

# Consolidated Financial Results of the Year ended March 31, 2006 (Unaudited)

Date of Issue: May 23, 2006

Company Name: CAPCOM Co., Ltd.

Stock Listing: Tokyo, Osaka

Code Number: 9697

Location of Headquarters: Osaka Prefecture

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Approval of Financial Results by Board Members; May 23, 2006

Application of US Accounting Standard: None

## 1. Results of the Year ended March 31, 2006 (April 1, 2005-March 31, 2006)

### (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	%
Year Ended March 31, 2006	70,253	6.6	6,580	(15.1)	7,016	(5.2)	6,941	91.6
Year Ended March 31, 2005	65,895	25.1	7,752	452.6	7,399	835.4	3,622	-

	Earnings Per Share of Common Stock	Earnings Per share of Common Stock (Assuming Full Diluted)	Return (net income) on Equity	Return (ordinary income) on Assets	Return (ordinary income) on Sales
	Yen	Yen	%	%	%
Year Ended March 31, 2006	125.19	93.49	19.3	6.9	10.0
Year Ended March 31, 2005	63.37	50.28	11.3	7.4	11.2

Note: Investment Profit/Loss on Equity Method

Year Ended March 31, 2006 (32) Million yen Year Ended March 31, 2005 (9) Million yen

Average Number of Shares of Each Terms (Consolidated Basis)

Year Ended March 31, 2006 54,967,392 Year Ended March 31, 2005 56,218,063

Change in Accounting Policies: Yes

Percentage represents change against corresponding period of the previous year on net sales, operating income, ordinary income and net income

### (2) Financial Position

	Total Assets	Total Shareholder's Equity	Shareholder's Equity Ratio to Total Assets	Shareholder's Equity per Share
	Million Yen	Million Yen	%	Yen
As of March 31, 2006	98,457	39,464	40.1	716.91
As of March 31, 2005	106,361	32,491	30.5	589.99

Note: Number of shares outstanding: Year Ended March 31, 2006 54,694,728 Year Ended March 31, 2005 54,969,432

### (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 period
	Million Yen	Million Yen	Million Yen	Million Yen
Year Ended March 31, 2006	13,921	(1,779)	(18,259)	40,652
Year Ended March 31, 2005	7,977	(1,099)	6,251	45,538

### (4) Scope of Consolidation and Equity Method

Number of consolidated subsidiaries: 11

Number of unconsolidated subsidiaries (equity method is applied): 0

Number of affiliated companies (equity method is applied): 1

### (5) Change in Scope of Consolidation and Equity Method

Consolidation: Increase 0, Decrease 1

Equity Method: Increase 0, Decrease 0

## 2. Forecast for the Fiscal Year ending March 31, 2007 (From April 1, 2006 to March 31, 2007)

	Net Sales	Ordinary Income	Net Income
	Million Yen	Million Yen	Million Yen
Six-month period ending Sep. 30, 2006	25,600	1,500	750
For Year ending March 31, 2007	68,400	7,000	3,900

(Reference) Expected Net Income Per Share of Common Stock for Year ending March 31, 2007: 70.95 (Yen)

Note: These forecast are based on the Company's current assumptions and beliefs in light of the information currently available to it, and involve known and unknown risk and uncertainties. The Company's actual results may differ materially from above mentioned forecast.

## 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.

From this fiscal year ended March 31, 2006, business segments are changed from 4 categories (“Home Video Games”, “Arcade Operations”, “Arcade Games” and “Other Businesses”) to 5 categories (“Home Video Games”, “Arcade Operations”, “Arcade Games”, “Contents Expansion” and “Other Businesses”).

By establishing new division which is responsible for developing and distributing mobile contents as well as LCD display based on strategies of expansion of content into various business areas, Contents Expansion Business, which consisted of Other Businesses in the previous fiscal year, was distinguished from Other Businesses due to clarification of its business visibility.

### [ Home Video Games ]

This division develops and distributes home video game software. Capcom Co., Ltd. develops video game software. Capcom Entertainment, Inc.(consolidated subsidiary), Capcom Asia Co., Ltd.(consolidated subsidiary), Capcom Eurosoft Ltd.(consolidated subsidiary), CE Europe Ltd.(consolidated subsidiary), CEG Interactive Entertainment GmbH(consolidated subsidiary), Koko Capcom Co., Ltd. and Capcom Co., Ltd. are responsible for distribution of the game software. Flagship Co., Ltd. (consolidated subsidiary) and Clover Studio Co., Ltd. are also participating in development.

