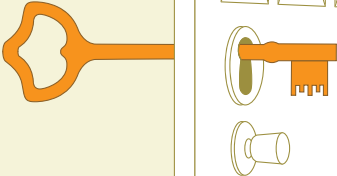




**The Key
to Growth**



ANNUAL REPORT

2007

Year Ended March 31, 2007

Consolidated Financial Highlights

ANNUAL REPORT 2007

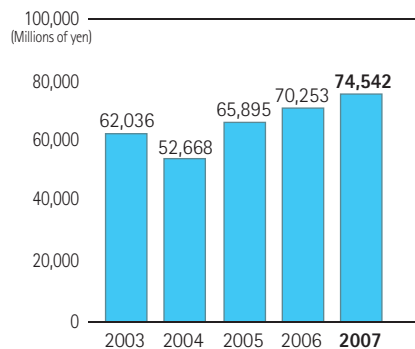
Financial index

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

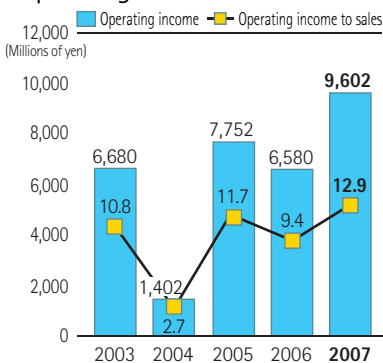
	2006		2007		2007		rate of change
	Millions of yen		Millions of yen		Thousands of U.S. dollars		%
Net sales	¥ 70,253	¥ 74,542	\$ 631,717				6.1
Operating income	6,580	9,602	81,380				45.9
Net income	6,941	5,852	49,597				-15.7
Total assets	98,457	91,478	775,242				-7.1
Net assets	39,464	45,144	382,578				14.4
	Yen		U.S. dollars				%
Net income per share	¥ 125.19	¥ 107.52	\$ 0.91				-14.1
Diluted net income per share	93.49	84.81	0.72				-9.3
Cash dividends applicable to the year per share	20.00	30.00	0.25				50
Net assets per share	716.91	799.35	6.77				11.5
							%
ROE	19.3	13.8	13.8				-
ROA	6.8	6.2	6.2				-

Note: U.S. dollar amounts are translated from yen at the rate of ¥118=US\$1, the approximate exchange rate prevailing on the Tokyo Foreign Exchange Market on March 31, 2007.

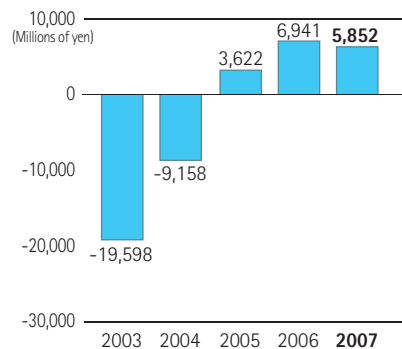
Net sales



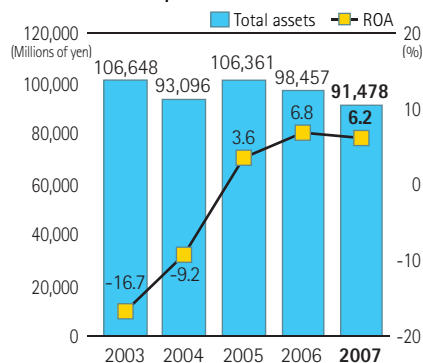
Operating income / Operating income to sales



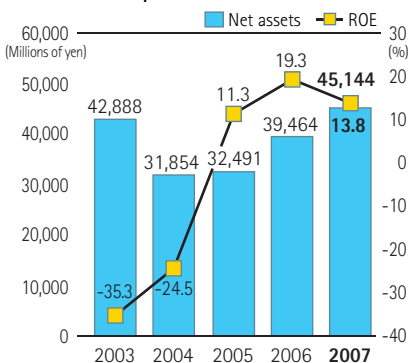
Net income (loss)



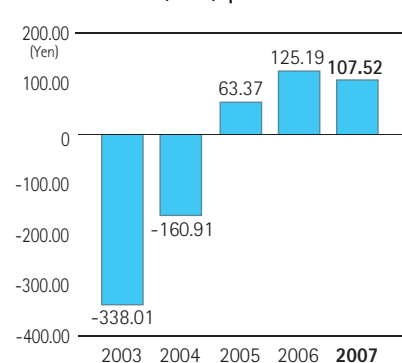
Total assets / ROA



Net assets / ROE



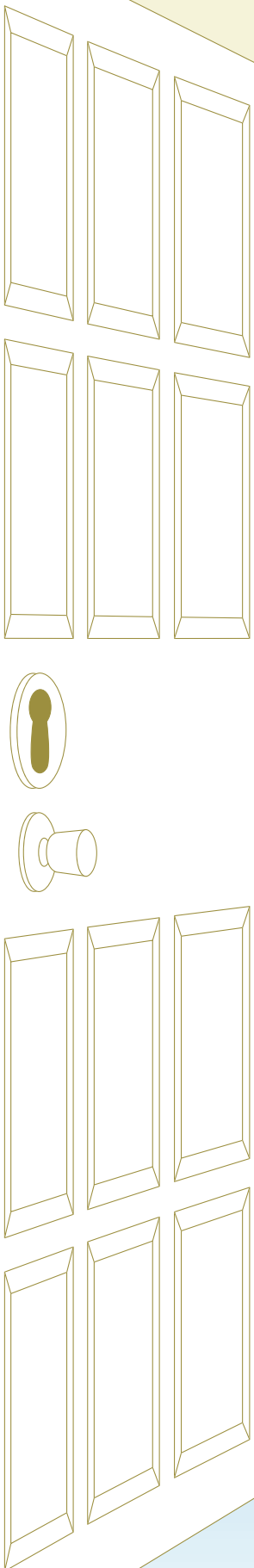
Net income (loss) per share



Disclaimer Regarding Forward-looking Statements

Management strategies, plans, projections and other statements excluding historical facts in this Annual Report are forecasts. Please note that the above business projections are based on the information that is available at the time of this announcement and certain assumptions that serve as the basis of rational judgments. Actual performance may vary substantially from these projections due to various contributing factors of the future. Additionally, changes in market environments, such as the diversification of user needs, may drastically affect the performance of this industry in which our company operates. Factors contributing to

performance fluctuations include but are not limited to: (1) the presence or absence of strong-selling titles and the number of units sold in the home video games which accounts for not less than 50% of our total sales; (2) the progress of home video games development; (3) the proliferation of home video game consoles; (4) overseas sales; (5) trends in stock prices and foreign exchange; (6) cooperation with other companies in development, sales, and operations; and (7) changes in market environments.



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"Single Content Multiple Usage" Strategy	3
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To Our Shareholders	7
Feature: Our Strategy to Growth	13
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 Home Video Games	16
<p>The development and distribution of home video games constitutes the core business of Capcom, with sales accounting for approximately 60% of total sales. By concentrating our management resources in this field, we have maintained a high level of game software development for a wide-range of consumers. We consider action and adventure games our forte, and have released many creative million-seller titles worldwide.</p>	
 Arcade Operations	19
<p>We operate amusement facilities in Japan. By opening our arcades predominantly in large commercial complexes and launching various events to attract large numbers of customers, we have expanded our customer base to include women and families. We have also diligently followed our policy of "scrap and build" to achieve the utmost efficiency in arcade operations. Additionally we have recently accelerated the openings of our roadside arcades to further expand our arcade business.</p>	
 Arcade Games Sales	21
<p>We develop, produce and distribute coin-operated arcade games in Japan. We concentrate our efforts on the development of coin-operated and prize-winning games and children's card-winning games, which are high in demand, as well as supply software for arcade video games to secure a stable customer base.</p>	
 Contents Expansion	23
<p>In addition to developing, producing and distributing LCD devices and software for Pachinko and Pachislo machines, we develop and distribute game content for mobile phones. We will use our expertise in developing home video games and commercial arcade games in a variety of fields as a means to secure new earnings.</p>	
 Other Businesses	25
<p>We license and publish game guidebooks, novels, comic books, TV animations and movies featuring Capcom game characters. This promotes a synergy of enhanced name recognition of our game characters to expand the sales of our home video games.</p>	
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Creating original content and utilizing it in diversified fields drives the growth of Capcom.

We are one of the leading home video game developers and publishers in the world, creating a series of original and innovative game content and million-selling titles. In addition to the home video games arena, we have been utilizing this original content and franchise in diversified entertainment fields such as arcade games, Pachinko and Pachislo machines, licensed merchandise, publication, full-length movies and TV animations, whose combined sales are on the steady rise in the global market.



We have the



"Mega Man" series of 117 titles (As of June, 2007)

"Mega Man"

The year 2007 marks the 20th anniversary of the birth of our "Mega Man" character, whose action game franchise has sold a total of 27 million units. The lead character appeals to people of all ages, and an animated TV series has been created out of the game and aired around the world.



Home video game
"Mega Man Star Force"



Mobile game
"Mega Man Battle Network:
Phantom of Network"



TV Animation
"Mega Man Star Force"



Strategy guidebook
"Mega Man Star Force"



"Mega Man" figurine



"Devil May Cry" series of 8 titles
(As of June, 2007)

"Devil May Cry"

This stylish action game has become popular because of its distinctive theme and concept, as well as its cast of attractive characters. Its realistic visual images and innovative action sequences have appealed to a broad audience and the franchise has sold 6.9 million units worldwide.



Home video game
"Devil May Cry 3 Special Edition"



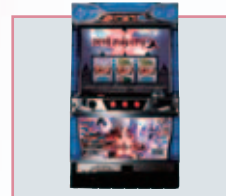
Mobile game
"Devil May Cry Dante VS Versil"



TV animation "Devil May Cry"



Sound DVD book
"Devil May Cry 3"



Pachislo Machine
"Devil May Cry 3"



Figurine "REVOLTECH
Devil May Cry 3 DANTE"

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©Sammy ©RODEO

Key to Growth



Home video game
"Resident Evil 4 Wii edition"

"Resident Evil"

This is another Capcom classic, a pioneering game in the "survival horror" genre, whose franchise has sold more than 32 million units to date. The player's mission is to escape from biohazard-affected towns and facilities by solving mysteries throughout the game. The game was turned into a Hollywood feature film that grossed more than \$200 million at box offices worldwide.



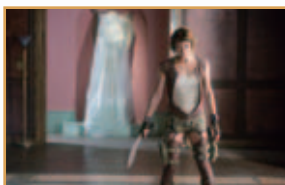
Mobile game
"Resident Evil-The stories"



Strategy guidebook
"Resident Evil 4 Wii edition"



Postage stamps featuring
images from "Resident Evil"

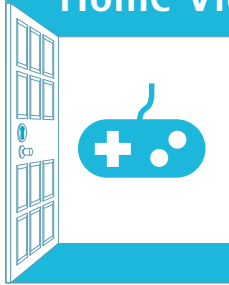


Movie "Resident Evil: Extinction"

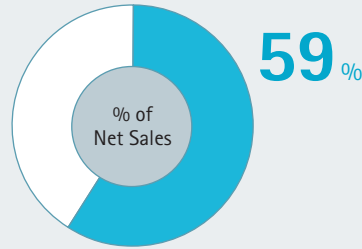
"Resident Evil" series of 48 titles
(As of June, 2007)



Home Video Games



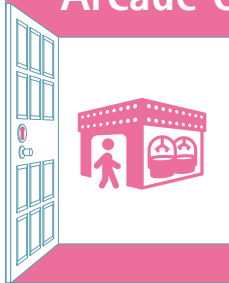
Net sales
43,813 (¥ Million)
 (up **2.6%** ↗ from the previous year)
 Operating income to sales
18.4% ⇒P16



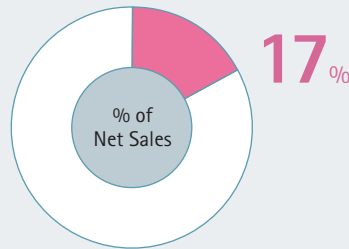
Market Trends

- With three next-generation consoles—Xbox 360, PS3® and Wii—now available, the home video games market is on the rise.
- Portable game consoles devices are gaining increasing popularity, attracting casual gamers and novice users.
- The overseas market is growing fast, led by North America and Europe.

Arcade Operations



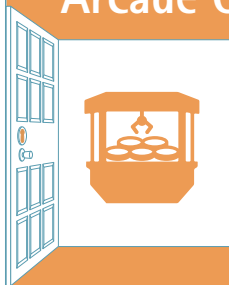
Net sales
13,043 (¥ Million)
 (up **12.8%** ↗ from the previous year)
 Operating income to sales
15.4% ⇒P19



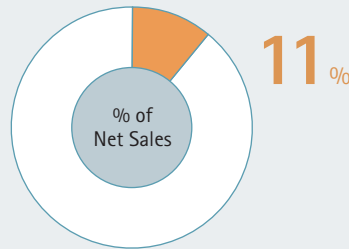
Market Trends

- The success of arcade card games for children helped the market grow for the fourth consecutive year, maintaining a stable annual growth rate of 4%.
- The overall number of arcades in operation has been declining for the sixth consecutive year.
- Shopping mall-based medium to large-scale arcades are steadily increasing in number while smaller ones are pulling out of the market.

Arcade Games Sales



Net sales
8,060 (¥ Million)
 (up **15.2%** ↗ from the previous year)
 Operating income to sales
17.0% ⇒P21



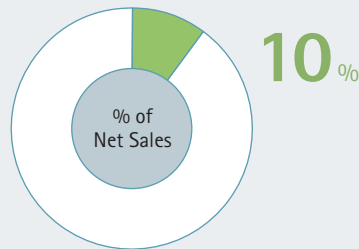
Market Trends

- The Japanese domestic market grew for the fourth consecutive year, thanks to success of large scale coin-operated games. The overseas market was on the decline.
- Sales of prize-winning games and coin-operated games account for 50% of the market.
- New card games have become an established category.

Contents Expansion



Net sales
7,102 (¥ Million)
 (up **23.7%** ↗ from the previous year)
 Operating income to sales
22.9% ⇒P23



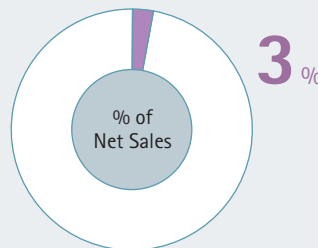
Market Trends

- The Pachinko and Pachislo market, having been on the decline in recent years, is expected to see stable growth during the current fiscal year, fueled by demand for replacement for older machines.
- The global mobile contents market is expected to grow substantially, led by the Japanese and Korean markets being driven by the growing popularity of high-performance, full-featured cell phones.

Other Businesses



Net sales
2,561 (¥ Million)
 (down **21.6%** ↘ from the previous year)
 Operating income to sales
-17.2% ⇒P25



Market Trends

- In the publishing business, commercially available game guidebooks lost ground due to more and more users exchanging hints and tips online.

Capcom's Strength and Strategy

- We have a wealth of strong properties including scores of million-selling titles and popular characters.
- We have the ability, the resources, and the experience to develop content that meets diversified customer needs, as well as sophisticated engineering capacity to develop an integrated development environment dubbed "MT Framework".
- We will step up development and marketing efforts for the overseas market.

Operating Results for This Fiscal Year

- Three million-selling titles produced: "Dead Rising", "Lost Planet" and "Monster Hunter Freedom 2".
- A series of structural reforms of development, sales and marketing operations has produced tangible results, improving operating profit margin substantially.



Capcom's Strength and Strategy

- We have focused capital investment in opening high-traffic, mall-based, large-scale facilities ahead of the competition, enabling us to run more efficient operations.
- In an attempt to secure a better return on investment, we have been scrapping and building facilities, the implementation of "scrap and build" allowing us to maintain a higher profit margin than our competition.

Operating Results for This Fiscal Year

- Although we have succeeded in attracting more customers by offering customer-focused services, sales of existing arcade facilities declined by 4% from the previous year due to smaller per-customer sales.
- Aggressive opening of new facilities has helped increase revenue with growing expenses of opening resulting in lower profit.



Capcom's Strength and Strategy

- We have expanded the lineup of mainstream prize-winning games and coin-operated games as well as card games for children.
- Market research conducted at our company-managed arcade facilities enabled us to collect in-store information of popular games in a timely manner and utilize customer feedback in developing high-quality game machines.

