities with focus on the provision of peripheral devices for game machines and entry of operating online portal site.
- (7) Promoting and strengthening the Capcom Brand to create added value.
- (8) Realizing a stable cash flow for each fiscal term by streamlining financial aspects.

4. Issues to be addressed

Major issues to be addressed taking in consideration surrounding business environments and future market trends:

(1) Consolidation of the Critical Strategic Divisions

We will concentrate our management resources in the home video game software segment, which is our core business, especially in its development and marketing divisions in order to strengthen the competitive edge.

(2) Focus on the Overseas Operations

Making strong efforts in developing overseas markets is the key to the future business growth as the Japanese domestic market matures. We are determined to execute the strategic overseas operation deployment through the group-wide global business restructuring. One such effort will be to conduct corporate reforms of overseas subsidiaries including Capcom U.S.A., Inc., one of our crucial subsidiaries.

(3) Selection and Concentration of Business

We are focused on setting a clear vision for the future by harnessing our corporate strength through the effective use of our research and development resources. In addition, we are pushing through a strategy that concentrates management resources on selected business to make the most of the collective power of the entire Capcom group, thus increasing our corporate value. Investment in growth field and the decision to close down unprofitable businesses are examples of such activities.

(4) Expansion of the Business Field

We will focus on growing the content-related business to expand our business fields in response to changes in the managerial environments. Focus on distribution of games to mobile phones and entry of operating online portal site are among those segments we will give high priorities to achieve this goal.

(5) Enhancement of the Corporate Quality

We are trying to realize flexible business operations and to improve our operation efficiency through the management innovation. At the same time we are building a framework that enhances our revenue base. As part of such efforts to enhance our business foundation, we are pursuing the strategic group operation and financial structure reformation by reinforcing the management system of both domestic and foreign subsidiaries.

## Summary of Consolidated Financial Statements

(1) Mid-Term Consolidated Balance Sheets

(Unit: Millions of Yen)

Account Title	Previous Mid-Term Fiscal Period (as of September 30, 2006)		This Mid-Term Fiscal Period (as of September 30, 2007)		Balance Sheet of Previous Fiscal Year (as of March 31, 2007)	
	Amount	%	Amount	%	Amount	%
(Assets)						
I Current assets						
1 Cash on hand and in banks	35,871		32,342		35,020	
2 Notes and accounts receivable, trade	11,496		7,478		11,417	
3 Inventories	3,012		3,764		3,488	
4 Work-in-progress for game software	5,427		6,233		3,415	
5 Deferred tax assets	2,733		2,926		3,215	
6 Short-term loans receivable	1,243		—		1,204	
7 Other	5,431		2,505		3,871	
8 Allowance for doubtful accounts	(1,305)		(386)		(1,543)	
Total current assets	63,910	66.5	54,863	63.3	60,089	65.7
II Fixed assets						
1 Tangible fixed assets, net of accumulated depreciation						
(1) Buildings and structures	6,208		6,018		6,091	
(2) Machinery and vehicles	94		264		160	
(3) Tools, fixtures and furniture	605		863		790	
(4) Rental equipment	244		537		667	
(5) Equipment for amusement facilities	2,856		3,561		3,022	
(6) Land	4,480		4,478		4,480	
(7) Construction-in-progress	144		308		287	
Total tangible fixed assets	14,634		16,033		15,500	
2 Intangible fixed assets						
(1) Goodwill	1,021		1,030		1,058	
(2) Other	837		2,088		1,219	
Total intangible fixed assets	1,859		3,118		2,277	
3 Investments and other assets						
(1) Investments in securities	2,117		1,526		1,794	
(2) Long-term loans receivable	837		913		907	
(3) Deferred tax assets	8,135		4,784		5,786	
(4) Claim in bankruptcy and reorganization	163		922		161	
(5) Lease deposits	—		5,280		5,002	
(6) Other	5,256		1,049		564	
(7) Allowance for doubtful accounts	(746)		(1,767)		(605)	
Total investments and other assets	15,764		12,709		13,611	
Total fixed assets	32,257	33.5	31,862	36.7	31,389	34.3
Total assets	96,168	100.0	86,725	100.0	91,478	100.0

(Unit: Millions of Yen)