### [ 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 game products for commercial customers. Capcom Co., Ltd. develops and manufactures products while Capcom Asia Co., Ltd. and Capcom Co., Ltd. are responsible for distribution of the products.

### [ Contents Expansion ]

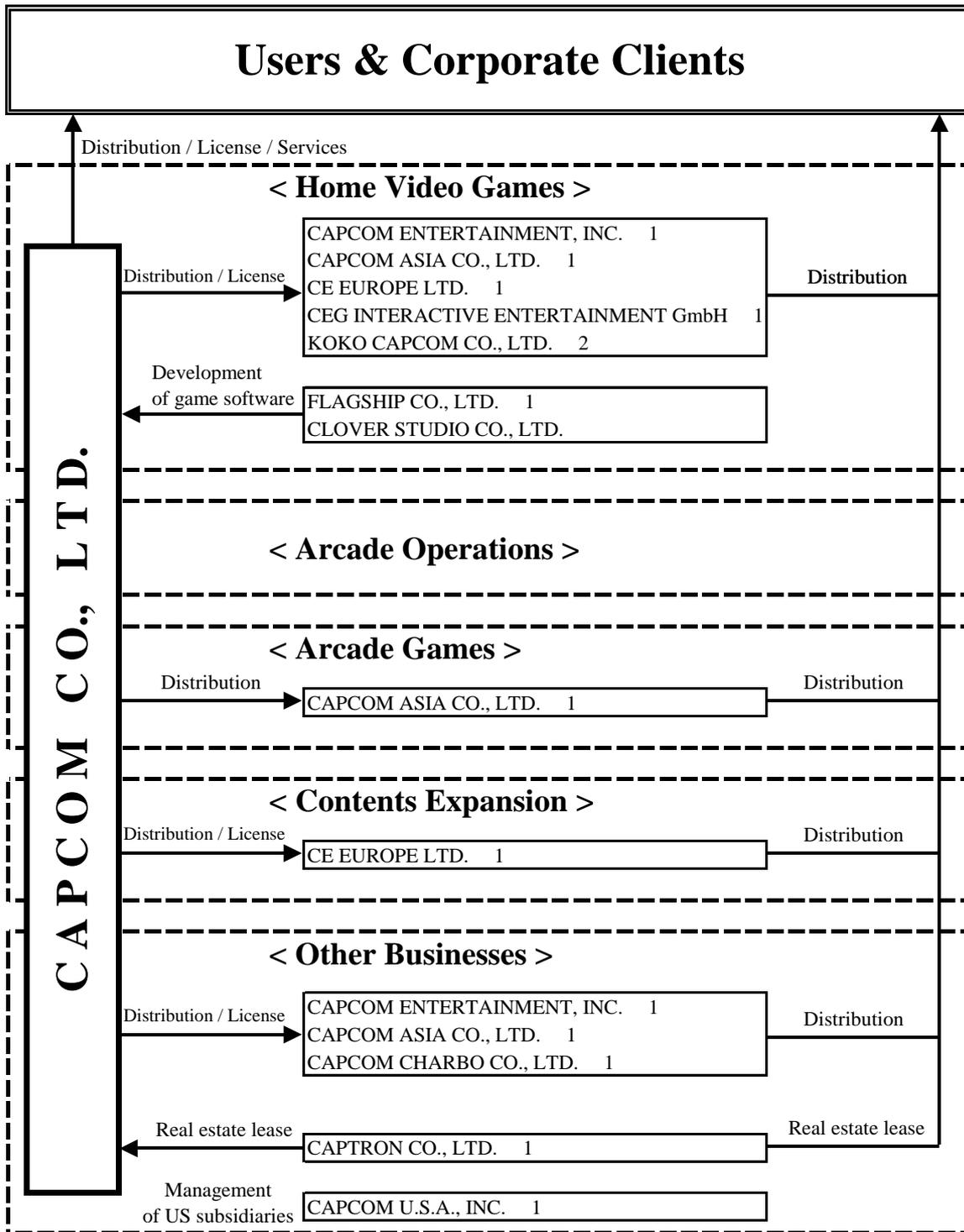
This division develops and distributes mobile contents as well as LCD display. Capcom Co., Ltd. develops and distributes LCD display. As for mobile contents being developed by Capcom Co., Ltd., Capcom Co., Ltd. and CE Europe Ltd. undertake their distribution through their telecommunications companies.