Operating Results for This Fiscal Year

- Our consistently popular video game "Mobile Suit Gundam SEED DESTINY Federation vs. Z.A.F.T. II" drove sales.
- A card game machine named "Wantame Music Channel", which was co-developed by TOMY COMPANY, LTD. and is geared toward girls under 10, had notable success.



Capcom's Strength and Strategy

- We can maintain high profitability by supplying hardware and software to manufacturers of Pachinko and Pachislo machines as well as by providing mobile games playable on cell phones on a global basis, utilizing our wealth of intellectual properties and sophisticated R&D resources.

Operating Results for This Fiscal Year

- Sales of LCD devices for Pachinko and Pachislo machines were brisk and the image-display software developed on contract was delivered on schedule.
- Sales of mobile game titles based on popular home video games such as the "Phoenix Wright" series were strong in Japan. Acquisition of a Canadian mobile game developer drove the mobile content business abroad.



Capcom's Strength and Strategy

- We can take advantage of the strong synergy with our home video game business by making multidimensional use of our wealth of intellectual properties in such fields as movies, animated TV series, licensed merchandise, game guidebooks and comics.

Operating Results for This Fiscal Year

- New episodes of the animated TV series "Mega Man" hit the airwaves simultaneously with the launch of its home video game sibling, successfully broadening the customer base.
- We booked an operating loss as a result of a reserve on the inventory of our guidebooks.





辻本憲三

Kenzo Tsujimoto

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

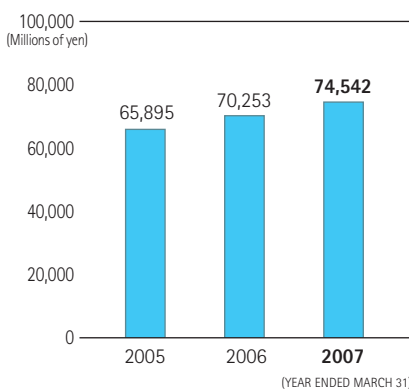
We will continue to create game content with universal market appeal while streamlining and upgrading our development environments and sales operations.

Contrary to an earlier projection that Fiscal Year 2006 (the year ended March 31, 2007) would be a transitional phase for our industry, the global market continued to grow and Capcom produced three million-selling titles. By way of introduction of our company, we would like to take this opportunity to answer some questions you may have regarding Capcom's performance for the current fiscal year and our future management plans.

Q.1 How did Capcom perform the current fiscal year?

A.1 Successful implementation of ongoing structural reforms contributed to outstanding performance, with a 6% increase in net sales and a 46% rise in operating income from the previous year.

Net sales

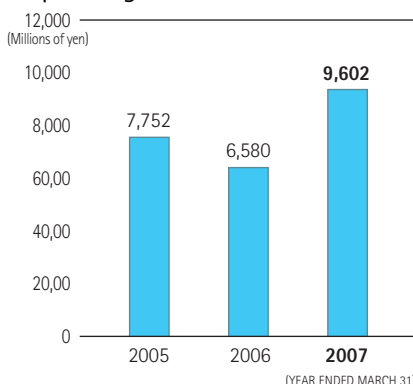


The home video games market tends to suffer a temporary downturn during a hardware transitional period, when demands for both gaming consoles and software decline. This fiscal year was supposed to be one such transitional phase. As it turned out, the global market for game software grew to \$18.1 billion (up 11% from the previous year) as portable game players including Nintendo DS and PlayStation Portable (PSP) attracted a large number of new users. The next-generation consoles introduced this fiscal year are expected to take off next year, fueling expectations for continued growth of the market.

In the overseas market led by Europe and North America, there was a significant rise in gaming population in Southern Europe and Australia, helping boost the overall global market.

Under these circumstances, we initiated a series of reforms of our research and development, marketing and sales operations in Fiscal Year 2002, to better handle rising software development costs for the next-generation game systems, and to take advantage of the continuing growth of the overseas market. During this fiscal year, the "MT Framework", an integrated development environment, became fully operational and our North American sales subsidiary underwent a complete management overhaul. As a result, in the overseas market, two game titles sold more than a million units each with one title selling over a million units in the Japanese market. Consolidated net sales increased to 74,542 million yen (up 6.1% from the previous year) and consolidated operating income increased to 9,602 million yen (up 45.9% from the previous year).

Operating income

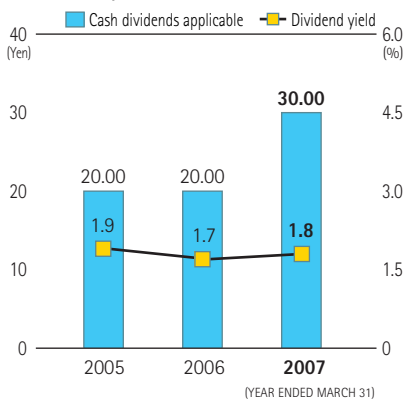


However, net income for the current fiscal year was 5,852 million yen (down 15.7% from the previous year). We would like to point out that last fiscal year we reviewed the valuation reserve on deferred tax assets and recorded adjustments in related accounts including corporate taxes, which pushed up the net income for the year. There was no such extraordinary factor this fiscal year and tax payments returned to a normal level.

Q.2 Tell us about your dividend policy.

A.2 Our basic policy is to continue paying out stable dividends to shareholders, using the 10-year government bond yield as a guideline for our dividend yield.

Cash dividends applicable to the year per share / Dividend yield



One of our management priorities is to pass on profits to all shareholders. To provide stable and continuous dividends is our basic policy, while taking into account our financial strength and future business strategies.

To achieve a stable growth over the medium- to long-term, we are devising and implementing growth strategies in each of our business lines. Consequently, a certain amount of internal reserves will be required for aggressive investments in online and mobile games, two markets that are expanding dramatically, as well as in arcade operations, arcade game machines and the development of LCD devices for Pachinko machines. On the other hand, we are using the 10-year government bond yield of 1.5% as a guideline for determining our dividend yield. As our ongoing restructuring efforts generated tangible results in establishing solid profit base, we increased annual dividends for this fiscal year to 30 yen per share, up 10 yen from an earlier forecast.

Should the business strategies discussed earlier enable us to earn a stable profit, we will consider either progressively raising the dividend payouts or buying back shares to realize our policy of returning profits to our shareholders.

Q.3 What is Capcom's stance on acquisitions and partnerships?

A.3 The major prerequisite for mergers, acquisitions and partnerships is for us to be able to create gaming content with universal market appeal.

In order to ensure stable and sustained growth, we must expand our business in home video game software and mobile content, especially in the high-volume overseas market where there is ample room for growth. In our industry, there has been a flurry of mergers and acquisitions intended to expand the scale of business and secure popular content. However, we have no plans to merge with any Japanese video game publishers or toy manufacturers in the foreseeable future since it is unlikely that a merger of two Japanese companies would produce content that would gain instant popularity and commercial success in overseas markets. Such a merger could also restrict us to particular partners and limit licensing business opportunities.

On the other hand, we are aggressively going after acquisition and partnership opportunities if they benefit our goal of creating gaming content with universal market appeal. For instance, we

acquired Cosmic Infinity, a leading mobile game developer, with the aim of establishing our mobile content business in North America quickly. Another new approach we took was to set up a joint venture with DWANGO group, tasked with managing an online portal site.

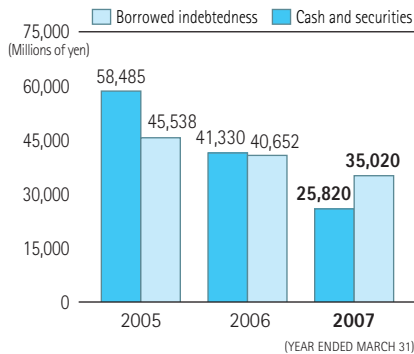
We believe that achieving harmony between us and the unique attributes of our partners is the key to success in acquisitions and partnerships and to the growth of our business.



Q.4 What are your views on financing?

A.4 Our policy is to raise funds within the commitment line.

Borrowed indebtedness / Cash and securities



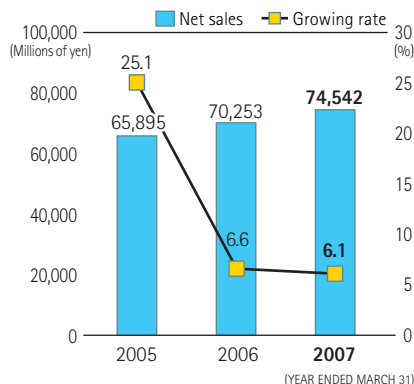
In our core business of home video game software, development of a single game title normally takes up to two years. With investments required for developing software for next-generation game consoles and for funding growth strategies in other business lines, it is necessary to accumulate a certain amount of cash and cash equivalents to ensure financial stability. Conversely, to enhance the company's assets efficiency, we must divest ourselves of idle assets, or at the very least reduce them. Therefore, for the time being, we intend to use currently available funds to pay off our interest-bearing debts and take measures to complement the liquidity of our funds by setting up a 15 billion yen committed line of credit.

Taking capital cost into account, we have no immediate plans to raise funds through equity financing but to do so within the commitment line, closely monitoring the progress of ongoing projects for developing software titles and for opening new storefronts.

Q.5 Tell us about Capcom's medium- and long-term business strategies and numeric goals.

A.5 Our strategies are to expand our business on a global base and to initiate an aggressive expansion of our online business, with a goal of maintaining an annual revenue growth rate of 10% and securing an operating profit margin of 15%.

Net sales / Growing rate

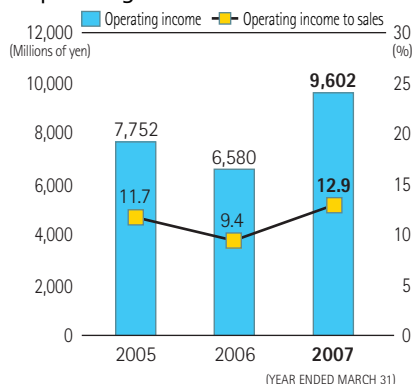


Capcom is one of the leading players in game development and technology, and has armed itself with a strong line-up of software titles to enable it to successfully compete in the growing global video game market. In addition, Capcom implements a policy of "single content multiple usage" to make broad and multiple use of each individual item of content in this strong line-up in an effort to maximize the group's profits.

Capcom's long-term goal is to maintain an annual revenue growth rate of 10% and to achieve an operating profit ratio of 15%.

To achieve this financial goal, our sales by region must grow in proportion to the size of each market (North America 5, Europe 3, Japan 2), and as the first step towards this goal, we initiated management reform in our North American subsidiary (see page 14 for details), which included a sweeping overhaul of the organizational structure, upgraded marketing approaches, and a realignment of our sales network. The results of this aggressive reform reflected themselves favorably in this fiscal year's financial performance. Our next step is to reform our European subsidiary based upon the success we had in North America in an effort to increase our market share and enhance profit base overseas.

Operating income / Operating income to sales



We have another strategic initiative to expand our online business more aggressively. In 2006, Capcom and DWANGO group launched a joint company named "daletto", which is responsible for managing an online portal site. We will make our popular game titles such as "Monster Hunter Frontier Online" available for download online. Next fiscal year, we will start distributing our popular game content online to more than 13 million overseas users via the "Steam" online game distribution system developed by the Valve Corporation with the aim of increasing our share in the PC game market.

Q.6 What is your business outlook for the next fiscal year?

A.6 We project gains in both sales and profit, with net sales of 78,000 million yen and operating income of 10,000 million yen.

Next fiscal year, we expect to see intensified competition among hardware manufacturers as they strive to grab pole position in the next-generation game console market as well as among software developers whose title development strategies affect the competitive landscape of the game consoles. Fierce competition may result in major changes in the power relationship of key players in both markets. Capcom pursues a development and marketing strategy intended to address customer needs in the three major markets of Japan, North America and Europe, and to respond to the ever-changing installed base of hardware, with the aim of stepping up overseas operations as our medium- to long-term strategy calls for. Also, the "MT Framework", which became operational during the current fiscal year, will play a much bigger role in our pursuit of the multi-platform strategy, curbing rising R&D costs and improving our financial performance. In addition, we will become more aggressive in implementing the "single content multiple usage" policy by making wider use of our popular game franchises in an effort to maximize profitability.

For next fiscal year, we project gains in both sales and profit, with net sales of 78,000 million yen and operating income of 10,000 million yen. This will be achieved by offsetting a downturn in sales in the home video game business that enjoyed substantial gains during the current fiscal year that ended March 31, 2007, with stable growth expected in other business lines.

Forecast for the Next Fiscal Year

	2007 (Millions of yen)	2008 (plan) (Millions of yen)	Growing rate (%)
Net sales	74,542	78,000	4.6
Operating income	9,602	10,000	4.1
Net income	5,852	6,200	5.9

(YEAR ENDED MARCH 31)

Q.7 What was the rationale behind the changes in top management that took place in July 2007?

A.7 It was to separate responsibilities for the management of the company and its day-to-day decision-making so that we can respond to changes more quickly.

As we explained earlier, since we initiated a series of structural reforms in 2002, our sales and profit have been on a constant rise and we have achieved remarkable success during the current fiscal year. Now that we have established a solid financial and management base upon which to sustain a medium- to long-term growth, we have decided it is the right time to make our management structure more flexible and responsive to changes, while still maintaining a broader management perspective.

Therefore, we have adopted a new management structure under which responsibilities for devising management strategies and those for day-to-day operational decision-making to implement them are clearly separated, with the former assumed by Kenzo Tsujimoto, Chairman, Representative Director and CEO, and the latter by Haruhiro Tsujimoto, Representative Director Executive President COO. They will work closely together to run the company in a flexible and speedy fashion in their respective capacities and responsibilities, each bringing with him a wealth of expertise.

We would like to take this opportunity to ask for your continued support.

Kenzo Tsujimoto

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



Tangible Results of Ongoing Structural Reforms

We have been taking measures for structural reforms primarily focused on building a stronger financial position, and stepping up development, sales and marketing efforts, with the aim of achieving sustainable medium- to long-term growth, in consideration of the soaring costs in developing software titles for next-generation consoles as well as the fast-growing overseas market.

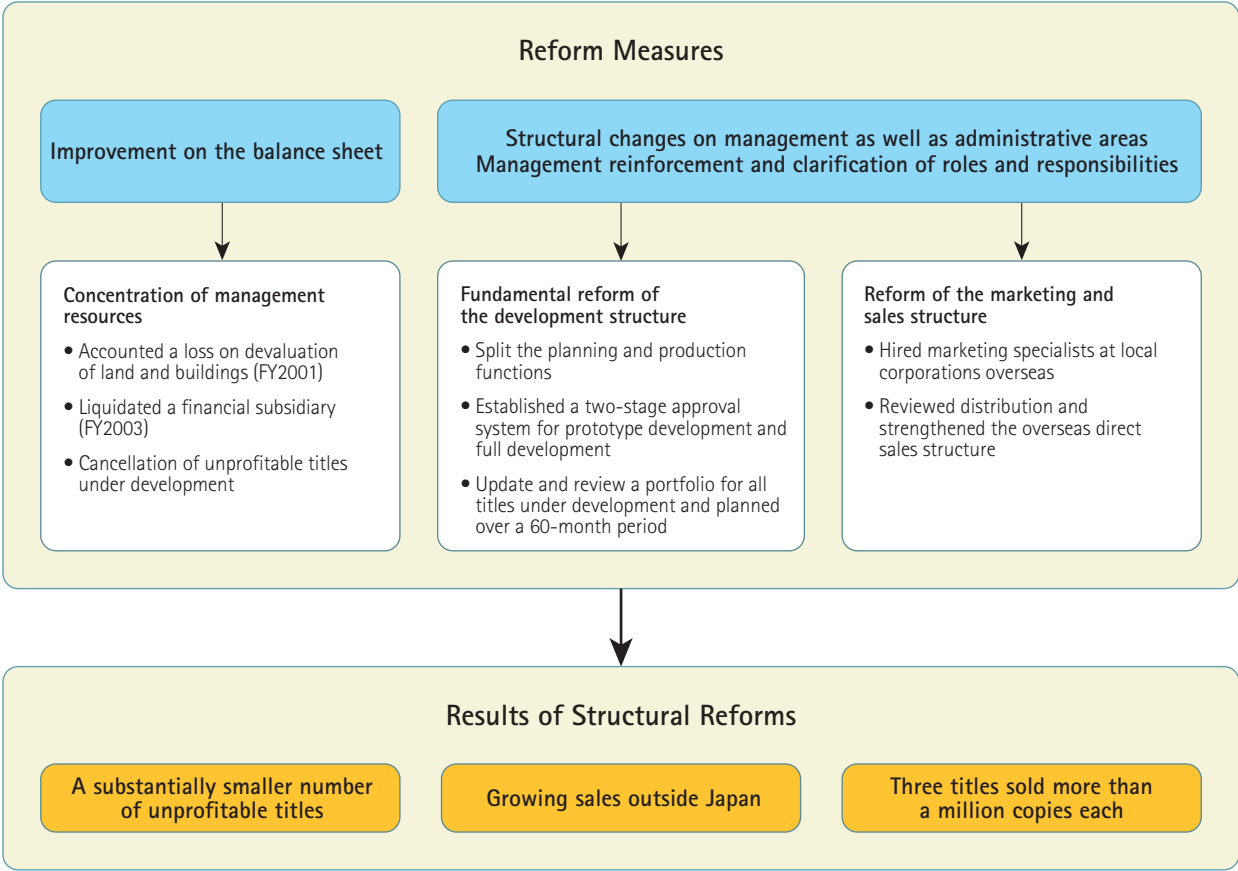
As part of these structural reforms, we worked hard to improve our balance sheet and concentrate management resources by booking losses on devaluations of real estate properties and by disbanding a financial subsidiary. Because we felt it was necessary to carry out a series of painful measures, including posting losses related to the cancellation of unprofitable titles under development, booking a net loss in our financial results for Fiscal Year 2003 (the year ended March 31, 2004) and Fiscal Year 2004 (the year ended March 31, 2005) was unavoidable.