Account Title	Previous Mid-Term Fiscal Period (as of September 30, 2006)		This Mid-Term Fiscal Period (as of September 30, 2007)		Balance Sheet of Previous Fiscal Year (as of March 31, 2007)	
	Amount	%	Amount	%	Amount	%
(Liabilities)						
I Current liabilities:						
1 Notes and accounts payable, trade	8,142		5,657		7,489	
2 Short-term borrowings	700		2,155		755	
3 Current portion of convertible bonds	10,000		—		—	
4 Accrued income taxes	453		595		875	
5 Accrued bonuses	346		609		1,746	
6 Allowance for sales returns	132		354		462	
7 Other	7,471		6,174		8,417	
Total current liabilities	27,246	28.3	15,546	17.9	19,747	21.6
II Long-term liabilities						
1 Convertible bonds	15,000		15,000		15,000	
2 Convertible bonds issued after April 1st, 2002	11,500		3,510		6,635	
3 Long-term borrowings	3,780		1,680		3,430	
4 Accrued retirement benefits for employees	880		988		933	
5 Accrued retirement gratuities to directors	—		357		—	
6 Other	547		1,069		588	
Total long-term liabilities	31,708	33.0	22,604	26.1	26,586	29.1
Total liabilities	58,955	61.3	38,150	44.0	46,334	50.7
(Net assets)						
I Shareholders' equity						
1 Common stock	27,581		31,479		29,915	
2 Capital surplus	15,336		19,198		17,637	
3 Retained earnings	2,408		6,312		5,555	
4 Treasury stock	(8,358)		(8,147)		(8,138)	
Total shareholders' equity	36,968	38.4	48,842	56.3	44,970	49.1
II Valuation and translation adjustments						
1 Net unrealized gain on securities, net of tax	636		329		482	
2 Deferred hedges, net of tax	0		1		1	
3 Cumulative translation adjustments	(391)		(598)		(326)	
Total valuation and translation adjustments	244	0.3	(267)	(0.3)	157	0.2
III Minority interests in consolidated subsidiaries	—	—	—	—	16	0.0
Total net assets	37,213	38.7	48,574	56.0	45,144	49.3
Total liabilities and net assets	96,168	100.0	86,725	100.0	91,478	100.0



## (2)Mid-Term Consolidated Statements of Income

(Unit: Millions of Yen)

Account Title	Previous Mid-Term Fiscal Period (From April 1, 2006 to September 30, 2006)		This Mid-Term Fiscal Period (From April 1, 2007 to September 30, 2007)		Previous Fiscal Year From April 1, 2005 to March 31, 2006				
	Amount	%	Amount	%	Amount	%			
I Net sales		29,175	100.0		31,108	100.0		74,542	100.0
II Cost of sales		19,098	65.5		20,079	64.5		48,046	64.5
Gross profit		10,077	34.5		11,029	35.5		26,496	35.5
Provision for allowance for sales returns		—	—		—	—		113	0.1
Reserve adjustment for return goods		216	0.8		108	0.3		—	—
Net gross profit		10,293	35.3		11,138	35.8		26,382	35.4
III Selling, general and administrative expenses		7,251	24.9		8,079	26.0		16,779	22.5
Operating income		3,042	10.4		3,058	9.8		9,602	12.9
IV Non-operating income									
1 Interest income	359			647			882		
2 Dividend income	15			18			17		
3 Exchange gain, net	471			—			444		
4 Other	19	865	3.0	172	838	2.7	60	1,405	1.9
V Non-operating expenses									
1 Interest expense	35			36			72		
2 Exchange loss, net	—			354			—		
3 Provision for allowance for doubtful accounts	10			79			151		
4 Other	74	121	0.4	30	501	1.6	184	407	0.6
Ordinary income		3,785	13.0		3,395	10.9		10,600	14.2
VI Special gains									
1 Gain on sales of fixed assets	1			1			1		
2 Reversal of allowance for doubtful accounts	—			233			—		
3 Gain on settlement of litigation	103	104	0.3	—	235	0.7	103	104	0.2
VII Special losses									
1 Loss on sales and/or disposal of fixed assets	128			5			173		
2 Reserve for retirement gratuities to directors from the previous period	—			350			—		
3 Loss on revaluation of investments in securities	35			25			103		
4 Loss on abandon of development game software	365	528	1.8	—	381	1.2	442	718	1.0
Net income before income taxes		3,361	11.5		3,249	10.4		9,986	13.4
Income taxes-current	361			280			1,085		
Income taxes-deferred	1,081	1,442	4.9	1,382	1,662	5.3	3,058	4,143	5.5
Minority interests in loss of consolidated subsidiaries		—	—		16	0.1		9	0.0
Net income		1,918	6.6		1,603	5.2		5,852	7.9