### [ Other Businesses ]

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

Capcom USA., Inc.(consolidated subsidiary) is a holding company of its US and UK subsidiaries; Capcom Entertainment, Inc., Capcom Studio 8, Inc. and Capcom Eurosoft Ltd., and their respective managements are under the control of Capcom USA., Inc.. Capcom Eurosoft Ltd. (a consolidated subsidiary), which used to be responsible for the distribution of game software in Europe, is now under process of dissolution. Capcom Studio 8, Inc. is suspending its operations based on corporate dissolution. Status Co., Ltd. completed its dissolution on August 30, 2005.

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



1 Consolidated subsidiary

2 Affiliated companies consolidated for equity method

# 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. Principle related to dividends

One of our priorities is on stable and continuous dividends to all shareholders. In order to enable us to implement the objective, we are striving to generate retained earnings in line with our future business strategies as well as our financial strength.

## 3. Business Targets

As financial conditions in Japan change, such as the implementation of new accounting standards, we believe “Cash-Flow Management” 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” (real management that generates cash) as a very important factor for evaluating decision-making processes and corporate values.

## 4. Medium Term Business Strategy

In addition to the sharp rise in development costs, the video game industry is facing challenges such as intensified competition from other business sectors, including the cellular phone business as well.

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.

As our medium-term business strategy, our management objectives are as shown in the following:

- (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 the provision on LCD device for PACHISLO machines and more focus on publishing.
- (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.

5. 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

Generating corporate vitalities with clear vision and responsive management is part of our efforts for the effective usage of the development resources. We are promoting a business strategy that concentrates management resources on the selected business to make the most of the collective power of the entire Capcom group. Withdrawing from unprofitable projects and investing in growing ones is an example of the “Scrap & Build” strategy which will enhance corporate value.

(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. Publishing and the provision of the LCD device for PACHISLO machines 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.

6. 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 May 23, 2006 and certain assumptions that serve as the basis on rational judgments.

(1) Risks related 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 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.

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 Manufacturers

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 related 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.

(3) Risks related 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 related 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 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 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

The outstanding issue of unsecured convertible bonds is 25,000 million yen and convertible bond, issued after April 1<sup>st</sup> 2002, of 11,500 million yen. 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.

# Operating Results & Financial Status

## 1. Operating Results

### (1) Overview of the fiscal year ended March 31, 2006

The Japanese economy in this consolidated fiscal year, which ended March 31, 2006, sustained a recovery while struggling with high crude prices and the slackening growth of exports. Supporting factors were steady consumer spending and capital investments, better employment situations, and upturn in stock markets.

The video game industry experienced a favorable growth in general while it was going through the period of “generational shift”, the transition of hardware to the next-generation stationary game consoles. One of the major contributors for the growth was the new portable game consoles which generated a buzz in the market and played a central role in the diversification of the customer base by attracting female and novice game players. These new portable game consoles led the demand increase during the year-end sales, thus boosting domestic market.

Along with the advancement of the telecommunication infrastructure, those businesses looking for new revenue bases accelerated the market of on-line games which allow multiple players to participate in the same game simultaneously.

As for the arcade operations, the existing arcades grew relatively on a weak tone. However, the number of newly opened facilities in large commercial complexes has increased as a result of the “Scrap & Build” strategy.

The overseas markets generally experienced a sluggish growth despite the release of “Xbox360” in the US, the largest game market in the world. The markets were negatively affected by the signs of market maturity and by the slowdown in demands due to the transition to the next-generation stationary consoles.

Under these circumstances, Capcom group strengthened management system through organizational reforms and promoted aggressive sales operations. Such efforts included implementing elaborate sales promotions and selling software titles developed through a partnership with other companies in order to satisfy diverse customer needs both domestically and internationally.

We expanded the content-related business, including the distribution of games to cellular phones and the provision of the LCD device for PACHISLO machines. Additionally, we promoted the reorganization of the overseas operations, one of our most critical business segments, to enhance the earning power of the entire Capcom group.

Aiming to establish a leading position in the overseas market, we held an event in the US to introduce the Capcom products for overseas markets. The “CAPCOM 2006 PRESS EVENT”, which took place in Las Vegas in February 2006, was packed with the press and distributors promising us the success of the future overseas strategies.