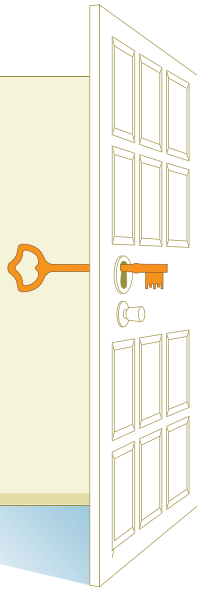
At the same time, we reviewed and streamlined our development structure to establish a new policy. Under this new policy, management assumes responsibility for making decisions as to which platforms to support, when and where to introduce

software titles, and how much budget to allocate to these tasks, all of which was formerly under the unified control of the producers in charge of projects. In addition, we are developing and constantly updating a portfolio for all titles either under development or planned over a 60-month period.

Additionally, we initiated management reforms of our overseas subsidiaries under the belief that sustainable growth in our revenue cannot be achieved without taking a bigger slice of the overseas market, which accounts for nearly 80% of game software sales worldwide. As a first step, we brought in a new management team, devised a more detailed marketing plan, and set up a direct sales force in our U.S. subsidiary.

We are pleased that these measures produced very positive results, as evidenced in a substantially smaller number of unprofitable titles, growing sales outside Japan, and three titles that sold more than a million copies each, contributing to the company's bottom line for the year. Riding on the success we had in reforming the U.S. subsidiary, we will also initiate management reform of our European and Asian operations in a continuing effort to increase profitability.





Our Strategy to Growth

Outstanding performance of our home video game business in the current fiscal year is the direct result of a series of successful reforms we have undertaken over the years, with a clear focus on well-designed medium-to long-term growth strategy. Let us talk about our development and marketing strategies intended to achieve global revenue growth.

The advantages of "MT Framework" development.

Our own way of building a development environment to enhance competitiveness

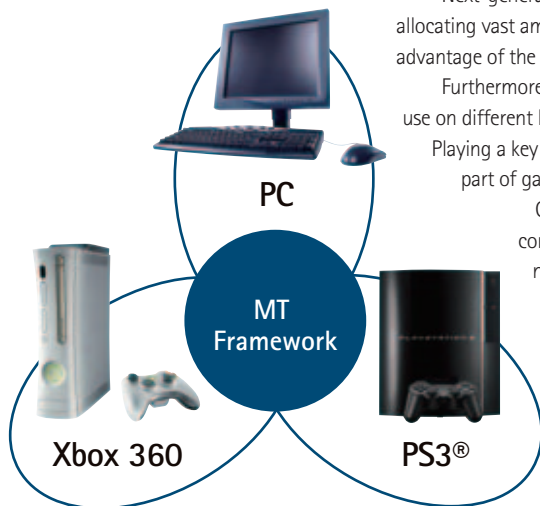
Anticipating the transition to next-generation consoles, we have actively pursued basic research on game titles, as we believe this is just as important as game title development.

Next-generation consoles are highly advanced and multifunctional devices. Therefore, there was concern over allocating vast amounts of development resources and prolonged periods of time in developing game titles to take full advantage of the expanded capacity of these new consoles.

Furthermore, overseas makers were pursuing a multi-platform strategy, under which one game title would be sold for use on different home video game consoles, and these companies were able to effectively recoup investment costs.

Playing a key role in realizing a multi-platform strategy was a set of tools called middleware designed to standardize part of game title development for each hardware platform.

Given the market environment and the development framework of overseas makers, we came to the conclusion that this highly feasible multi-platform approach was a necessity in developing game titles for next-generation home video game consoles. Therefore in September 2004, we commenced research and development into an integrated development environment dubbed "MT Framework", which would standardize most processes relating to game title development for the next-generation systems such as PS3® and Xbox 360, and PC platforms.



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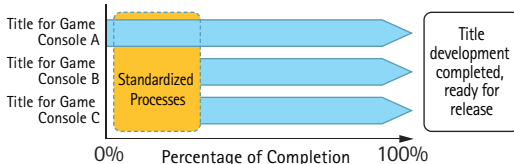
Easier porting of game titles resulting in lower cost

In the past, game titles were developed by creating different game programming tools for each hardware platform and game title. Even though the game title being ported to different hardware was the same, this led to considerable additional development costs. However, with the "MT Framework" most of the development process can be standardized to drastically reduce porting costs and moreover, it has enabled us to carry out development more efficiently compared to general-purpose middleware commercially available and used by other companies.

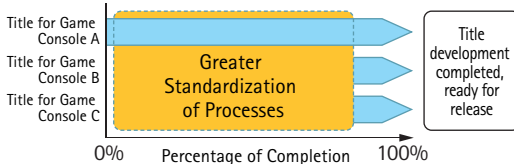
In addition, the "MT Framework" enables the same development environment as PCs and there is no need to purchase development equipment to serve each dedicated hardware independently, allowing for further reductions in investment costs. Furthermore, the entire development staff will be working in the same development environment, which will facilitate operation checks on programs and the sharing of game material. This will in turn, allows more time to be allocated to improving the quality of the game.

Having developed the "MT Framework" with these advantages, our development environment has become one of the most advanced in the world. We are already in the process of developing core game titles such as "Resident Evil 5" and "Devil May Cry 4" on multi-platforms. With the next-generation consoles market set to gain greater popularity, we are striving to further our multi-platform development, and we believe we have been able to develop superior fundamental technologies in our effort to achieve increased growth.

Conventional Title Porting Model



Title Porting Model Utilizing "MT Framework"



Strengthening our game business in overseas markets.

Ongoing management reforms in our U.S. subsidiary

We have recognized that seeking growth opportunities overseas is a significant managerial issue and we have been implementing various measures to this end. As a result of these efforts, we have been able to report good earnings for the current year, as previously reported.

The perception that Japan is the very center of the video games market is a thing of the past. Overseas markets account for approximately 80% of the current video games market, and growth in the domestic market is more or less slowing down due to the impact of the falling birthrate and the second-hand market for software. In overseas markets, which now have the lion's share in terms of user numbers, only a fraction of Japanese makers' top titles have become hits, and they continue to struggle to achieve adequate revenues.

In our drive to implement structural reforms throughout the group, we have changed gears in our business culture that previously had placed an emphasis on the domestic market, to pursue a strategy of placing more importance on the overseas markets, so that we can expand our market share in the rapidly growing overseas market and attain medium- to long-term management stability. Under this new policy, we launched radical management reforms in our overseas subsidiaries in 2005. First with the U.S. subsidiary, we hired managers with extensive experience in the video game industry. With their assistance, the headquarters was able to drive home the strategic direction of the reform to the U.S. subsidiary and to overhaul its organization in line with these reforms.

Shift to a direct-marketing system led by subsidiary

After laying the groundwork for closer cooperation between the headquarters and the U.S. subsidiary, we instigated reforms at several of our organizations by delegating broader authority to local managers. Following the changeover of the distribution policy from relying on distributors to direct sales mainly with major retailers, direct sales have now accounted for approximately 70% of our revenue in the North American market. Accordingly, commissions paid to distributors have decreased and at the same time, we have been able to obtain in-store sales data from retailers leading to improvements in the sales and marketing processes. In addition, we had a better and tighter control of inventory levels using data-statistical methods, with minimized surplus and shortages.

Moreover, we have changed the way we promote software titles from using extensive prelaunch TV commercials to constantly feeding news stories, primarily on the Internet, for extended periods. As a result, we have succeeded in keeping users' awareness of titles at a high level and heightened their expectations in the lead-up to product launch.

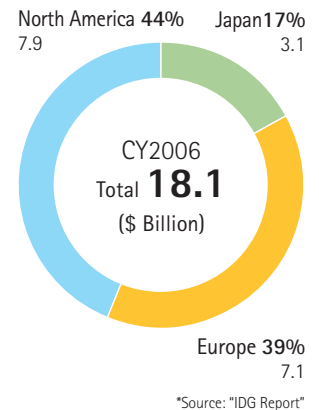
Million-sellers that suit the tastes of overseas consumers are born

Information on overseas markets are also fed back to development teams at the headquarters. We have been gaining a competitive edge in developing software titles targeting the overseas market, as already witnessed by popular titles such as "Resident Evil" and "Devil May Cry", but through effective information-sharing between the headquarters and our overseas subsidiaries, we were able to develop titles that suit the tastes of our overseas consumers.

As a direct result of these reforms, "Dead Rising" and "Lost Planet" have both sold a million copies—predominantly in overseas markets—and we have been able to enjoy early success in the next-generation console market, particularly overseas.

Moving forward, we are planning management reforms in our European subsidiaries similar to the one carried out in North America. In view of the local market situations, we will take appropriate measures as soon as possible.

Major Game Software Markets



Xbox 360 "Lost Planet"



Xbox 360 "Dead Rising"

Character Wayne by ©Lee Byung Hun/FANTOM CO., LTD.
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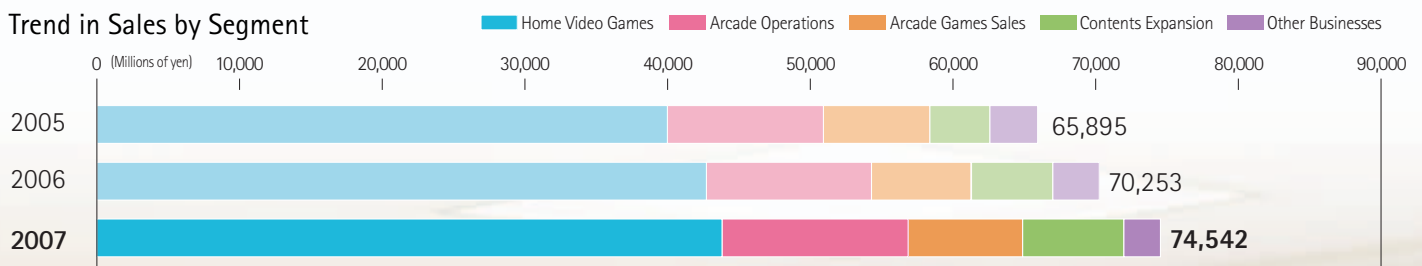
Substantial profit gain was achieved from high-margin business. We expect to sustain performance improvement through the successful execution of the "single content multiple usage" strategy.

Capcom achieved remarkable success in our core home video game business in the fiscal year that ended March 31, 2007, thanks to the successful execution of development and marketing strategies intended to respond to the growing overseas market and to make the transition to the next-generation consoles coming into the market.

The "single content multiple usage" strategy has worked well for the four other business lines in establishing a solid foundation upon which to build a sustainable growth track.

Our COO will explain in the following pages how the market environment affects our business, how the company is performing and what to expect for the next fiscal year.

Trend in Sales by Segment



(YEARS ENDED MARCH 31)

Haruhiro Tsujimoto

President and Chief Operating Officer (COO)

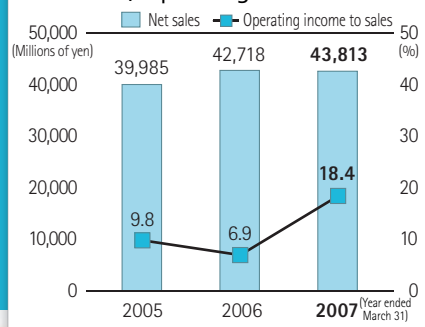


Home Video Games



The development and distribution of home video games constitutes the core business of Capcom, with sales accounting for approximately 60% of total sales. By concentrating our management resources in this field, we have maintained a high level of game software development for a wide-range of consumers. We consider action and adventure games our forte, and have released many creative million-seller titles worldwide.

Net sales / Operating income to sales



Market Trends

With a complete lineup of next-generation consoles now available, the video game market has continued to expand. Capcom's biggest challenge in achieving its strategic goals is grabbing a bigger piece of the fast-growing pie overseas.

Xbox 360 was introduced in 2005, followed by PS3® and Wii in 2006. These three systems joined the two portable game consoles that were already on the market, Nintendo DS (NDS) and PlayStation Portable (PSP), to move the home video game market, which reached 18.1 billion dollars in 2006 (up 11% from the previous year), into a new growth phase. In particular, the NDS and Wii, with many of their game titles geared toward nontraditional gaming audiences, successfully broadened their appeal outside hardcore gamers to a wider range of casual gamers, including novice female and middle-aged users. Their runaway success as highly sought-after products have turned the NDS and Wii into, what may be called, a social phenomenon.

The NDS and Wii have made steady inroads into the overseas markets—as they have in Japan, while Xbox 360 is gaining a solid foothold with its advanced capabilities that offer amazing high-resolution visuals and allow multiplayer online gameplay.

The global game software market primarily comprised of Japan, North America and Europe at a ratio of 2:5:3, respectively.

The days of the video game industry being a Japanese specialty are long gone. With an increasing number of novice and hardcore users, and a gaming culture that ignores national borders, we are seeing an accelerated growth of the overseas markets led by North America with 7.9 billion dollars sales (up 13% from the previous year) and Europe with 7.1 billion dollars



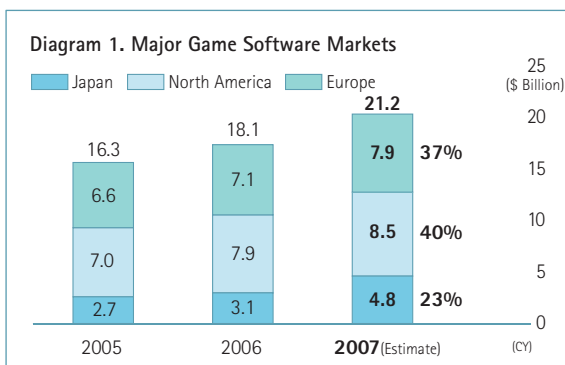
sales (up 8% from the previous year). (Cf. Diagram 1)

When you look at Capcom's market share by region, it was 2% in North America (down 0.2% from the previous year), 1.6% in Europe (down 0.6%) and 5% in Japan (down 1.1%), losing ground due to severe competition.

While Japanese developers and publishers have a strong hold on the domestic market, the North American and European markets are dominated by overseas game developers and publishers. (Cf. Diagram 2) The primary reason for this is that each market has a unique preference for the look and feel of games as well as for genres. Thus, becoming successful in the overseas market is by no means an easy task for a Japanese game developer and publisher.

The biggest strategic challenge that Japanese game developers and publishers face in order to become major players in the growing overseas market is to develop video games with universal market appeal.

We expect the global video game software market to grow to 21.2 billion dollars in 2007, stimulated by the complete lineup of next-generation systems available on the market. Additionally, game developers and publishers will have a good opportunity to deliver better business performance as growing installed base of hardware is expected to push the sales of video game software for the next three years.