## (3) Mid-Term Consolidated Statement of Changes in Net Assets

Previous Mid-Term Fiscal Period (from April 1, 2006 to September 30, 2006)

(Unit: Millions of Yen)

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance as of March 31, 2006	27,581	15,336	1,099	(5,117)	38,900
Changes of items during this mid-term fiscal period					
Cash dividends			(549)		(549)
Bonuses to directors			(60)		(60)
Net income			1,918		1,918
Repurchase of treasury stock				(3,241)	(3,241)
Disposition of treasury stock		(0)		0	0
Net changes of items other than shareholders' equity					
Total Changes of items during this mid-term fiscal period	-	(0)	1,308	(3,240)	(1,931)
Balance as of Sept. 30, 2006	27,581	15,336	2,408	(8,358)	36,968

	Valuation and translation adjustments				Total net assets
	Net unrealized gain on securities, net of tax	Deferred hedges, net of tax	Cumulative translation adjustments	Total valuation and translation adjustments	
Balance as of March 31, 2006	793	-	(228)	564	39,464
Changes of items during this mid-term fiscal period					
Cash dividends					(549)
Bonuses to directors					(60)
Net income					1,918
Repurchase of treasury stock					(3,241)
Disposition of treasury stock					0
Net changes of items other than shareholders' equity	(156)	0	(162)	(319)	(319)
Total changes of items during this mid-term fiscal period	(156)	0	(162)	(319)	(2,251)
Balance as of Sept. 30, 2006	636	0	(391)	244	37,213

Approved appropriation of Retained earnings by 27th Ordinary General Shareholders' Meeting held in June, 2006.

Six-month Period ended September 30, 2007 (from April 1, 2007 to September 30, 2007)

(Unit: Millions of Yen)

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance as of March 31, 2007	29,915	17,637	5,555	(8,138)	44,970
Changes of items during this mid-term fiscal period					
Issuance of new stocks	1,563	1,561			3,125
Cash dividends			(846)		(846)
Net income			1,603		1,603
Repurchase of treasury stock				(9)	(9)
Net changes of items other than shareholders' equity					
Total changes of items during this mid-term fiscal period	1,563	1,561	756	(9)	3,872
Balance as of Sept. 30, 2007	31,479	19,198	6,312	(8,147)	48,842

	Valuation and translation adjustments				Minority interests in consolidated subsidiaries	Total net assets
	Net unrealized gain on securities, net of tax	Deferred hedges, net of tax	Cumulative translation adjustments	Total valuation and translation adjustments		
Balance as of March 31, 2007	482	1	(326)	157	16	45,144
Changes of items during this mid-term fiscal period						
Issuance of new stocks						3,125
Cash dividends						(846)
Net income						1,603
Repurchase of treasury stock						(9)
Net changes of items other than shareholders' equity	(152)	0	(272)	(424)	(16)	(441)
Total changes of items during this mid-term fiscal period	(152)	0	(272)	(424)	(16)	3,430
Balance as of Sept. 30, 2007	329	1	(598)	(267)	-	48,574

This is attributable to exercise of the stock acquisition rights of Euro-Yen convertible bonds.