The resulting consolidated net sales increased to 70,253 million yen (up 6.6% from the previous year).

As for profits, the consolidated ordinary income decreased to 7,016 million yen (down 5.2% 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 based on the transfer price taxation and the additional tax of 1,832 million yen accrued including local taxes. The resulting net profit for the current fiscal year was 6,941 million yen (up 91.6% from the previous year).

## (2) Status of Each Operational Department

### Home Video Game Sales

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 “Megaman Battle Network 6” (for Game Boy Advance), the latest title of the series, achieved solid sales supported by its firm popularity. “Phoenix Wright: Ace Attorney” (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 42,718 million yen (up 6.8% from the previous year), and the operating income decreased to 2,926 million yen (down 25.1% from the previous year).

### 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 11,568 million yen (up 5.8% from the previous year), and the operating income increased to 2,438 million yen (up 6.2% from the previous year).

### Arcade Game Sales

The video game console, “Mobile Suite 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 & 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 Network 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).

#### Contents Expansion Business

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: Ace Attorney” series and “Monster Hunter i,” 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).

#### 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 Region

#### 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.

“Megaman 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 Suite 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 54,303 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).

#### 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).

#### 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).

#### 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 717 million yen (up 68.2% from the previous year), and the operating income was 72 million yen (loss of 15 million yen in the previous year).

## 2. Prospects for the Next Fiscal Year

It is anticipated that all the next-generation stationary game consoles will be released by the end of 2006. However, the forecast of the market conditions remains flat due to the influence of the prolonged hardware transition period.

The market size of the on-line games is projected to expand mainly in Asia, namely South Korea and China.

It is possible that the existing market share alignment will be totally redrawn as the competition over the market initiative in the game industry becomes further intensified. The launch of the advanced and sophisticated game hardware will result in an urgent need for software makers to address the problem of increasing development costs.

Additionally, the industry may go through a radical reformation with new players from other industries, including movie, music, toy, and media, entering into the video game business.

On the other hand, we started to see the public-private cooperation towards the industrial development with the Japanese Ministry of Economy, Trade and Industry (METI) discussing the vitalization of the game industry. Some of the strategies METI is examining include establishing award programs, developing overseas markets, and supporting human resource development.

Undergoing this major industry re-structuring, the Capcom group is determined to correspond to the environmental changes in a resourceful and timely manner based on the autonomous and flexible management. Some of the areas we are addressing are strengthening existing business divisions, revising business structures, establishing the competitive edge, and improving the financial position.

As part of our efforts to expand the customer base, we will upgrade our product series and focus on the development of software that closely corresponds to both domestic and overseas market needs. An extra emphasis will be placed on the on-line games, and the opportunity to collaborate with other corporations in the development and sales of new products will be actively pursued.

While contemplating the trend of the next-generation hardware, we will try to improve and expand the product line-ups by developing new futuristic software and utilizing current titles that boast established and prolonged popularity. The enhancement of the user base and the establishment of the value chain are the goals of the multi-platform strategy by which we provide software for various hardware manufacturers.

In addition, we will work on the utilization of our contents in the LCD device for game machines, thus creating synergy effects. Our management resources will focus on supporting growing business as well as on developing new business opportunities. The ultimate objective of these activities is to establish the business portfolio that accommodates changes in the market conditions.

We will aggressively promote the global business strategy, the enhancement of the corporate value, and the operation optimization in the entire Capcom group. Such efforts include reorganizing overseas subsidiaries, upgrading the inter-business network, and deploying operations among domestic and overseas subsidiaries from centralized management.

These forecasts are based on the Company's current assumptions and beliefs in light of the information currently available to it, and involve known and unknown risk and uncertainties. The Company's actual results may differ materially from the above-mentioned forecast.

### 3. Financial Conditions

Cash and cash equivalents (hereafter referred to as "Cash") as of this fiscal year period decreased by 40,652 million yen from the previous fiscal year to 4,885 million yen. Cash flow positions for each activity are as stated below.

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

Net cash increase from operating activities amounted to 13,921 million yen, increased by 5,944 million yen in comparison with the previous year. This is attributed to the following; Net income before tax adjustment resulted in 6,912 million yen, decrease of game software products in-progress by 3,051 million yen and decrease of accounts receivable by 1,795 million.