*Source: "IDG Report"



Xbox 360 "Lost Planet"



PSP "Monster Hunter Freedom 2"



PS3® "Devil May Cry 4"



Wii "Resident Evil Umbrella Chronicles"

Operating Results for This Fiscal Year

Capcom produced three million-selling hits this year, showing that our ongoing restructuring efforts, which began in 2005, have started to generate tangible results and are contributing to improved performance.

Capcom's strength in the home video game business is threefold. First, we have scores of million-selling titles and long-lasting properties with universal market appeal. Second, we have the ability, the resources, and the experience to develop original game content without relying on licenses obtained from external sources, assisted by "MT Framework", an integrated development environment built entirely in-house to provide common development tools for Xbox 360, PS3® and PC platforms. And third, we have effective marketing operations in overseas markets with a proper understanding of regional preference for game titles and marketing practices.

In particular, the third strength has materialized and blossomed this fiscal year as a result of our successful restructuring efforts in North America that have been ongoing since 2005. As part of the overhaul of our North American operations, we hired a new management team made up of industry veterans, set up a direct sales force, introduced Web-based public relations programs, and implemented a process for relaying market information back to our product development team. These measures have helped the company's

operating profit margin jump to 9.3% from 1.5% in our North American operations.

With regard to product development process re-engineering underway since 2002, we established a two-step authorization procedure for new title development and managed to reduce the number of unprofitable titles by more closely monitoring the performance of each title. In addition, the senior management has assumed responsibility to determine when to launch a new title, on which platform, and in which region—all of which formerly was the responsibility of the development team—in an effort to optimize 60-month title development plans and schedules, and to configure development lines in such a manner that they can work constantly on major franchises every year.

This fiscal year, we saw great results for our two new titles, "Dead Rising" and "Lost Planet" for Xbox 360, which were tailored to the preferences of overseas gamers and sold 1.22 million units and 1.37 million units respectively, primarily in Europe and North America. This illustrates how successful the reorganization of our overseas operations has turned out to be. And "Monster Hunter Freedom 2" for PSP, developed as a direct response to requests made by devoted fans, sold 1.22 million units in Japan, contributing to excellent financial results.

Moreover, three versions of "Mega Man Star Force" for NDS, the latest in the popular series of 20 years, enjoyed brisk sales, as did "Sengoku BASARA 2" for PS2, a popular title that won a large female following, the imported title "Grand Theft Auto: San Andreas" for PS2, and the innovative "Okami" for PS2.

During this fiscal year, we released 90 new game titles and

Diagram 2. Market Share by Region (CY2006)

Japanese Market			North American Market			European (UK) Market		
Company Name	Sales (¥ Million)	Share (%)	Company Name	Sales (\$ Thousand)	Share (%)	Company Name	Sales (\$ Thousand)	Share (%)
1. Nintendo	97,882	26.90	1. Electronic Arts	1,353,425	20.95	1. Electronic Arts	412,552	21.10
2. Square-Enix	49,755	13.67	2. Nintendo	760,583	11.77	2. THQ	183,971	9.41
3. Namco Bandai	42,769	11.75	3. Activision	669,223	10.36	3. Nintendo	173,542	8.88
4. Konami	27,771	7.63	4. THQ	497,344	7.70	4. Ubisoft	151,534	7.75
5. Pokemon	26,296	7.23	5. Take-Two	393,903	6.10	5. Sony	145,481	7.44
6. Sega	22,157	6.09	6. Ubisoft	352,253	5.45	6. Take-Two	120,677	6.17
7. Capcom	18,275	5.02	7. Sony	288,270	4.46	7. Activision	118,720	6.07
8. SCE	13,869	3.81	8. Square-Enix	228,823	3.54	8. Konami	85,445	4.37
9. Koei	9,634	2.65	∴	∴	∴	∴	∴	
10. Banpresto	5,408	1.49	15. Capcom	128,946	2.00	15. Capcom	31,190	1.60
Others	50,076	13.76	Others	1,788,816	27.67	Others	531,906	27.21
Total	363,892	100.00	Total	6,461,586	100.00	Total	1,955,017	100.00

*Source: Enterbrain, Inc.

*Source: "The NPD Group"

*Source: "Chart Track / ELSPA"



NDS "Phoenix Wright 4"



Wii "Zack & Wiki: Quest for Barbaros' Treasure"



sold a total of 12.2 million units of old and new titles combined (down 8.9% from the previous year). Net sales for the year increased to 43,813 million yen (up 2.6% from the previous year). Operating income soared to 8,055 million yen (up 175.2% from the previous year) thanks to solid sales of profitable game titles and savings in development costs. The outstanding performance of this segment contributed to the excellent financial results of the company.

Outlook for the Next Fiscal Year

We will initiate an overhaul of our European operations and pursue the multiple-platform strategy, with the aim of gaining a greater global market share.

Next fiscal year, we intend to establish ourselves as a leading game developer and publisher for the fast-growing market of the next-generation set-top gaming consoles and handheld devices as well as to gain a greater market share in the expanding overseas markets.

To achieve this objective, we will pursue the multiple-platform strategy intended to maximize the sales of each title. Next fiscal year, we will release "Devil May Cry 4", the latest chapter in the popular series, for the Xbox 360, PS3® and PC platforms by utilizing the innovative "MT Framework", followed by other major franchises to be released on multiple

platforms. This strategy will enable us to reduce platform-conversion costs and minimize financial risk when marketing game titles in different regions, each of which tend to have a different installed base for each platform.

Riding on the success we had in overhauling our North American operations, we will initiate a major change in our European operations. As we have done in North America, we will implement new approaches such as using direct sales forces more widely, handpicking distributors and running a joint promotion campaign with North America in an effort to raise business efficiency.

In addition, with the intention of making the online business another core business line of Capcom, we co-founded DALETTO Co., Ltd. with DWANGO group last year, which began full operations by making "Monster Hunter Frontier Online" available for download in July 2007.

With these initiatives, Capcom plans to release 74 new game titles and sell a total of 12 million units of old and new titles combined, with net sales expected to reach 4,120 million yen and operating income 6,500 million yen next fiscal year.

Topics

Capcom had three million-selling game titles, the best single-year performance ever.

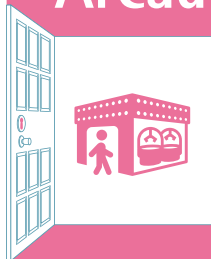
Capcom had three million-selling game titles this fiscal year: "Lost Planet" and "Dead Rising" for Xbox 360 and "Monster Hunter Freedom 2" for PSP, which contributed greatly to favorable financial performance.

The performance of the two Xbox 360 titles is especially significant to the company, as 90% of their sales were made outside Japan. In other words, we overcame the risk of developing them from the ground up in a category we had never tried before. "Monster Hunter Freedom 2" owed its commercial success to its predecessor's long-running success, sustained by the aggressive sales promotions of the Domestic Sales Division. This was the first million-selling title for PSP and attracted additional gamers to the system.

We are proud to say that all these successes were the direct result of a series of ongoing structural reforms we started in 2002 which managed to bring out the company's potential strengths. Aided by one of the world's most advanced development environments, we are committed to creating and offering a variety of original content to Capcom's fans around the globe.

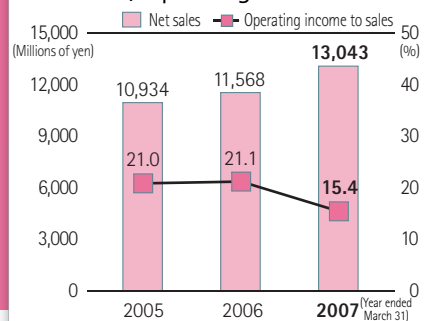


Arcade Operations



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

Net sales / Operating income to sales



Market Trends

Large-scale, shopping mall-based arcades are growing stronger, while smaller facilities are pulling out of the market. The overall market has grown for the fourth consecutive year and is expected to see a stable growth fueled by an increasing number of large-scale arcades.

The domestic arcade industry was worth 682.5 billion yen (up 5.1% from the previous year), thanks to the popularity of card game machines for children, maintaining a stable annual growth rate of 4% since 2001 (Cf. Diagram 3). On the other hand, the number of arcade facilities in operation declined to 23,902 (down 4.6% from the previous year), a decrease for the sixth consecutive year. Broken down by size of facility, the number of arcades with less than 51 gaming machines decreased to 14,389 locations (down 8.8% from the previous year), while arcades operating 51 or

more machines grew to 9,513 locations (up 5.2% from the previous year) (Cf. Diagram 4). This is because an increasing number of smaller facilities specializing in video games and located in busy commercial areas are losing money and are being forced to shut down as they are losing customers to increasingly popular high-performance home video game consoles. Larger facilities, in contrast, are opening in shopping malls in increasing numbers, as they can attract mall shoppers and run more efficient operations.

Although there is some uncertainty over the opening of new large suburban shopping malls under the "Amended City Planning Law" and two other related laws that regulate the locations of large-scale retail stores, we expect them to have little impact on the arcade market. Or rather, the market is expected to grow, stimulated by the increase of mall-based arcades that generate stable revenue stream.

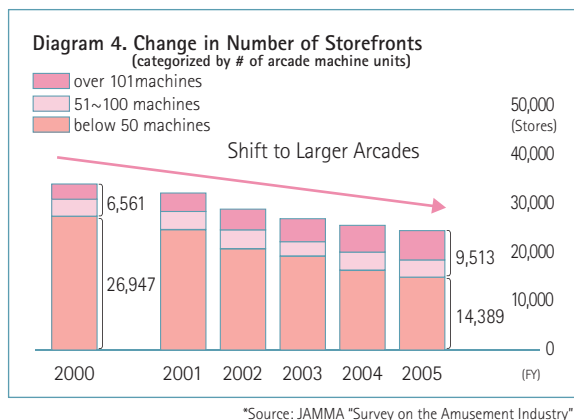
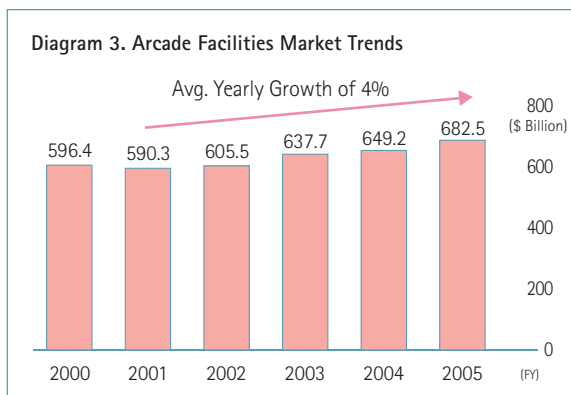


Diagram 5. Comparison of Arcade Operations Performance (FY2006)

Company Name	Net sales (¥ Million)	Share (%)	Operating income (¥ Million)	Operating income to sales (%)	Year-on-year rise (%)
Capcom	13,043	4.9	2,009	15.4	112.8
Aeon Fantasy	43,502	16.4	4,646	10.7	126.2
Adores	16,869	6.4	1,713	10.2	105.2
Namco Bandai	87,862	33.1	4,004	4.6	111.5
Sega Sammy	103,850	39.2	132	0.1	97.7
Total	265,126	100.0	—	—	—

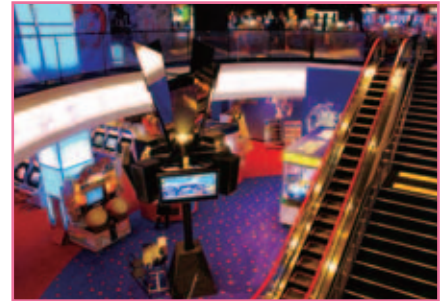
*Source: Financial Results for 2006 by respective company and support documentation (Aeon Fantasy fiscal end in February 2007)



"Plaza Capcom Ishinomaki"



"Plaza Capcom Saga"



"Plaza Capcom Iruma"

Operating Results for This Fiscal Year

Aggressive opening of new arcades helped boost our revenue while the increased opening expenses lowered profit. We are successfully attracting more customers with better services.

Capcom was one of the first arcade operators to open and operate mall-based large-scale facilities. In an attempt to secure a better return on investment, we have either sold or shut down unprofitable facilities, allowing us to maintain a higher profit margin than the competition. (Cf. Diagram 5)

This fiscal year, we were successful in attracting more customers by upgrading existing facilities, holding fan-appreciation events and running special promotions on certain days. These customer-focused, community-oriented marketing approaches appealed not only to core repeat customers but also to new female and family customers. Despite the substantial increase in customers, the total revenue did not grow as much due to declining per-customer revenue.

As part of an ongoing scrap-and-build strategy, we expanded our business by opening three facilities in Chiba prefecture and one each in Saitama, Saga and Miyagi prefectures, all of which were the first of their kind in the areas, while closing three unprofitable locations. Capcom currently owns and operates 33 facilities as of March 2007.

Resulting net sales for this fiscal year grew to 13,043 million yen (up 12.8% from the previous year) while operating income declined to 2,009 million yen (down 17.6% from the previous year) because of increased expenses of opening new facilities.

Outlook for the Next Fiscal Year

We will step up our efforts to open new facilities, primarily in the increasingly popular large-scale format.

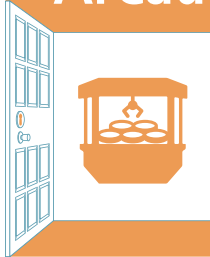
Next fiscal year, Capcom will step up its efforts to open new facilities for revenue growth, as the market is growing steadily and the large-scale format, which is our forte, is gaining popularity. We will open a number of mall-based arcade facilities built on our established expertise in running such facilities, although the category is becoming extremely competitive and the opening of new suburban shopping malls is expected to be regulated by the "Amended City Planning Law". We will also increase the number of locations by opening arcades of sizes comparable to mall-based ones inside a roadside stand-alone commercial facilities co-developed with other partners.

We plan to open eight new facilities and close three, with a total of 38 facilities to run in the next fiscal year.

We project net sales of 15,800 million yen with an operating income of 2,400 million yen for next fiscal year.

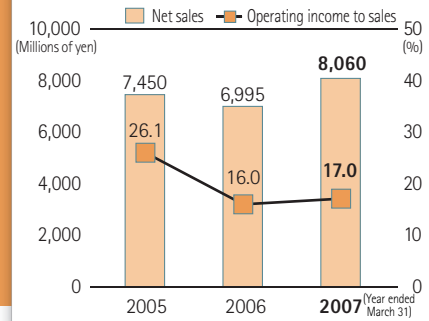


Arcade Games Sales



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

Net sales / Operating income to sales



Market Trends

The Japanese domestic market grew for the fourth consecutive year thanks to a strong lineup of mass coin-operated games. Both prize-winning games and coin-operated games are expected to enjoy continued popularity, helping boost the market.

During the current fiscal year, the domestic market for arcade gaming machines grew steadily for the fourth consecutive year to 188.6 billion yen (up 12.5% from the previous year) while the overseas market suffered another downturn with sales dropping to 10.6 billion yen (down 17.5% from the previous year). The combined market reached 199.2 billion yen (up 10.3% from the previous year). (Cf. Diagram 6)

In terms of product category, prize-winning games and

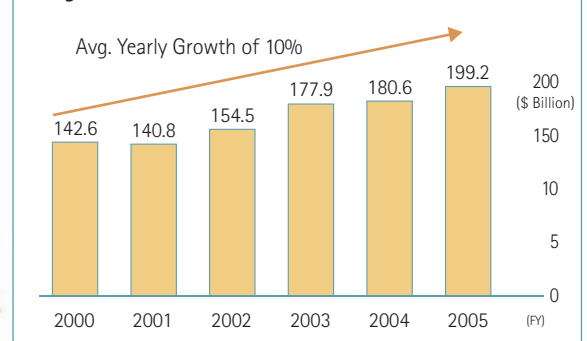
coin-operated games continued to account for 50% of the market (Cf. Diagram 7). Sales of prize games dropped to 46.1 billion yen (down 5.7% from the previous year) due to the fact that sales to arcades have reached a saturation point and no new models came out on the market that offered exciting new features to stimulate replacement demand.

In the coin-operated game category, the introduction of major new models, combined with increasing floor space at arcade facilities, helped boost the category's sales to 46.0 billion yen (up 24.3% from the previous year).

Sales of cards used for satellite-type mass video packages with online connectivity and for children's card games totaled 36.4 billion yen (up 16% from the previous year), accounting for a solid 20% of the arcade game market in a relatively short period of time.