Previous Fiscal Year (from April 1, 2006 to March 31, 2007)

(Unit: Millions of Yen)

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders'
Balance as of March 31, 2006	27,581	15,336	1,099	(5,117)	38,900
Changes of items during this mid-term fiscal period					
Issuance of new stocks 1	2,334	2,330			4,665
Cash dividends 2			(1,336)		(1,336)
Bonuses to directors 2			(60)		(60)
Net income			5,852		5,852
Repurchase of treasury stock				(3,251)	(3,251)
Disposition of treasury stock 3		(29)		230	200
Net changes of items other than shareholders' equity					
Total changes of items during this mid-term fiscal period	2,334	2,300	4,455	(3,021)	6,069
Balance as of March 31, 2007	29,915	17,637	5,555	(8,138)	44,970

	Valuation and translation adjustments				Minority interests in consolidated subsidiaries	Total net assets
	Net unrealized gain on securities, net of tax	Deferred hedges, net of tax	Cumulative translation adjustments	Total valuation and translation adjustments		
Balance as of March 31, 2006	793	-	(228)	564	-	39,464
Changes of items during this mid-term fiscal period						
Issuance of new stocks 1						4,665
Cash dividends 2						(1,336)
Bonuses to directors 2						(60)
Net income						5,852
Repurchase of treasury stock						(3,251)
Disposition of treasury stock 3						200
Net changes of items other than shareholders' equity	(310)	1	(97)	(407)	16	(390)
Total changes of items during this mid-term fiscal period	(310)	1	(97)	(407)	16	5,679
Balance as of March 31, 2007	482	1	(326)	157	16	45,144

- 1 This is attributable to exercise of the stock acquisition rights of Euro-Yen convertible bonds.
- 2 This includes appropriation of retained earnings by the general shareholders' meeting for the previous fiscal year.
- 3 This includes collateral treasury stock distribution by exercise of the stock acquisition rights of Euro-Yen convertible bonds.

## (4) Mid-Term Consolidated Statements of Cash Flows

(Unit: Millions of Yen)

Account Title	Previous Mid-Term Fiscal Period	This Mid-Term Fiscal Period	Previous Fiscal Period
	From April 1, 2006 to September 30, 2006	From April 1, 2007 to September 30, 2007	From April 1, 2006 to March 31, 2007
	Amount	Amount	Amount
Cash flows from operating activities			
1 Net income before income taxes	3,361	3,249	9,986
2 Depreciation and amortization	1,297	1,434	2,774
3 Amortization of goodwill	1	0	2
4 Increase (decrease) in allowance for doubtful accounts	38	(0)	137
5 Increase (decrease) in accrued bonuses	10	(332)	676
6 Increase (decrease) in allowance for sales returns	(216)	(108)	113
7 Increase in Accrued retirement gratuities to directors	-	357	-
8 Interest and dividend income	(374)	(665)	(900)
9 Interest expense	35	36	72
10 Gain on sales of fixed assets	(1)	(1)	(1)
11 Loss on sales and/or disposal of fixed assets	128	5	173
12 Loss on revaluation of investments in securities	35	25	103
13 Gain on settlement of litigation	-	-	(103)
14 Decrease in accounts receivable, trade	1,573	3,171	1,659
15 Decrease (increase) in inventories	331	(356)	(252)
16 Decrease (increase) in work-in-progress for game software	920	(3,460)	2,933
17 Increase (decrease) in accounts payable, trade	846	(1,816)	186
18 Increase in other current assets	(4,145)	(978)	(331)
19 Increase (decrease) in other current liabilities	1,178	(938)	528
20 Other	(15)	516	(161)
Sub total	5,006	138	17,596
21 Interest and dividends received	382	691	876
22 Interest paid	(35)	(60)	(67)
23 Proceeds from gain on settlement of litigation	-	-	103
24 Income taxes paid	(2,022)	(564)	(2,444)
Net cash provided by operating activities	3,330	203	16,063
Cash flows from investing activities			
1 Payment for acquisitions of tangible fixed assets	(1,879)	(1,688)	(3,804)
2 Proceeds from sales of tangible fixed assets	18	2	40
3 Payment for acquisitions of intangible fixed assets	(154)	(698)	(671)
4 Proceeds from sales of intangible fixed assets	7	-	7
5 Payment for purchase of investments in securities	(111)	(15)	(116)
6 Payment for purchase of shares in a subsidiary	(1,554)	-	(1,612)
7 Payment for loans receivable	(30)	-	(100)
8 Collection of loans receivable	34	1,431	73
9 Payment for other investing activities	(287)	(388)	(688)
10 Proceeds from other investing activities	61	79	157
Net cash used in investing activities	(3,895)	(1,276)	(6,715)
Cash flows from financing activities			
1 Proceeds from short-term borrowings	-	-	55
2 Repayments of long-term borrowings	(350)	(350)	(700)
3 Redemption of convertible bonds	-	-	(10,000)
4 Proceeds from sales of treasury stock	0	-	0
5 Payment for repurchase of treasury stock	(3,241)	(9)	(3,251)
6 Dividends paid by parent company	(550)	(846)	(1,337)
7 Proceeds from issuing shares for minority shareholders	-	-	26
Net cash used in financing activities	(4,141)	(1,205)	(15,206)
Effect of exchange rate changes on cash and cash equivalents	(97)	(399)	203
Net decrease in cash and cash equivalents	(4,803)	(2,677)	(5,654)
Cash and cash equivalents at beginning of year	40,652	35,020	40,652
Increase due to change in scope of consolidated subsidiaries	22	-	22
Cash and cash equivalents at end of year	35,871	32,342	35,020