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

Net cash decrease from investing activities to 1,779 million yen, which is increased by 680 million yen in comparison with the previous year. This decrease is attributable to the expense of 1,512 million yen for the acquisition of property, plant and equipment for amusement facilities.

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

Net cash decrease from financing activities amounted to 18,259 million yen. This is attributable to issuance of convertible bond of 12,262 million yen, repayment of short-term borrowings by 4,893 million yen, and of dividend by 1,098 million yen.

#### 4. Trends of Cash Flow Indicators

	Year ended March 31, 2004	Year ended March 31, 2005	Year ended March 31, 2006
Ratio of capital stock (%)	34.2	30.5	40.1
Ratio of capital stock based on fair market value (%)	63.1	54.1	67.5
Debt amortization schedule (number of years)	4.4	2.8	0.4
Interest coverage ratio (times)	20.3	30.0	82.6

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.

## Consolidated Balance Sheets

(Unit: Millions of Yen)

Account Title	Balance Sheet of Previous Fiscal Year (As of March 31, 2005)		Balance Sheet of This Fiscal Year (As of March 31, 2006)		Difference
	Amount	%	Amount	%	Amount
(Assets)					
Current assets					
1 Cash and cash equivalents	43,538		40,453		(3,085)
2 Notes and accounts receivable	14,417		12,812		(1,605)
3 Negotiable Securities	1,999		199		(1,799)
4 Inventories	3,912		3,741		(170)
5 Game software products in-progress	9,399		6,348		(3,051)
6 Deferred income taxes	4,004		3,266		(738)
7 Short-term loans receivable	1,285		1,277		(8)
8 Other	1,455		1,272		(182)
9 Allowance for doubtful accounts	(1,128)		(1,295)		(167)
Total current assets	78,884	74.2	68,075	69.1	(10,809)
Fixed assets					
(1) Tansible fixed assets					
1 Buildings and structures	6,677		6,366		(311)
2 Machinery and vehicle	84		107		22
3 Tool, fixture and furniture	588		529		(59)
4 Rental equipment	107		199		91
5 Equipments for amusement facilities	1,878		2,064		186
6 Land	4,472		4,480		7
7 Construction-in-progress	72		73		1
Total tansible fixed assets	13,881	13.0	13,820	14.0	(60)
(2) Intansible fixed assets					
1 Other	636		333		(302)
Total intansible fixed assets	636	0.6	333	0.4	(302)
(3) Investments and other assets					
1 Investments in securities	1,562		2,305		742
2 Long-term loans receivable	865		807		(58)
3 Deferred income taxes	6,029		8,624		2,594
4 Claim in bankruptcy and reorganization	108		107		(0)
5 Other	4,804		5,095		291
6 Allowance for doubtful accounts	(410)		(712)		(301)
Total investments and other assets	12,959	12.2	16,227	16.5	3,268
Total fixed assets	27,476	25.8	30,381	30.9	2,904
Total assets	106,361	100.0	98,457	100.0	(7,904)

(Unit: Millions of Yen)

Account Title	Balance Sheet of Previous Fiscal Year (As of March 31, 2005)		Balance Sheet of This Fiscal Year (As of March 31, 2006)		Difference
	Amount	%	Amount	%	Amount
(Liabilities)					
Current liabilities					
1 Notes and accounts payable	8,472		7,213		(1,259)
2 Short-term borrowings	4,893		700		(4,193)
3 Convertible bonds repayable within 1 year	12,262		10,000		(2,262)
4 Accrued income taxes	559		2,196		1,637
5 Accrued bonus	1,137		1,062		(74)
6 Reserve for return goods	210		349		138
7 Other	3,809		5,420		1,611
Total current liabilities	31,344	29.5	26,942	27.4	(4,401)
Long-term liabilities					
1 Convertible bonds payable	25,000		15,000		(10,000)
2 Convertible bonds issued after April 1st, 2002	11,500		11,500		-
3 Long-term debt	4,830		4,130		(700)
4 Accrued retirement benefits for employees	740		816		75
5 Other	454		604		149
Total fixed liabilities	42,525	40.0	32,050	32.5	(10,475)
Total liabilities	73,869	69.5	58,992	59.9	(14,877)
(Shareholders' Equity)					
Common stock	27,581	25.9	27,581	28.0	-
Capital surplus	15,336	14.4	15,336	15.6	(0)
Retained earnings	(4,681)	(4.4)	1,099	1.1	5,781
Unrealized profit and loss on revaluation of securities	470	0.4	793	0.8	322
Cumulative translation adjustments	(1,103)	(1.0)	(228)	(0.2)	874
Treasury stock	(5,111)	(4.8)	(5,117)	(5.2)	(5)
Total shareholders' equity	32,491	30.5	39,464	40.1	6,973
Total liabilities, minority interest and shareholders' equity	106,361	100.0	98,457	100.0	(7,904)