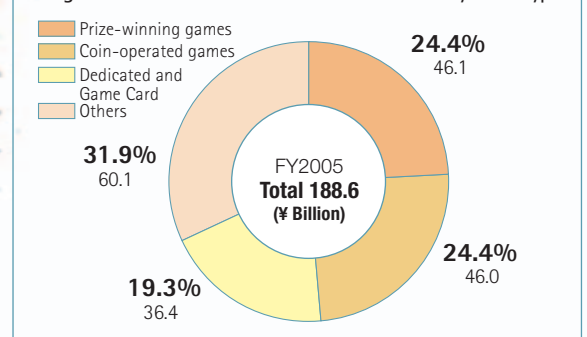
Prize-winning games and coin-operated games are

Diagram 6. Arcade Game Market Trend



*Source: JAMMA "Survey on the Amusement Industry"

Diagram 7. Breakdown of the Arcade Game Market by Game Type



*Source: JAMMA "Survey on the Amusement Industry"



Video game "Sengoku BASARA X"



Card game
"Wantame
Music Channel"

©2006 カプコン・タカラトミー



Coin-operated game
"Donkey Kong
Banana Kingdom"

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predicted to enjoy stable growth, continuing to account for nearly half of the market. The video game and card game categories will also keep growing as the machines get updated electronics and software.

Operating Results for This Fiscal Year

We made significant gains in sales and profits over the previous year thanks to a series of hugely successful new products developed as a result of feedback from our own arcade operations.

Capcom's strength in this business lies in our ability to generate stable revenue growth by focusing on developing prize games and coin-operated games, the categories whose combined sales account for nearly 50% of the total market. The arcade game market used to be dominated by video games which were the primary source of our profit in this business, such as the very successful "Street Fighter" series. From Fiscal Year 2001 onward, however, as the performance of home video game consoles improved remarkably, arcade video games continued losing customer appeal and importance in the market. In light of this market trend, we expanded our lineup of coin-operating games and prize games that appeal to mall-based arcades, and entered the emerging children's card game category.

Since Capcom owns and runs many arcade facilities, we have the advantage of getting first-hand customer feedback on machines produced by our competitors in a timely manner. Another advantage is that we can install and test-market prototype game machines in a small number of company-owned arcades to get feedback from customers and arcade attendants. This information is analyzed and used to refine and improve product design prior to a national launch.

This fiscal year, our consistently popular video game "Mobile Suit Gundam SEED DESTINY: Federation vs. Z.A.F.T. II" drove sales. To attract younger audiences, we introduced a card game machine named "Wantame Music Channel", which was co-developed by TOMY COMPANY, LTD. The game is geared toward girls under 10 and had notable success. Also, a coin-operated game named "Donkey Kong Banana Kingdom" enjoyed brisk sales.

Resulting net sales grew to 8,060 million yen (up 15.2% from the previous year) with an operating income of 1,369 million yen (up 22.7% from the previous year).

Outlook for the Next Fiscal Year

A realignment of our business foundation is under way, with a focus on sharing development with home video games and on enhancing quality control.

Next fiscal year, we expect to report stable sales of prize-winning games and coin-operated games, while bringing in new video game titles based on popular home video games. Although we have achieved stable growth of this business by reallocating development resources to popular genres, we need to realign our business foundation in order to further increase our market share. Ongoing realignment initiatives include setting up a dedicated quality control unit for arcade gaming machines, bringing the commercial game development team and the home video game development team under the unified management of the Research & Development Department, and reviewing the development schedule for hardware. Some initiatives may be costly but it is a necessary investment in order for us to build a solid business foundation upon which to ensure sustainable growth.

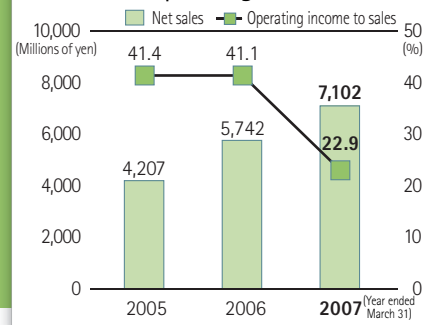
With these initiatives, we project net sales in this business for next fiscal year to amount to 9,200 million yen with an operating income of 1,500 million yen.

Contents Expansion



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

Net sales / Operating income to sales



Market Trends

The Pachinko and Pachislo market is expected to see stable growth, fueled by demand for replacing older machines. Changes in mobile content market under way triggered by growing popularity of high-performance mobile phones.

This segment is divided into two subsegments: one is the development, manufacturing and sales of LCD devices for Pachinko and Pachislo machines, and the other is the development and distribution of game content playable on mobile phones.

The Pachinko and Pachislo market is estimated to be worth 30 trillion yen, the largest segment in the amusement and leisure industry. The market has been on the decline for the past few years.

Since the amendments to the Regulations on the Entertainment and Amusement Trade, and the Implementation Rules for the Entertainment and Amusement Trades Rationalizing Act (hereinafter called "the Entertainment and Amusement Trade Regulations") were enacted in July 2004, the gaming aspect of Pachislo machines has been restricted and a greater emphasis has been placed on the visual or entertainment features of the machines, which has driven some core users away. Regulations on Pachinko machines on the other hand, have eased, giving hardware manufacturers greater flexibility in designing and developing innovative products. But the introduction of Pachinko and Pachislo machines with these new features has had a limited appeal on the market and failed to reverse the downward trend of the number of users. (Cf. Diagram 8)

Although the Pachinko and Pachislo market is expected to face prolonged hard times, there will be prospective demand for replacing those Pachislo machines of older design whose use cannot be extended beyond this fiscal year under the law. Also

demand for Pachinko machines whose design is compliant with the Entertainment and Amusement Trade Regulations is expected to be solid.

The cell phone game markets in Japan and Korea are now maturing after a period of steady growth, driven by the growing popularity of high-performance, full-featured cell phones. But in China and North America, where high-performance cell phones were a rarity, the mobile game market was in its infancy. As they become more affordable, the market for mobile game content is expected to grow globally. (Cf. Diagram 9) The United States has twice as many cell phone users as Japan and when technologically-advanced devices gain a wide consumer acceptance, we expect the U.S. mobile game market will take off fast. Accordingly, we believe success in the mobile content markets in North America and Japan is a crucial step toward a bigger success in the global market.

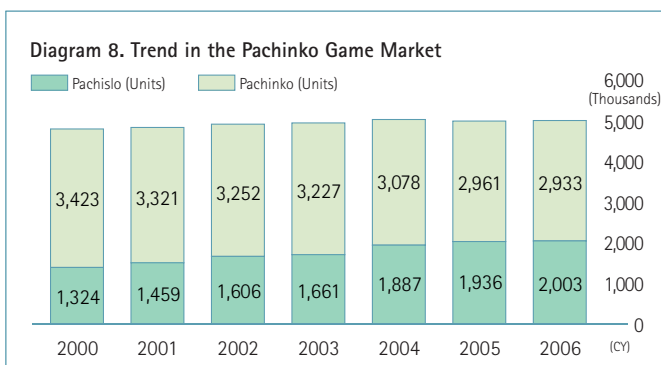
Operating Results for This Fiscal Year

Sales of LCD devices for Pachinko and Pachislo machines showed steady growth. Acquisition of an overseas game developer drove the mobile content business.

Capcom's strength in this business is that we can maintain high profitability by making multiple use of our wealth of intellectual properties in a variety of areas.

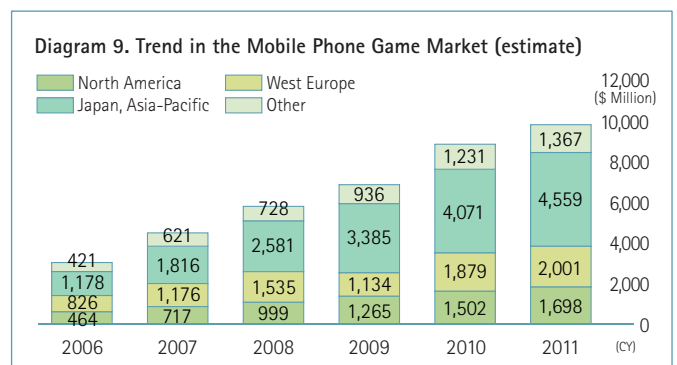
In the Pachinko and Pachislo business, Capcom has been developing attractive software that features our proprietary content and that of third-party developers, using our technological expertise in high-resolution image processing gained through the development of home and commercial video games. Also we have

Diagram 8. Trend in the Pachinko Game Market



*Source: National Police Agency survey

Diagram 9. Trend in the Mobile Phone Game Market (estimate)



*Source: Gartner Dataquest (April 2007)



Mobile game "Phoenix Wright 2"



Pachislo machine
"Devil May Cry 3"

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/ILLUSTRATIONS: Kazuma Kaneko/ATLUS
©Sammy ©RODEO



been supplying LCD devices to machine manufacturers.

This fiscal year, sales of LCD devices to machine makers were brisk and fueled solid performance of the segment, while the image-display software developed on contract was delivered on schedule and contributed better results.

In the mobile content business, Capcom has been making steady progress by making our popular games available to cell phones in Japan and overseas and by utilizing both our expertise acquired in developing home video game software and existing intellectual properties. We decided the key to success in the North American mobile content market with huge growth potential was to develop game titles locally and to distribute them directly to wireless carriers. To achieve this goal, we acquired a Canadian mobile game developer and established "CAPCOM INTERACTIVE, INC.", responsible for the mobile content business, by merging the newly acquired developer and our LA.-based mobile and interactive division, with the aim of becoming more aggressive in this business.

This fiscal year, sales of mobile game titles based on popular home video games such as the "Phoenix Wright" series were strong in Japan. In North America, an assortment of casual game titles such as "Who Wants To Be A Millionaire", popular among casual gamers were released with remarkable success, helping us become the ninth largest game developer in the market, a huge jump from the 62nd position a year earlier. In terms of profitability, the substantial costs of acquiring the Canadian game developer, and starting our overseas business cut into the company's earnings.

Resulting net sales were 7,102 million yen (up 23.7% from the previous year) with an operating income of 1,624 million yen (down 31.2% from the previous year).

Outlook for the Next Fiscal Year

Working more closely with leading manufacturers of gaming machines to turn it into a core business. Increasing our share in the mobile content market by developing and releasing game content at home and abroad.

With regard to the Pachinko and Pachislo business for the next fiscal year, we will work more closely with leading machine manufacturers. Revision to the Entertainment and Amusement Trade Regulations is good news for us, as it translates into a growing demand for entertainment features on gaming machines. We will focus our development and marketing efforts on a total of five titles, including the one contracted for RODEO's Pachislo machine "Devil May Cry 3" and four others capable of producing advanced visual effects utilizing content developed by Capcom as well as third-party developers, as well as our own LCD devices.

In the mobile content business, we will step up our efforts to increase our presence in the overseas market by expanding our game lineup to include more casual game titles. Additionally, to increase profitability, we will make available a wide assortment of game content to both hardcore users and casual users inside and outside Japan. This will include high-quality content compatible with the next-generation cell phones, and titles based on our popular home video games and casual games.

We project net sales for next-fiscal year will be 9,000 million yen with an operating income of 2,500 million yen.

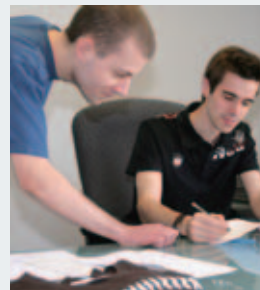
Topics

Capcom acquired a Canadian mobile game developer and publisher to accelerate expansion of the mobile business in North America.

Capcom purchased COSMIC INFINITY INC., a Canadian mobile game developer and publisher, in Fiscal Year 2006. We had been cautious in pursuing merger and acquisition opportunities until we made this aggressive move.

The rationale for this strategic acquisition was threefold: First, the developer had the advantage of doing business directly with leading wireless carriers in North America. Second, its intellectual property portfolio included game content popular with casual users. And third, it had technological expertise in making an individual title playable on different types of cell phones.

Acquiring COSMIC INFINITY was the best option to quick-start our mobile content business in North America, as the company brought with it game content geared towards casual gamers, and raised expectations for profitability in the future. We will step up our efforts to expand our mobile content business in North America and Europe, managed by CAPCOM INTERACTIVE, INC., which absorbed COSMIC INFINITY.



Mobile game contents developers



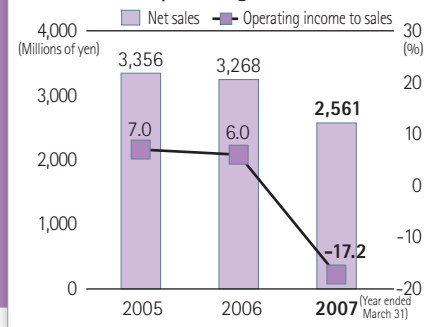
"Who Wants To Be A Millionaire"
©Valleycrest Productions Ltd. 2006

Other Businesses



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

Net sales / Operating income to sales



Operating Results for This Fiscal Year

New animated TV series broadened user base. Publishing business booked a reserve on inventory due to slow sales of game guidebooks.

Capcom's strength in this business is in our ability to take advantage of the strong synergy with our home video game business by making multidimensional use of our wealth of intellectual properties.

Our publishing business plans and publishes game guidebooks, picture books, novelized games and comics to boost profitability.

Our licensing business earns royalties by securing licensing deals for the production of animated TV series, feature films and merchandise featuring popular Capcom characters.

This fiscal year, new episodes of the popular made-for-TV animation series "Mega Man" hit the airwaves simultaneously with the launch of its home video game sibling, successfully appealing to both existing and new audiences.

In the publishing business, commercially available game guidebooks have lost ground due to more and more users exchanging hints and tips online. Consequently, we were forced to book a paper loss as a result of optimizing the inventory of our guidebooks.

Resulting net sales were 2,561 million yen (down 21.6% from the previous year), with an operating loss of 439 million yen.

Outlook for the Next Fiscal Year

Step up the implementation of the "single content multiple usage" strategy of making effective use of each and every single title. Bring publishing business back to profitability.

Next fiscal year, we will step up efforts to pursue a "single content multiple usage" strategy that makes effective use of each and every single title, sharing our strong lineup of game content in broad business areas such as publishing, licensing, home video production, toys and merchandising. In particular, we will focus on the movie business that benefits most from synergy with the home video game business. For instance, a live-action movie version of "Street Fighter" is being produced under a joint venture scheme. Also, the third episode of "Resident Evil" is scheduled to make a theatrical debut in fall 2007, followed by a series of movies and animated feature films under development based on our popular franchises. We will overhaul our publishing business to bring it back to profitability by first reviewing its operations and merchandise mix against the backdrop of the shrinking market. With these efforts, we project net sales for the next fiscal year to be 2,800 million yen with an operating income of 400 million yen.



"Sengoku BASARA" figurine



"Monster Hunter" goods

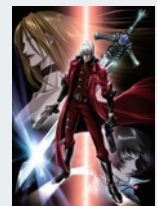
Topics

Becoming more aggressive in investing into the movie business to maximize profit opportunity.

As part of our "single content multiple usage" strategy that makes effective use of each and every title, Capcom has become involved in producing various feature films and animations such as "Resident Evil" and "Mega Man". Although the success of these titles helped enhance brand recognition of Capcom and our own game titles, our profit stream was quite limited to income from royalties as we did not fund the movies, so as to minimize business risks.

However, we have reversed this policy and decided to become more aggressive in getting into the movie business out of consideration of the fact that movies and videos based on our games have turned out to be immensely popular and successful, and that demand for turning our games into feature films is expected to rise sharply as our home video game business grows.

This fiscal year, we announced that Capcom and a Hollywood production company would collaborate to produce a full-length, live-action movie version of our popular "Street Fighter" franchise. Capcom plans to take a stake in the production committee in an aggressive move in the movie business.



TV Animation "Devil May Cry"



Movie "Resident Evil: Extinction"



Working to provide educational support to children who will lead the next generation in an effort to gain better understanding of video games from society.

We at Capcom believe we have an important social responsibility bestowed upon us, which can affect the very existence of a game software company like us, to enlighten society as to a play culture built around home video games and an appropriate manner of enjoying playing games. Along this line, we provide educational support such as inviting children to visit our company and publishing educational materials.

Inviting elementary and junior high school students to visit our company in a move to support integrated learning

Our basic philosophy in management is to create a play culture via the entertainment medium known as home video games, and to become a company that cultivates people's emotional richness, focusing on developing software that brings excitement and joy to many people.