[ Segment Information ]  
(A) Operating segments

**Six-month Period ended September 30, 2006 (from April 1, 2006 to September 30, 2006)**

(Unit: Millions of Yen)

	Home Video Games	Arcade Operations	Arcade Games	Contents Expansion	Other Businesses	Total	Elimination and corporate	Consolidated total
Net sales and operating profit or loss								
Net Sales								
(1) External customers	15,735	6,466	4,348	1,333	1,291	29,175	( - )	29,175
(2) Inter-segment sale or transfer	-	-	18	-	-	18	(18)	-
Total	15,735	6,466	4,367	1,333	1,291	29,194	(18)	29,175
Operating expense	13,473	5,328	3,474	1,261	1,333	24,871	1,262	26,133
Operating income or loss	2,262	1,137	893	72	(42)	4,323	(1,280)	3,042

(Note)

- Business segments above are split based upon for internal management disposition.
- Principal products and operations of each business segment
  - Home Video Games: This sales division develops and distributes home video game software.
  - Arcade Operations: This division operates amusement facilities.
  - Arcade Games: This sales division develops, manufactures, and distributes commercial game equipments and integrated circuit boards.
  - Contents Expansion: This division develops and distributes mobile contents as well as LCD display.
  - Other Businesses: Other businesses include licensing business and other businesses.
- Among operating expenses, undistributed operating expenses to each business segment above is included in the "Elimination and corporate" amounted to 1,290 million yen. The major part of this expense is related to corporate G&A.

**Six-month Period ended September 30, 2007 (from April 1, 2007 to September 30, 2007)**

(Unit: Millions of Yen)

	Home Video Games	Arcade Operations	Arcade Games	Contents Expansion	Other Businesses	Total	Elimination and corporate	Consolidated total
Net sales and operating profit or loss								
Net Sales								
(1) External customers	16,323	6,375	1,353	5,644	1,411	31,108	( - )	31,108
(2) Inter-segment sale or transfer	-	-	23	-	-	23	(23)	-
Total	16,323	6,375	1,377	5,644	1,411	31,131	(23)	31,108
Operating expense	13,463	5,693	2,348	3,780	1,103	26,389	1,660	28,049
Operating income or loss	2,859	682	(971)	1,863	307	4,742	(1,683)	3,058

(Note)

- Business segments above are split based upon for internal management disposition.
- Principal products and operations of each business segment
  - Home Video Games: This sales division develops and distributes home video game software.
  - Arcade Operations: This division operates amusement facilities.
  - Arcade Games: This sales division develops, manufactures, and distributes commercial game equipments and integrated circuit boards.
  - Contents Expansion: This division develops and distributes mobile contents as well as LCD display.
  - Other Businesses: Other businesses include licensing business and other businesses.
- Among operating expenses, undistributed operating expenses to each business segment above is included in the "Elimination and corporate" amounted to 1,693 million yen. The major part of this expense is related to corporate G&A.