## Consolidated Statements of Income

(Unit: Millions of Yen)

Account Title	Income Statements of Previous Fiscal Year From April 1, 2004 To March 31, 2005			Income Statements of This Fiscal Period From April 1, 2005 To March 31, 2006			Difference
	Amount		%	Amount		%	Amount
Net sales		65,895	100.0		70,253	100.0	4,357
Cost of sales		43,640	66.2		47,799	68.0	4,158
Gross profit		22,255	33.8		22,454	32.0	199
Reserve for return goods		-	-		138	0.2	138
Reserve adjustment for return goods		489	0.7		-	-	(489)
Net gross profit balance		22,744	34.5		22,315	31.8	(428)
Selling, general and administrative expenses		14,991	22.8		15,735	22.4	743
Operating income		7,752	11.7		6,580	9.4	(1,172)
Other income							
1 Interest income	216			507			
2 Dividend income	13			13			
3 Exchange gain	340			493			
4 Other	149	719	1.1	74	1,089	1.6	370
Other expense							
1 Interest expense	265			171			
2 Transfer of allowance for doubtful accounts	625			317			
3 Other	181	1,073	1.6	165	653	0.9	(419)
Ordinary income		7,399	11.2		7,016	10.0	(382)
Extraordinary gain							
1 Gain on sale of fixed asset	-			1			
2 Gain on bad debt recovered	-			114			
3 Gain on assignment of business	66	66	0.1	-	116	0.2	49
Extraordinary loss							
1 Loss on sale of fixed asset	121			65			
2 Retirement gratuity to director to resign	-			44			
3 Loss on revaluation of investment in securities	314			63			
4 Loss on sale of investment in securities	22			-			
5 Other extraordinary loss	-	459	0.7	47	220	0.3	(238)
Net profit before taxes		7,006	10.6		6,912	9.8	(93)
Corporate tax, local tax, and enterprise tax	628			551			
Corporate tax from previous period	-			1,832			
Corporate tax refund from previous period	(58)			-			
Adjustment of corporate tax and other tax	2,813	3,383	5.1	(2,413)	(28)	(0.0)	(3,412)
Net profit		3,622	5.5		6,941	9.9	3,318

## Consolidated Statements of Retained Earnings

(Unit: Millions of Yen)

Account Title	Previous Fiscal Year		This Fiscal Year		Difference
	From April 1, 2004 To March 31, 2005		From April 1, 2005 To March 31, 2006		
	Amount		Amount		Amount
(Capital surplus )					
I Beginning balance of retained earnings		24,852		15,336	(9,515)
II Decrease in retained earnings					
1 Dividend	569		-		
2 Loss on sale of treasury stock	0		0		
3 Decrease in capital and capital reserve	8,945	9,515	-	0	(9,515)
III Retained earnings					
Ending balance of this fiscal period		15,336		15,336	(0)
(Retained earnings)					
I Beginning balance of retained earnings		(16,727)		(4,681)	12,045
II Increase in retained earnings					
1 Net profit	3,622		6,941		
2 Decrease in capital and capital reserve	8,945		-		
3 Increase in retained earnings for increase of equity method affiliate	42	12,610	-	6,941	(5,669)
III Decrease in retained earnings					
1 Dividend	564		1,099		
2 Bonus paid to directors	-	564	60	1,159	594
IV Ending balance of retained earnings		(4,681)		1,099	5,781

## Consolidated Statements of Cash Flows

(Unit: Millions of Yen)