Home video games is a relatively new culture that has yet to receive adequate academic study. Due to this, society at large has not recognized the positive cultural aspects of the medium and only stresses its influence during acts of violence. However, it is equally true that the idea of working in this field as a home video game creator is very popular among children, who often cite this as their future choice of career.

As a home video games company, we conduct awareness campaigns to promote the proper understanding of home video games, by providing educational support to students and through social education. As part of this, we advocate the significance of the Ministry of Education, Culture, Sports, Science and Technology's new teaching guidelines, "Integrated Learning," and have been actively inviting students to visit our company. To date, 314 students from 65 schools, mainly elementary and junior high schools, have visited us. Moreover, in an effort to step up our support and to proactively respond to a request made by the educational community for our deeper involvement, this fiscal year we started a new educational support program under which Capcom joined forces with the Tokyo Stock Exchange and the Japan Securities Dealers Association to hold on-site classes to provide assistance in students' research at a junior high school in Saitama Prefecture in June 2007. By explaining the occupational significance of home video game development and the process of producing home video games to them, as well as fostering their understanding of the social import of such aspects, we aim to help students determine a career path.



On-site class at school

Students on a visit to our company



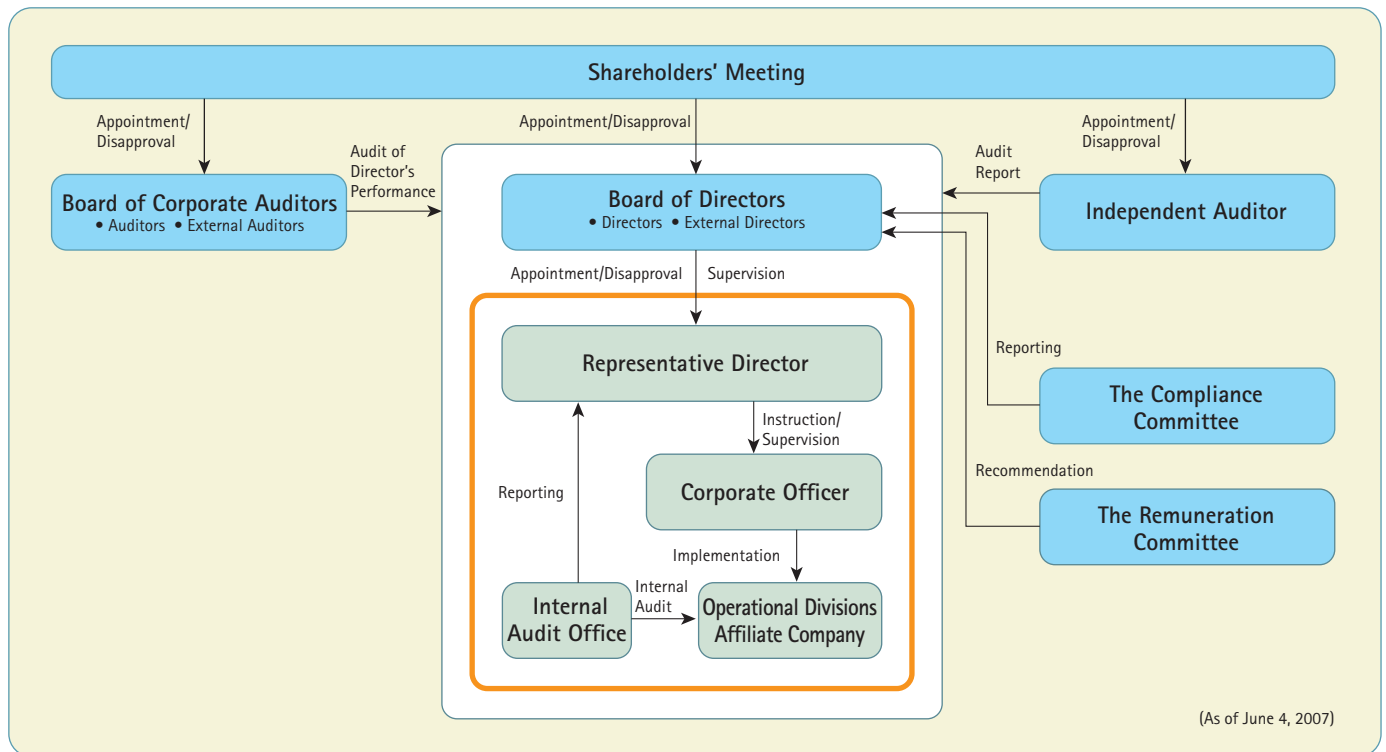
We published an educational manga and donated copies of it to elementary schools as well as libraries around the nation.

In May 2007, we published an educational manga, "The Secrets of Video Games" jointly with Gakken Co., Ltd. (Gakken). This publication is a treasure trove of knowledge, containing the same information we give to people during company visits, such as information about the home video game industry, the development process, how to best interact with home video games, learning how to become a video game creator, and much more. It also is used in "Integrated Learning" as an educational textbook endorsed by the National Congress of Parents & Teachers Association of Japan. Moreover, it is useful for parents as the content takes into consideration the current situation under which home video games have become widespread in homes by, for example, detailing the key points of how children can best interact with home video games and by discussing the recent debate on potential brain damage caused by video games. We have donated this publication to 24,000 elementary schools and 2,700 public libraries around the nation, so that more people can have access to its contents.

We regard children as our main users and the leaders of tomorrow for the industry. We will continuously seek to enhance public understanding of home video games and help them mature as a form of culture, through our continued educational support for children.



Gakken's "Understanding" Series: "Secrets of Video Games"
This booklet provides information in easy-to-understand illustrations and text on the different professions game creators work in, the process of creating video games, and the Japanese game industry's economic competitiveness. The publication is useful not only for children but also for educators and parents.



Enhancing the transparency and reliability of corporate management by appointing 3 external directors

We have an internal auditor system in our corporate governance system, with a Board of Corporate Auditors comprised of four members, including three from outside. They are responsible for developing auditing policy and discussing audit results. It also reports substantive matters in the audit to the president, and exchanges opinions and information with an auditing firm. In addition, we have introduced a Corporate Officer System to allow speedier decision-making and flexible execution of operations, under which the Board of Directors, which focus on management policy decision-making, from the Corporate Officers, who implement and execute the day-to-day operations of the company.

The Board of Directors consists of nine directors and convenes for regular board meetings once a month. An extraordinary board meeting is held when the need arises. Three of the nine directors are outside directors. The Board of Directors has been vitalized and its transparency and credibility have improved, while the management monitoring function has been reinforced by accepting advice, opinions and screening from the outside directors. Moreover, we have established a Remuneration Committee, chaired by an outside director, to determine fair and relevant compensation plans for directors.

We have also set up an internal audit office under the direct control of the president, which is independent from the business divisions and serves as an internal auditing organization. It is tasked with conducting internal audits for all divisions of Capcom, working with corporate auditors when necessary in order to verify and ensure the legal compliance and efficiency of the company's operations. At the same time, the audit office ensures that internal control works effectively for every division in the company, and gives recommendations for correction and improvement to relevant divisions based on their findings.

Enforcement of legal compliance as a basis for corporate governance and CSR

To manage the various risks posed to the company, we established a Compliance Committee, chaired by an attorney who is one of the three outside directors, that meets once every three months.

We review the status of risk management implementation in each division and department every three months using a Periodic Compliance Check, and the results are reported to the Board of Directors through the Compliance Committee. Counseling, advice and supervisory warnings are given to concerned parties as circumstances demand.

In addition, we instituted the "Capcom Codes of Conduct" to strengthen our internal control system. We are dedicated to proactively preventing illegal acts and misconduct, and to ensure legal compliance through the promulgation of corporate ethics and principles.

With regard to the Act on the Protection of Personal Information (Personal Information Protection Law), we have taken measures such as developing a "Personal Information Protection Program" and instituting "Basic Policies on Information Security" and "Personal Information Protection Rules." Additionally, we disclose and disseminate our privacy policies both inside the company and to the public. We will further implement training programs and awareness-raising activities among our employees so that the systems for privacy protection will continue to work effectively.

Legal compliance is the backbone of corporate governance and is fundamental in fulfilling Corporate Social Responsibility (CSR). To this end, we will continue to propagate and instill this message in all our officers and employees.

We have implemented internal control system to ensure that our business practices are carried out compliant with regulations and in an efficient manner.

As part of our directors' duty of due care, we have implemented the following internal control system to ensure that our group-wide business practices are carried out compliant with regulations and in an efficient manner.

1. Implementation of a system to ensure that directors' execution of their duties is compliant with laws and regulations.

On the recommendation of the three external directors, the Board of Directors has been given increased responsibilities for oversight and asked to play a more active role. The Compliance Committee is tasked with conducting internal monitoring on a regular basis in order to prevent illegal acts and misconduct, and to ensure legal compliance. This enhanced management oversight is expected to increase our corporate value.

2. We are have been implementing the following measures to ensure our business practices are conducted appropriately and are consistent with compliance rules.

(1) Retention and Administration of Information

The retention and administration of documents and information as records of execution of important management operations by the directors, such as the minutes of board meetings, is carried out in accordance with the "Document Administration Rules".

(2) Risk Management

Risk management measures are being implemented across the company as specified

by the "Crisis Management Rules", in order to prevent crisis from taking place and to take appropriate action in case an unforeseen event has occurred.

(3) Efficient Execution of Business Operations

We have adopted a Corporate Officer System under which Board of Directors responsible for management policy decision-making is separated from corporate officers responsible for day-to-day operational decision-making, enabling smooth and flexible business operations and raising the efficiency of management.

(4) Reinforcing Legal Compliance

We have instituted "Capcom Codes of Conduct" as a basis for legal compliance. We are committed to the prevention of illegal acts and misconduct by implementing promulgation, training and monitoring programs for employees, such as a weekly online survey via an intranet to gauge employees' compliance with the Personal Information Protection Law.

(5) Managing the Entire Group Companies

We have a group-wide legal compliance framework in place to make sound corporate governance work and to better manage compliance risks, maintaining close parent-subsidiary communication and ties through monthly subsidiary board meetings and the implementation of the "Subsidiaries Management Rules".

(6) Operation Audit

Auditors are responsible for auditing business operations executed by officers and employees, and for ensuring that internal control functions effectively by submitting auditor's reports, recommendations for corrective measures and advices when appropriate. In order for auditors to perform their auditing work smoothly and appropriately, a dedicated staff member is assigned to assist them, whose personnel changes are carried out with the consent of auditors.

Basic policies for IR (Investor Relations)

1. Basic policy for disclosure

We believe it is incumbent upon a listed company like us to make timely and appropriate disclosure of information and to ensure accountability to our shareholders and investors and that it is imperative from a corporate governance standpoint.

Therefore, we operate the following basic policy for IR activities: (1) establishing a responsible IR framework, (2) enforcing an adequate information disclosure, and (3) creating a timely disclosure system, to enhance the transparency of management.

2. Criteria for disclosure

We make timely disclosures in accordance with the Securities and Exchange Law and abide by regulations such as the "Rules on Timely Disclosure of Corporate Information by Issuer of Listed Security" (hereinafter referred to as Timely Disclosure Rules) stipulated by the Tokyo Stock Exchange.

It is our policy to actively disclose as much information as possible that is not required by the Timely Disclosure Rules, so as to accommodate our investors' needs.

We also make disclosures via our Web site with the aim of speedy and fair disclosure. Our shareholders are informed of operating results and state of the business through the issuance of business reports and annual reports.

3. Quiet period

In order to prevent unauthorized leaks of earnings (including quarterly and interim, the same hereafter) information prior to its official announcement, we have set a quiet period lasting for one month prior to the date of announcement. During this period, we shall decline all inquiries relating to our business performance. However, should the expectation for a large fluctuation arise in our earnings outlook within this quiet period, we shall make disclosures pursuant to

the Timely Disclosure Rules, in a timely and appropriate manner.

4. External assessments of our IR activities

As a result of our ongoing and active drive for timely and appropriate information disclosure, we have received a number of awards from external assessment organizations in recognition of our efforts for our IR activities and various IR tools.

During the current fiscal year, we won a prize at the Nikkei Annual Report Awards 2006, and our IR Web site was awarded the 2006 Corporate Homepage Comprehensive Rankings Best Website Award and the Internet IR Best Corporate Award 2006.

We will continue to acknowledge the importance placed on accountability toward the market. We will constantly endeavor to win the trust of our investors and improve on our timely disclosure system.

5. IR activity framework

Currently, five dedicated staff members led by the president and IR director are actively engaged in IR activities on behalf of our shareholders and investors at home and abroad.

For inquiries relating to IR information such as earnings, please contact the following.

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



Director of Investor Relations
and Investor Relations Staff

Directors



Kazuhiko Abe

Haruhiro Tsujimoto

Hiroshi Tobisawa

Kenzo Tsujimoto

Tamio Oda

Sumitaka Hatsuno

Chairman and Chief Executive Officer (CEO)

Kenzo Tsujimoto

- Jun, 1983 Representative Director of the former CAPCOM Co., LTD.
- Jul, 1985 President and Representative Director of the Company
- Apr, 2001 Chief Executive Officer (CEO) of the Company (to present)
- Jul, 2007 Chairman and Representative Director of the Company (to present)

President and Chief Operating Officer (COO)

Haruhiro Tsujimoto

- Apr, 1987 Entered into the Company
- Jun, 1997 Director of the Company
- Feb, 1999 Managing Director of the Company
- Apr, 2001 Senior Managing Director of the Company
- Jul, 2004 Director and Executive Corporate Officer of the Company
- Apr, 2006 Director and Executive Vice President of the Company
- Jun, 2007 Representative Director and Executive Vice President of the Company
- Jul, 2007 Representative Director, President, COO, in charge of Consumer Entertainment Business, R&D, R&D Administration and Online Business of the Company (to present)

Director

Sumitaka Hatsuno

- Dec, 1989 Entered into the Company
- Apr, 1993 General Manager of Arcade Operations Dept. of the Company
- Jun, 1999 Officer & General Manager of Arcade Operations Dept. of the Company
- Jul, 2004 Managing Corporate Officer of the Company
- Apr, 2005 In charge of Domestic Business Operations of the Company
- Jun, 2005 Director of the Company
- Apr, 2006 Director and Executive Corporate Officer of the Company
- Jul, 2007 Director, in charge of Arcade Operations, Arcade Game Sales and Pachinko & Pachislo Business of the Company (to present)

Director

Hiroshi Tobisawa

- Aug, 1997 Entered into the Company
- Apr, 1998 General Manager of Corporate Planning Dept. of the Company
- Jun, 1999 Officer & General Manager of Home Video Games Domestic Sales Business of the Company
- Jan, 2004 President of CAPCOM U.S.A. INC. and CE EUROPE LTD.
- Jun, 2005 Director of the Company
- Jul, 2007 Director, in charge of Overseas Business of the Company (to present)

Director and Managing Corporate Officer Chief Financial Officer (CFO)

Kazuhiko Abe

- Apr, 1987 Entered into The Mitsubishi Bank, Limited. (currently The Bank of Tokyo-Mitsubishi UFJ, Limited.)
- Jul, 1994 Deputy Manager of New York Branch, The Mitsubishi Bank, Limited.
- Nov, 2000 Executive Officer, Hikari Tsushin, Inc.
- Jan, 2002 Executive Officer, Intuit Kabushiki Kaisha (currently Yayoi Co., Ltd.)
- Mar, 2003 Entered into the Company
- Jul, 2003 General Manager of Management Planning Dept. of the Company
- Apr, 2004 Corporate Officer and General Manager of Management Planning Dept. of the Company
- Apr, 2006 Managing Corporate Officer of the Company (to present)
- Jun, 2006 Director and Chief Financial Officer (CFO) of the Company (to present)
- Jul, 2007 In charge of Group Management (to present)

Director

Tamio Oda

- Apr, 1969 Entered into The Sanwa Bank, Limited. (Currently The Bank of Tokyo-Mitsubishi UFJ, Limited.)
- Jun, 1997 Branch Manager of Nakanoshima Branch of the said bank
- May, 2001 Advisor of the Company
- Jun, 2001 Director of the Company
- Jun, 2003 Managing Director of the Company
- Jul, 2004 Director, Executive Corporate Officer and Chief Financial Officer (CFO) of the Company
- Mar, 2006 Director of the Company (to present)
- Jul, 2007 In charge of Corporate Management of the Company (to present)

External Directors

<p>Director Koichi Hori</p> <p>Jun, 1989 President and Representative Director of Boston Consulting Group</p> <p>Jun, 2000 President and Chief Executive Officer of Dream Incubator Inc.</p> <p>Jun, 2001 Director of the Company (to present)</p> <p>Jun, 2006 President and Representative Director of Dream Incubator Inc. (to present)</p>	
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"My job is to objectively review and scrutinize how the company tackles its challenges and what returns sizable investments are expected to generate."