**Previous Fiscal Year (from April 1, 2006 to March 31, 2007)**

(Unit: Millions of Yen)

	Home Video Games	Arcade Operations	Arcade Games	Contents Expansion	Other Businesses	Total	Elimination and corporate	Consolidated total
Net sales and operating profit or loss								
Net Sales								
(1) External customers	43,813	13,043	8,021	7,102	2,561	74,542	( - )	74,542
(2) Inter-segment sale or transfer	-	-	39	-	-	39	(39)	-
Total	43,813	13,043	8,060	7,102	2,561	74,581	(39)	74,542
Operating expense	35,757	11,033	6,691	5,477	3,000	61,961	2,977	64,939
Operating income or loss	8,055	2,009	1,369	1,624	(439)	12,619	(3,017)	9,602

(Note)

- Business segments above are split based upon for internal management disposition.
- Principal products and operations of each business segment
  - Home Video Games: This sales division develops and distributes home video game software.
  - Arcade Operations: This division operates amusement facilities.
  - Arcade Games: This sales division develops, manufactures, and distributes commercial game equipments and integrated circuit boards.
  - Contents Expansion: This division develops and distributes mobile contents as well as LCD display.
  - Other Businesses: Other businesses include licensing business and other businesses.
- Among operating expenses, undistributed operating expenses to each business segment above is included in the "Elimination and corporate" amounted to 3,036 million yen. The major part of this expense is related to corporate G&A.

**(B) Geographic segments**

**Six-month Period ended September 30, 2006 (from April 1, 2006 to September 30, 2006)**

(Unit: Millions of Yen)

	Japan	North America	Europe	Other Regions	Total	Elimination and corporate	Consolidated total
Net sales and operating profit or loss							
Net Sales							
(1) External customers	18,978	6,568	3,090	538	29,175	( - )	29,175
(2) Inter-segment sale or transfer	2,749	210	-	-	2,959	(2,959)	-
Total	21,727	6,778	3,090	538	32,135	(2,959)	29,175
Operating expense	18,785	5,822	2,635	456	27,699	(1,566)	26,133
Operating income or loss	2,941	955	455	82	4,435	(1,393)	3,042

(Note)

- The segmentation of country or region is based on the geographical proximity.
- Major countries and regions that are not in Japan
  - North America: United States of America
  - Europe: European countries
  - Other regions: Asia and others
- Among operating expenses, undistributed operating expenses to these business segment above is included in the "Elimination and corporate" amounted to 1,290 million yen. The major part of this expense is related to corporate management.

**Six-month Period ended September 30, 2007 (from April 1, 2007 to September 30, 2007)**

(Unit: Millions of Yen)

	Japan	North America	Europe	Other Regions	Total	Elimination and corporate	Consolidated total
Net sales and operating profit or loss							
Net Sales							
(1) External customers	23,766	4,554	2,529	257	31,108	( - )	31,108
(2) Inter-segment sale or transfer	1,641	109	-	-	1,751	(1,751)	-
Total	25,408	4,664	2,529	257	32,859	(1,751)	31,108
Operating expense	20,892	4,607	2,338	267	28,105	(55)	28,049
Operating income or loss	4,515	56	191	(9)	4,754	(1,695)	3,058

(Note)

- The segmentation of country or region is based on the geographical proximity.
- Major countries and regions that are not in Japan
  - North America: United States of America
  - Europe: European countries
  - Other regions: Asia and others
- Among operating expenses, undistributed operating expenses to these business segment above is included in the "Elimination and corporate" amounted to 1,693 million yen. The major part of this expense is related to corporate management.

**Previous Fiscal Year (from April 1, 2006 to March 31, 2007)**

(Unit: Millions of Yen)

	Japan	North America	Europe	Other Regions	Total	Elimination and corporate	Consolidated total
Net sales and operating profit or loss							
Net Sales							
(1) External customers	50,074	15,450	8,090	927	74,542	( - )	74,542
(2) Inter-segment sale or transfer	6,652	315	-	-	6,967	(6,967)	-
Total	56,726	15,766	8,090	927	81,510	(6,967)	74,542
Operating expense	46,660	14,322	7,074	803	68,860	(3,920)	64,939
Operating income or loss	10,065	1,443	1,016	124	12,650	(3,047)	9,602

(Note)

- The segmentation of country or region is based on the geographical proximity.
- Major countries and regions that are not in Japan
  - North America: United States of America
  - Europe: European countries
  - Other regions: Asia and others
- Among operating expenses, undistributed operating expenses to these business segment above is included in the "Elimination and corporate" amounted to 3,036 million yen. The major part of this expense is related to corporate management.