Account Title	Previous Fiscal Year	This Fiscal Year	Difference
	From April 1, 2004 To March 31, 2005	From April 1, 2005 To March 31, 2006	
	Amount	Amount	Amount
<b>I Cash flows from operating activities</b>			
1 Net profit before income taxes	7,006	6,912	(93)
2 Depreciation and amortization	2,101	1,936	(164)
3 Amortization of difference from consolidation	2	2	-
4 Increase in allowance for doubtful accounts	544	458	(85)
5 Increase (decrease) in accrued bonuses and unpaid bonus	22	(87)	(109)
6 Increase (decrease) in reserve for loss on goods unsold	(489)	138	627
7 Increase (decrease) in accrued retirement benefits for employees	(106)	75	181
8 Interest revenue and dividend income	(229)	(521)	(291)
9 Interests paid	265	171	(94)
10 Exchange gain (loss)	(69)	(360)	(290)
11 Investment loss on equity method	9	32	22
12 Gain on sale of fixed assets	-	(1)	(1)
13 Loss on sale or disposal of fixed assets	121	65	(56)
14 Loss on sale of investment in securities	22	-	(22)
15 Loss on revaluation of investment in securities	314	111	(203)
16 Loss on revaluation of other financial products	2	-	(2)
17 Gain on assignment of business	(66)	-	66
18 Increase (decrease) in account receivable	(5,400)	1,795	7,195
19 Decrease in inventories	454	193	(261)
20 Increase (decrease) in game software products in-progress	240	3,051	2,810
21 Increase (decrease) in accounts payable	3,929	(1,334)	(5,263)
22 Increase in other current assets	(150)	(119)	31
23 Increase (decrease) in other current liabilities	(583)	1,341	1,925
24 Bonus paid to directors	-	(60)	(60)
25 Other	345	607	262
Sub total	8,289	14,409	6,119
26 Interest and dividend received	238	513	275
27 Interest payment	(265)	(168)	97
28 Corporate and other tax payment	(285)	(832)	(547)
Cash flows from operating activities	7,977	13,921	5,944
<b>II Cash flows from investing activities</b>			
1 Acquisition of property, plant and equipment	(1,320)	(1,512)	(191)
2 Proceeds from sale of property, plant and equipment	0	52	52
3 Acquisition of intangible fixed asset	(38)	(85)	(46)
4 Proceeds from sales of intangible fixed asset	-	0	0
5 Acquisition of investment in securities	(4)	(61)	(56)
6 Proceeds from sales of investment in securities	218	45	(173)
7 Proceeds from collection of loans	42	66	23
8 Gain on assignment of business	66	-	(66)
9 Expenditure for other investing activities	(288)	(546)	(258)
10 Proceeds from other investing activities	225	262	36
Cash flows from investing activities	(1,099)	(1,779)	(680)
<b>III Cash flows from financing activities</b>			
1 Repayment of short-term borrowings	(1,402)	(4,193)	(2,791)
2 Repayment of long-term borrowings	(700)	(700)	-
3 Proceeds from convertible bonds issued after April 1st, 2002	11,500	-	(11,500)
4 Payment on redemption of convertible bonds	-	(12,262)	(12,262)
5 Proceeds from sale of treasury stock	0	0	0
6 Acquisition of treasury stock	(2,013)	(6)	2,006
7 Dividend paid by parent company	(1,133)	(1,098)	34
Cash flows from financing activities	6,251	(18,259)	(24,511)
IV Effect of exchange rate changes on cash and cash equivalents	277	1,232	954
V Increase(decrease) in cash and cash equivalents	13,406	(4,885)	(18,292)
VI Beginning balance of cash and cash equivalents	32,131	45,538	13,406
VII Ending balance of cash and cash equivalents	45,538	40,652	(4,885)

## [Segment Information]

### (A) Operating segments

Previous Fiscal Year (from April 1, 2004 to March 31, 2005)

Unit: Millions of Yen

	Home Video Games	Arcade Operation	Arcade Games	Other Businesses	Total	Elimination and Corporate	Consolidated Total
Net sales and operating profit or loss							
Net Sales							
(1) External Customers	39,985	10,934	7,411	7,563	65,895	( - )	65,895
(2) Inter-Segment Sale or Transfer	-	-	38	-	38	(38)	-
Total	39,985	10,934	7,450	7,563	65,933	(38)	65,895
Operating Expense	36,077	8,638	5,505	5,586	55,807	2,336	58,143
Operating Profit or Loss	3,907	2,296	1,944	1,977	10,126	(2,374)	7,752

(Note)

1. Business segments above are split based upon for internal management disposition.
2. Principal products and operations of each business segment
  - (1) Home Video Games: This sales division develops and distributes home video game software.
  - (2) Arcade Operations: This division operates amusement facilities.
  - (3) Arcade Games: This sales division develops, manufactures, and distributes commercial game equipments and integrated circuit boards.
  - (4) Other Businesses: Other businesses include licensing business and other content-related businesses.
3. Among operating expenses, undistributed operating expenses to each business segment above is included in the "Elimination and corporate" amounted to 2,401 million yen. The major part of this expense is related to corporate G&A.