With my experience working as a corporate consultant at home and abroad for many years, I think I'm in a good position to provide objective guidance and advice to Capcom's management team. Also, I try to be candid in voicing my opinions at board meetings so that I can exercise management oversight appropriately and help the Board of Directors play a more active role.

The home video game market in which we participate is on the verge of entering a new phase of growth as next-generation game consoles are becoming widely accepted. This is one of the most promising markets in the entire business fields around the globe.

During the current fiscal year, our ongoing structural reforms in North American operations and R&D operations have produced remarkable results and brought certain financial success to the company.

On the other hand, in order to achieve our medium-term goal of maintaining annual revenue growth rate of 10% and generating a 15% operating profit margin, we have to increase our share in the overseas home video game market and to improve profitability in the arcade operations business. I'd like to see how the company tackles these challenging tasks and produces tangible results. Also, my job is to make sure the sizable R&D and capital investment in these business lines will generate a sound return.

I will continue to make recommendations to the management team on wide-ranging matters based on my observation of the business environment both inside and outside the company from an outside director's perspective.

<p>Director Hiroshi Yasuda</p> <p>Apr, 1957 Entered into the Ministry of Finance</p> <p>Nov, 1973 Personal Secretary to the Minister of Finance</p> <p>Jan, 1977 Personal Secretary to the Prime Minister</p> <p>Jun, 1988 Deputy Vice Minister of Finance</p> <p>Jun, 1990 Director-General, Budget Bureau</p> <p>Jun, 1991 Administrative Vice Minister of Finance</p> <p>May, 1994 Governor, the Export-Import Bank of Japan</p> <p>Oct, 1999 Governor, Japan Bank for International Cooperation</p> <p>Sep, 2001 Advisor, the Kansai Electric Power Co., Inc. (to present)</p> <p>Jan, 2002 Chairman, Yomiuri International Economic Society (to present)</p> <p>Jul, 2002 President, Japan Investor Protection Fund</p> <p>Jun, 2004 External Corporate Auditor, Shiseido Co., Ltd. (to present)</p> <p>Aug, 2004 President, Capital Market Promotion Foundation (to present)</p> <p>Jun, 2007 Director of the Company (to present)</p>	
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"More external oversight fosters an open and fair management culture."

A series of corporate scandals have erupted on a scale that has endangered the very existence of the troubled companies. In order for a company to continue to operate as a good corporate citizen, it must fully implement a code of social ethics and enhance its corporate governance by having appropriate legal compliance and risk management in place for greater transparency and soundness of management. Since last year, the Tokyo Stock Exchange has required each listed company to submit a "Report on Corporate Governance", in which the company discloses information about outside directors. Japan's new Corporate Law enacted this year requires such disclosure as well, attaching more significance to having independent outside directors on the board.

It is imperative to have an internal control system work effectively in order to prevent illegal acts and misconduct and to ensure that operations of a company are conducted appropriately. In July of this year, Capcom implemented a new management structure that separates management and operations, intended to expedite management decisions and to enhance oversight of the execution of day-to-day operations. As an outside director, I'm in a position to voice my opinions and offer recommendations concerning issues of which insiders may not be aware, but that need to be addressed in all aspects of management from a perspective closer to external stakeholders, such as shareholders and customers. By doing so, I hope I will make a meaningful contribution to helping the Board of Directors play a more active role and to exercising effective supervision of day-to-day business operations.

<p>Director Makoto Matsuo</p> <p>Apr, 1975 Admitted to Japanese Bar (The Dai-ichi Tokyo Bar Association) Ozaki & Momo-o</p> <p>Aug, 1978 Weil, Gotshal & Manges in New York</p> <p>Mar, 1979 Admitted to New York Bar</p> <p>Apr, 1989 Partner, Momo-o, Matsuo & Namba (to present)</p> <p>Apr, 1997 Lecturer, Nihon University, Faculty of Law: International Transaction Law</p> <p>Jun, 1999 Corporate Auditor, Victor Company of Japan, Limited (JVC) (to present)</p> <p>Jun, 2003 Corporate Auditor, Yamanouchi Pharmaceutical, Co., Ltd.</p> <p>Jun, 2004 Corporate Director, Yamanouchi Pharmaceutical, Co., Ltd.</p> <p>Apr, 2005 Corporate Director, Astellas Pharma Inc. (to present)</p> <p>Lecturer, Hitotsubashi University Faculty and Graduate School of Law: World Business Law (to present)</p> <p>Jun, 2007 Director of the Company (to present)</p>	
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"I will utilize my experience and expertise accumulated in legal profession when I offer my advice to management decision-making."

Before I was appointed as an outside director at a general shareholders meeting this year, I was familiar with the home video game industry and Capcom through my involvement with the Association of Copyright for Computer Software.

Japan has entered an era of mergers and acquisitions lately, and the game industry's hasty move to realign itself that took place a few years ago has run its course. In particular, the ban on triangle mergers was lifted in May of this year, which is expected to pave the way to large corporate takeovers, prompting Japanese companies to implement measures to thwart takeover attempts. It is still fresh in our memory that the battle for control of a food company was widely reported in the mass media.

Among several anti-takeover provisions, the most effective defense is to increase corporate value, in other words, to raise stock prices by posting strong earnings.

I will utilize my experience and expertise accumulated in the legal profession when I voice objective and well-balanced opinions in an effort to exercise stronger management oversight of day-to-day operations, promoting legal and ethical compliance. Also, I will ensure that the company will be well prepared to take timely and appropriate actions when an unforeseeable event arises, by having systems for legal compliance and risk management firmly in place.

Auditors



"Our job is to ensure that the company conducts its business appropriately and the internal control system works effectively."

Capcom's Board of Corporate Auditors consists of four auditors including three from outside the company.

In accordance with the auditing policy and job descriptions established by the Board of Auditors, we maintain close communication with the Board of Directors, the Internal Audit Office and other employees to collect relevant information and to lay the groundwork for audits. Also, we attend important corporate meetings such as board meetings to receive activity reports from directors and other key managers on their day-to-day execution of operational duties, ask them for clarification as required, review documents of important corporate decisions, and investigate the status of operations and company assets.

It is also our responsibility to monitor and verify the effectiveness of the system that ensures directors' day-to-day execution of their duties is compliant with laws and regulations, as well as of the internal control system designed to ensure the company's business operations are conducted appropriately. We maintain close communication with directors and auditors at our subsidiaries, exchange information with them and obtain updated business reports from them as the need arises.

Additionally, we make sure that the internal control system works effectively by monitoring and verifying that an auditing firm maintains its independence and provides us with appropriate auditing work.

Corporate Auditor (full-time)

Shoji Yamaguchi

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

Corporate Auditor (full-time)

Kazushi Hirao

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

Corporate Auditor

Morio Kuroda

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

Corporate Auditor

Yoshio Nakayama

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

Corporate Officers



Managing Corporate Officer
Head of Research & Development Management Department

Yoshifumi Yamashita



Managing Corporate Officer
Head of Research & Development Management Group and Online Business

Keiji Inafune



Managing Corporate Officer
Head of Consumer Entertainment Business Management Group and Home Video Games Business

Katsuhiko Ichii



Managing Corporate Officer
Head of IT Department

Yoshiki Noro



Corporate Officer
Head of Executive Support Department

Setsuo Yamada



Corporate Officer
Head of Pachinko and Pachislo Business

Yoichi Egawa



Corporate Officer
Head of Arcade Games Research & Development Department

Osamu Izumi



Corporate Officer
Head of Arcade Operations Business

Motohide Imaizumi



Corporate Officer
Head of Character Contents Business

Toshihiro Tokumaru



Corporate Officer
Head of Home Video Games Research & Development Department

Nobuyuki Matsushima



Corporate Officer
Head of Business Management & Group Management and Finance & Accounting Department

Kazuo Tanigawa



Corporate Officer
Head of Legal & Intellectual Property Management and General Affairs & Human Resources Department

Koji Yokota



Corporate Officer
Head of Arcade Games Business

Shigeki Mori

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11-Year Summary

	1997	1998	1999	2000	2001
	Millions of yen				
Net sales	¥ 41,650	¥ 58,201	¥ 38,366	¥ 51,574	¥ 49,082
Operating income	4,773	10,423	3,611	9,061	7,155
Income (loss) before income taxes	3,473	(3,639)	2,085	8,712	7,126
Net income (loss)	502	(4,759)	1,507	9,700	6,007
	Yen				
Net income (loss) per share	14.29	(135.24)	43.00	273.01	109.90
Cash dividends applicable to the year per share	53.00	20.00	20.00	20.00	20.00
Net assets per share	1,030.42	841.35	862.96	1,372.16	1,081.62
	Millions of yen				
Total assets	118,330	100,833	98,127	107,776	113,493
Net assets	36,266	29,611	30,123	51,320	62,965
Depreciation & Amortization	3,833	3,243	2,817	2,623	2,411
Capital expenditures	2,092	2,556	2,861	2,695	2,938
R&D expenses	2,596	2,948	1,413	1,390	1,461
Operating income to sales (%)	11.5	17.9	9.4	17.6	14.6
ROE (%)	1.4	(14.4)	5.0	23.8	10.5
ROA (%)	0.4	(4.3)	1.5	9.4	5.4
Net worth ratio (%)	30.6	29.4	30.7	47.6	55.5
Interest coverage ratio (times)	—	—	—	25.9	8.7
Debt-equity ratio (%)	226.8	240.1	225.7	110.1	80.2
Price earnings ratio (times)	143.5	—	29.3	17.2	32.8

Financial Review

1. Operating Results

In fiscal year 2006, the year ended March 31, 2007, the resulting consolidated net sales increased to 74,542 million yen (up 6.1% from the previous year).

As for profits, operating income increased to 9,602 million yen (up 45.9 % from the previous year) and ordinary income also increased to 10,600 million yen (up 51.1 % from the previous year). However, the net income for the current fiscal year decreased to 5,852 million yen (down 15.7 % from the previous year).

One of the major reasons for the decrease in net profit was that we reviewed the valuation reserve for deferred tax assets and posted adjustments, to be recorded in related accounts including corporation taxes, in the previous year.

2. Status of Each Business Segment

(1) Home Video Games

New software titles for Xbox 360, "Dead Rising" and "Lost Planet", became a huge hit with over a million copies sold in the US and Europe. The preference of overseas users was well reflected in these softwares, and they served as a sales growth engine in the overseas markets. "Monster Hunter Freedom 2" (for PlayStation Portable), in which requests from our customers were fulfilled, also became a million unit seller and joined the family of Capcom flagship products. On the day of its release, there were long lines of people waiting to purchase the software.

Three versions of "Mega Man Star Force" (for Nintendo DS) performed strongly backed by its steady popularity. This software is the latest addition of the "Mega Man" series that marked its 20th anniversary during this fiscal year. "Devil Kings 2" (for PlayStation 2), which gained popularity among female users, increased sales steadily along with the imported title "Grand Theft Auto: San Andreas" (for PlayStation 2). The innovative new software "Okami" (for PlayStation 2) also experienced healthy growth.

Additionally, lower-priced software titles, namely "Resident Evil 4 PlayStation 2 the Best" (for PlayStation 2) and "Monster Hunter Freedom PSP the Best" (for PlayStation Portable), showed strong sales.

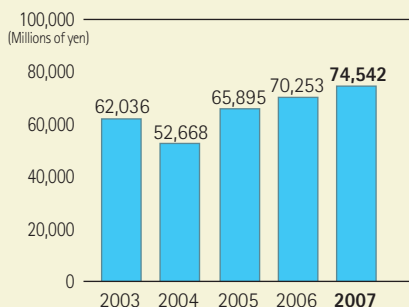
Resulting net sales increased to 43,813 million yen (up 2.6 % from

2002	2003	2004	2005	2006	2007	2007
Millions of yen					Thousands of U.S. dollars	
¥ 62,742	¥ 62,036	¥ 52,668	¥ 65,895	¥ 70,253	¥ 74,542	\$ 631,717
9,727	6,680	1,402	7,752	6,580	9,602	81,380
7,420	(30,049)	(6,900)	7,006	6,912	9,986	84,629
4,912	(19,598)	(9,158)	3,622	6,941	5,852	49,597
Yen					U.S. dollars	
84.21	(338.01)	(160.91)	63.37	125.19	107.52	0.91
20.00	20.00	20.00	20.00	20.00	30.00	0.25
1,168.51	753.47	559.66	589.99	716.91	799.35	6.77
Millions of yen					Thousands of U.S. dollars	
128,512	106,648	93,096	106,361	98,457	91,478	775,242
68,233	42,888	31,854	32,491	39,464	45,144	382,578
2,172	2,202	2,081	2,101	1,936	2,774	23,512
4,181	2,289	4,678	1,665	1,600	4,495	38,096
1,067	1,151	1,124	1,323	1,864	1,828	15,492
15.5	10.8	2.7	11.7	9.4	12.9	12.9
7.5	(35.3)	(24.5)	11.3	19.3	13.8	13.8
4.1	(16.7)	(9.2)	3.6	6.8	6.2	6.2
53.1	40.2	34.2	30.5	40.1	49.3	49.3
14.2	14.6	20.3	30.0	82.6	237.3	237.3
88.3	148.8	192.4	227.9	149.4	102.8	102.8
41.2	—	—	16.5	9.7	15.7	15.7

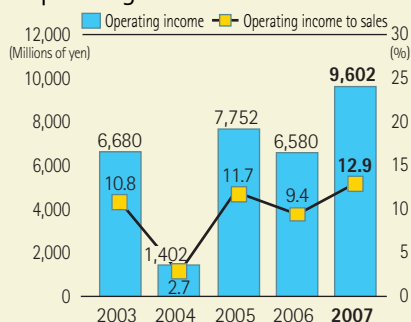
the previous year) and operating income also increased significantly to 8,055 million yen (up 175.2 % from the previous year). These results were realized by highly profitable software as well as lowered development

costs, and they contributed to the improvement of business performance of this fiscal year.

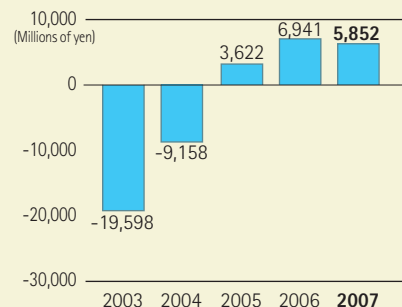
Net sales



Operating income / Operating income to sales



Net income (loss)



(2) Arcade Operations

In this business segment, we tried to expand our customer base with a community-based approach, supporting core-users while attracting more females and families. Such efforts included renovating facilities, holding a variety of customer-appreciation events, and implementing a special discount day. As a result of these efforts, the number of visitors to our arcades increased but the overall performance remained at lower level than expected due partially to the declined per-customer sales.

Having the strategy of "Chiiki Ichiban Ten" (No. 1 Arcade in the Regional Community), we worked on aggressive facility development through "scrap and build" strategy. We opened three new arcades in the Metropolitan area of Chiba Prefecture, "Plaza Capcom Chiba New Town", "Plaza Capcom Chiba Naganuma", and "Plaza Capcom Chiba Marinpia Senmonkan". Additionally, we opened "Plaza Capcom Okegawa" in Saitama Prefecture, "Plaza Capcom Saga" in Saga Prefecture, and "Plaza Capcom Ishinomaki in Miyagi Prefecture, while closing down three low-productive facilities. The current number of "Plaza Capcom" now totals 33 after these efforts.

The resulting net sales increased to 13,043 million yen (up 12.8 % from the previous year); however, operating income decreased to 2,009 million yen (down 17.6 % from the previous year) due partially to the sluggish growth of existing facilities as well as the increase in the cost of opening new facilities.

(3) Arcade Games

"Mobile Suit Gundam SEED DESTINY: Federation vs. Z.A.F.T. II" served as a sales growth engine backed by its continued popularity. The card-dispensing game machine for girls, "Wantame Music Channel", also experienced a healthy growth. The game machine was developed through collaboration with Takara Tomy Co., Ltd. with the purpose of tapping the market of younger audience. On the other hand, the medal/prize game machine "Donkey Kong Banana Kingdom" struggled due to some defects, despite its steady sales.