**This Fiscal Year (from April 1, 2005 to March 31, 2006)**

Unit: Millions of Yen

	Home Video Games	Arcade Operation	Arcade Games	Contents Expansion	Other Businesses	Total	Elimination and Corporate	Consolidated Total
Net sales and operating profit or loss								
Net Sales								
(1) External Customers	42,718	11,568	6,956	5,742	3,268	70,253	( - )	70,253
(2) Inter-Segment Sale or Transfer	-	-	39	-	-	39	(39)	-
Total	42,718	11,568	6,995	5,742	3,268	70,292	(39)	70,253
Operating Expense	39,791	9,130	5,879	3,379	3,070	61,251	2,421	63,673
Operating Profit	2,926	2,438	1,116	2,362	197	9,041	(2,460)	6,580

(Note)

1. Business segments above are split based upon for internal management disposition.
2. Principal products and operations of each business segment
  - (1) Home Video Games: This sales division develops and distributes home video game software.
  - (2) Arcade Operations: This division operates amusement facilities.
  - (3) Arcade Games: This sales division develops, manufactures, and distributes commercial game equipments and integrated circuit boards.
  - (4) Contents Expansion: This division develops and distributes mobile contents as well as LCD display.
  - (5) Other Businesses: Other businesses include licensing business and other content-related businesses.
3. Among operating expenses, undistributed operating expenses to each business segment above is included in the "Elimination and corporate" amounted to 2,484 million yen. The major part of this expense is related to corporate G&A.
4. Change of business segments

From this fiscal year ended March 31, 2006, business segments are changed from 4 categories ("Home Video Games", "Arcade Operations", "Arcade Games" and "Other Businesses") to 5 categories ("Home Video Games", "Arcade Operations", "Arcade Games", "Contents Expansion" and "Other Businesses"). By establishing new division which is responsible for developing and distributing mobile contents as well as LCD display based on strategies of expansion of content into various business areas, Contents Expansion Business, which consisted of Other Businesses in the previous fiscal year, was distinguished from Other Businesses due to clarification of its business visibility.

**Previous Fiscal Year (from April 1, 2004 to March 31, 2005)**

Unit: Millions of Yen

	Home Video Games	Arcade Operation	Arcade Games	Contents Expansion	Other Businesses	Total	Elimination and Corporate	Consolidated Total
Net sales and operating profit or loss								
Net Sales								
(1) External Customers	39,985	10,934	7,411	4,207	3,356	65,895	( - )	65,895
(2) Inter-Segment Sale or Transfer	-	-	38	-	-	38	(38)	-
Total	39,985	10,934	7,450	4,207	3,356	65,933	(38)	65,895
Operating Expense	36,077	8,638	5,505	2,464	3,121	55,807	2,336	58,143
Operating Profit	3,907	2,296	1,944	1,742	235	10,126	(2,374)	7,752

**(B) Geographic segments****Previous fiscal year (from April 1, 2004 to March 31, 2005)**

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	42,358	14,721	8,389	426	65,895	( - )	65,895
(2) Inter-Segment Sale or Transfer	5,928	235	-	-	6,164	(6,164)	-
Total	48,287	14,956	8,389	426	72,059	(6,164)	65,895
Operating Expense	39,989	13,523	8,002	442	61,957	(3,814)	58,143
Operating Profit or Loss	8,298	1,433	386	(15)	10,102	(2,349)	7,752

(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 2,401 million yen. The major part of this expense is related to corporate G&A.

**This Fiscal Year (from April 1, 2005 to March 31, 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	48,683	11,748	9,105	717	70,253	( - )	70,253
(2) Inter-Segment Sale or Transfer	5,620	465	62	-	6,148	(6,148)	-
Total	54,303	12,213	9,167	717	76,401	(6,148)	70,253
Operating Expense	45,554	12,039	9,127	644	67,366	(3,693)	63,673
Operating Profit	8,749	173	40	72	9,035	(2,454)	6,580

(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 2,484 million yen. The major part of this expense is related to corporate G&A.