The resulting net sales increased to 8,060 million yen (up 15.2 % from the previous year), and operating income increased to 1,369 million yen (up 22.7 % from the previous year).

(4) Contents Expansion

In this business segment, the distribution of games to mobile phones underwent healthy growth. The "Phoenix Wright" series performed

strongly and became a stable income source. Additionally, the provision of peripheral devices for gaming machines achieved satisfactory results and made a significant contribution to sales growth. However, profit was lower due to an increase in the development cost.

Resulting net sales increased to 7,102 million yen (up 23.7 % from the previous year), and operating income decreased to 1,624 million yen (down 31.2 % from the previous year).

(5) Other Businesses

Net sales from other businesses, mainly character-related licensing royalties, decreased to 2,561 million yen (down 21.6 % from the previous year), with an operating loss of 439 million yen.

2. Overview of Business Performance in Each Region

(1) Japan

"Monster Hunter Freedom 2" (for PlayStation Portable) enjoyed a great deal of popularity and became a mega hit with over a million copies. "Mega Man Star Force" (for Nintendo DS) and "Grand Theft Auto: San Andreas" (for PlayStation 2) increased sales satisfactorily backed by their steady popularity. "Devil Kings 2" (for PlayStation 2), which gained popularity among female users, as well as the innovative new software "Okami" (for PlayStation 2) made a strong showing. In addition, "Phoenix Wright: Ace Attorney (Best Price!)" also experienced brisk sales.

As for the arcade operations, we pursued a profit increase by promoting the aggressive expansion of the arcade chain and by implementing a "scrap and build" strategy. The performance of existing arcades was unsatisfactory. In the business segment of arcade game sales, "Mobile Suite Gundam SEED DESTINY: Federation vs. Z.A.F.T. II" increased its sales and contributed to the overall sales growth.

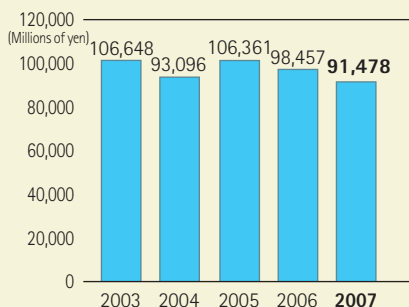
In the contents expansion business, the provision of peripheral devices for gaming machines, along with the distribution of games to mobile phones, underwent healthy growth.

Resulting net sales decreased to 56,726 million yen (up 4.5 % from the previous year), and operating income increased to 10,065 million yen (up 15.1 % from the previous year).

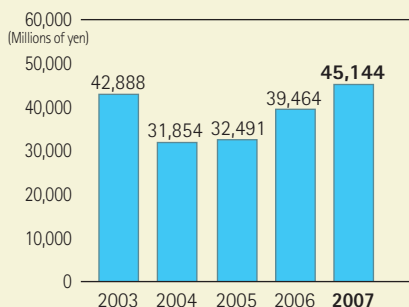
(2) North America

We have been working on operational restructuring to push forward global

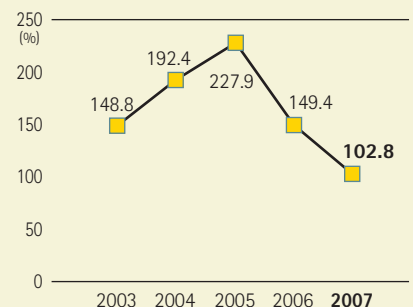
Total assets



Net assets



Debt-equity ratio



management reforms. Such activities included enhancing marketing strategies as well as improving management structures of the US subsidiary.

Our elaborate promotion activities along with the improved direct sales system had successful results, and both "Dead Rising" and "Lost Planet" (for Xbox 360) became huge hits attaining sales of one million copies. They triggered the overseas sales expansion and led the income growth. Our titles showed a great sales in Japan also sold well in North America. Among such titles are "Monster Hunter Freedom" (for PlayStation Portable) and "Resident Evil 4 Premium" (for PlayStation 2). "Devil May Cry 3 Special Edition" (for PlayStation 2) also performed strongly.

Resulting net sales increased to 15,766 million yen (up 29.1 % from the previous year), and operating income significantly increased to 1,443 million yen (up 731.7 % from the previous year) contributing to the income growth of the entire Capcom Group.

(3) Europe

In Europe, one of the three major markets in the world, "Dead Rising" and "Lost Planet" (for Xbox 360) became mega hits, as they did in North America, and achieved robust sales. "Monster Hunter Freedom" (for PlayStation Portable) and "Devil May Cry 3 Special Edition" (for PlayStation 2) also performed favorably.

Resulting net sales decreased to 8,090 million yen (down 11.7 % from the previous year), but operating income remained almost unchanged at 1,016 million yen (up 2436.6 % from the previous year) due to a decrease in costs.

(4) Other Regions

Asia is expected to be a market for future growth in addition to the three major markets of the US, Europe, and Japan. However, the problem of illegally copied software is still unresolved in the region and this situation places limitations on the sales of packaged products, resulting in the core of the Asian game market being online games for PCs. Under these circumstances, we carried out an aggressive business development program, and as a result, the software for PlayStation Portable performed strongly, leading sales in the region.

Resulting net sales increased to 927 million yen (up 29.4 % from the previous year), and operating income turned slightly black to 124 million yen (up 71.7 % from the previous year).

4. Analysis of assets, liabilities and total shareholders' equity

(1) Total assets

Total assets as of this fiscal year period were decreased by 6,978 million yen from the previous fiscal year to 91,478 million yen. This is mainly attributable to decrease of cash and cash equivalents by payment on redemption of 4th unsecured convertible bonds.

(2) Liabilities

Liabilities as of this fiscal year period were decreased by 12,658 million yen from the previous fiscal year to 46,334 million yen. This is mainly attributable to payment on redemption of 4th unsecured convertible bonds and exercise of the stock acquisition rights of Euro-Yen convertible bonds.

(3) Net assets

Net assets as of this fiscal year period amounted to 45,144 million yen. This is mainly attributable to increase of net income by 5,852 million yen, increase of paid in capital and capital surplus by 4,635 million yen by exercise of the stock acquisition rights of Euro-Yen convertible bonds.

5. Analysis of cash flow

Cash and cash equivalents (hereafter referred to as "Cash") as of this fiscal year period decreased by 5,631 million yen from the previous fiscal year to 35,020 million yen. Cash flow positions for each activity are as stated below.

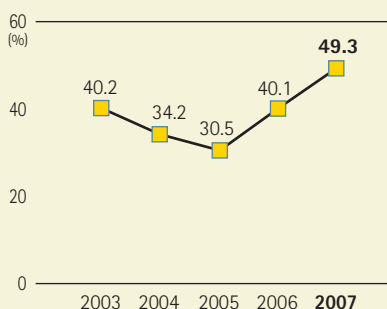
(1) Cash Flows From Operating Activities

Net cash increase from operating activities amounted to 16,063 million yen, increased by 2,141 million yen in comparison with the previous year. This is attributed to the following; Net income before income taxes resulted in 9,986 million yen, decrease of depreciation and amortization by 2,774 million yen and decrease of accounts receivable by 1,659 million yen.

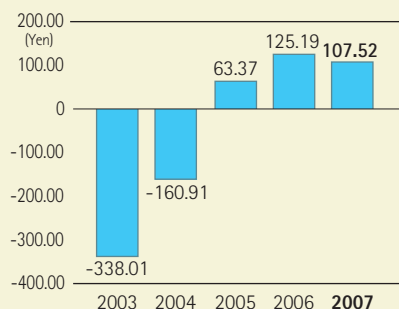
(2) Cash Flows From Investing Activities

Net cash decrease from investing activities amounted to 6,715 million yen, an increase of 4,935 million yen in comparison with the previous year. This decrease is attributable to the expense of 3,804 million yen for the acquisition of equipment for amusement facilities, and the acquisition of

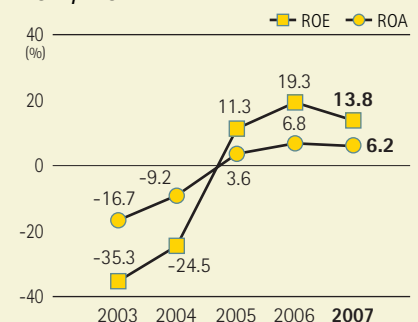
Net worth ratio



Net income (loss) per share



ROE / ROA



new consolidated subsidiaries' stock such as Canadian game development company for mobile phone by 1,612 million yen.

(3) Cash Flows From Financing Activities

Net cash decrease from financing activities amounted to 15,206 million yen. This is attributable to redemption of convertible bonds of 10,000 million yen, acquisition of treasury stock by 3,251 million yen, and cash of dividend by 1,337 million yen.

Trends of Cash Flow Indicators

	Year ended March 2005	Year ended March 2006	Year ended March 2007
Net worth ratio (%)	30.5	40.1	49.3
Net worth ratio based on fair market value (%)	54.1	67.5	104.4
Debt amortization schedule (number of years)	2.8	0.4	0.3
Interest coverage ratio (times)	30.0	82.6	237.3

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

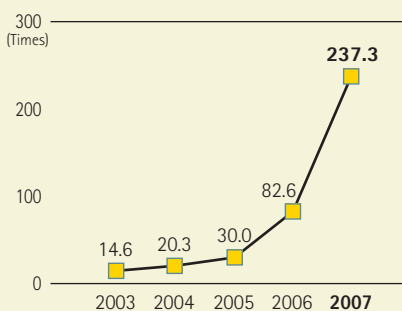
Debt amortization schedule = Interest-bearing debt / Cash flows from operating activities

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

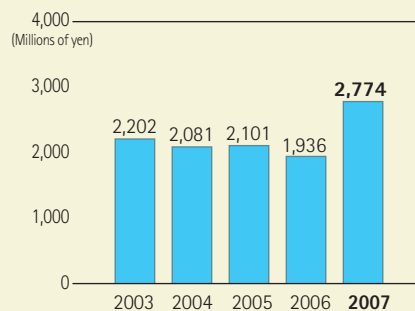
(Note 1) Total market value of shares is calculated based on the number of shares as of the end of fiscal year excluding treasury stock.

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

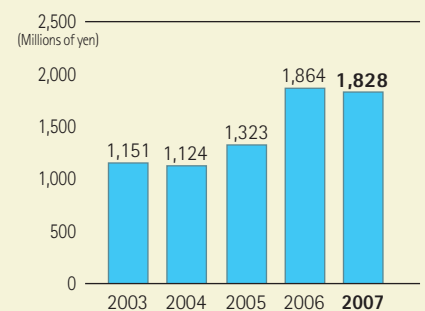
Interest coverage ratio



Depreciation & Amortization



R&D expenses



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 18, 2007 and certain assumptions that serve as the basis of rational judgments.

1. Risks relating to Home Video Games

(1) Increase in Development Costs

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

(2) Obsolescence of Game Software

Game users are mainly children and young people. In addition, competition against other industries which have the same customer base is intensifying, including 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.

(3) Dependency on Popular Series

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

(4) Violent Scenes and Depictions

Some of our popular software titles have provocative graphics and text, such as violent and grotesque scenes. Accordingly, in the event of violent

incidents and other criminal cases involving juveniles, we may be subject to a smear campaign by some sections of the mass media which often point out the correlation between crime and games.

Therefore, there is a risk that it may result in having an adverse effect on our business performance, corporate value and narrowed distribution channel under instructions by the relevant authorities.

(5) Seasonal Fluctuations

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

(6) Trends in Proliferation of Home Video Game Consoles

Our home video game titles are primarily supplied to game consoles made by Sony Computer Entertainment Inc., Nintendo Co., Ltd. and Microsoft Corporation.

Therefore, there is a risk that our business strategies and business performance may be adversely affected in the event of any setback in the proliferation trends or any problem in their game consoles.

(7) License Agreement with Console Manufactures

We take a multi-platform approach, which involves supplying home video game software titles to all existing game platforms. Accordingly, we have a license for manufacturing and distributing game software from Sony Computer Entertainment Inc., Nintendo Co., Ltd. and Microsoft Corporation, who are also our competitors.

However, there is a risk that amendments to the licensing agreements and new terms and conditions of the agreements may have an adverse effect on our future development strategies and business performance.

(8) Technological enhancement of Home Video Game Platforms

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

(9) Expansion of Used Software Market

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

2. Risks relating to Other Businesses**(1) Arcade Operations**

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

(2) Arcade Games

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

(3) 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

(1) There is a risk that our business strategies and business performance

may be adversely affected by market trends and the existence of competitors in other countries within our sales territory, in addition to other various country risks including political, economic, legislative, cultural, religious, custom and foreign currency risks.

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

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

4. Risks relating to Financial Status and Operating Results

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

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

5. Risks 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.

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. 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.

11. 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.

Consolidated Balance Sheets

ANNUAL REPORT 2007

CAPCOM CO., LTD. AND ITS CONSOLIDATED SUBSIDIARIES. MARCH 31, 2007 AND 2006

	Millions of yen		Thousands of U.S.dollars [Note 1]
	Previous fiscal year (As of March 31, 2006)	Current fiscal year (As of March 31, 2007)	Current fiscal year (As of March 31, 2007)
Assets			
I Current assets:			
1 Cash on hand and in banks [Note 8 (1)]	40,453	35,020	296,785
2 Notes and accounts receivable, trade [Note 5 (4)]	12,812	11,417	96,758
3 Securities	199	—	—
4 Inventories	3,741	3,488	29,567
5 Work-in-progress for game software	6,348	3,415	28,941
6 Deferred tax assets [Note 12]	3,266	3,215	27,251
7 Short-term loans receivable	1,277	1,204	10,203
8 Other	1,272	3,871	32,808
9 Allowance for doubtful accounts	(1,295)	(1,543)	(13,084)
Total current assets	68,075	60,089	509,231
II Fixed assets:			
1 Tangible fixed assets, net of accumulated depreciation [Note 5 (1)]			
(1) Buildings and structures [Note 5 (2)]	6,366	6,091	51,622
(2) Machinery and vehicles	107	160	1,361
(3) Tools, fixtures and furniture	529	790	6,696
(4) Rental equipment	199	667	5,659
(5) Equipment for amusement facilities	2,064	3,022	25,614
(6) Land [Note 5 (2)]	4,480	4,480	37,970
(7) Construction-in-progress	73	287	2,433
Total tangible fixed assets	13,820	15,500	131,358
2 Intangible fixed assets			
(1) Goodwill	—	1,058	8,968
(2) Other	333	1,219	10,333
Total intangible fixed assets	333	2,277	19,301
3 Investments and other assets			
(1) Investments in securities [Notes 5 (3) and 10]	2,305	1,794	15,211
(2) Long-term loans receivable	807	907	7,686
(3) Deferred tax assets [Note 12]	8,624	5,786	49,039
(4) Claim in bankruptcy and reorganization	107	161	1,372
(5) Lease deposits	—	5,002	42,392
(6) Other	5,095	564	4,781
(7) Allowance for doubtful accounts	(712)	(605)	(5,133)
Total investments and other assets	16,227	13,611	115,350
Total fixed assets	30,381	31,389	266,010
Total assets	98,457	91,478	775,242

The accompanying notes are an integral part of these financial statements.

	Millions of yen		Thousands of U.S.dollars [Note 1]
	Previous fiscal year (As of March 31, 2006)	Current fiscal year (As of March 31, 2007)	Current fiscal year (As of March 31, 2007)
Liabilities			
I Current liabilities:			
1 Notes and accounts payable, trade [Note 5 (4)]	7,213	7,489	63,474
2 Short-term borrowings [Notes 5 (2) and 18]	700	755	6,402
3 Current portion of convertible bonds [Note 17]	10,000	—	—
4 Accrued income taxes	2,196	875	7,420
5 Accrued bonuses	1,062	1,746	14,802
6 Allowance for sales returns	349	462	3,922
7 Other	5,420	8,417	71,331
Total current liabilities	26,942	19,747	167,355
II Long-term liabilities:			
1 Convertible bonds [Note 17]	26,500	21,635	183,347
2 Long-term borrowings [Notes 5 (2) and 18]	4,130	3,430	29,067
3 Accrued retirement benefits for employees [Note 11]	816	933	7,909
4 Other	604	588	4,983
Total long-term liabilities	32,050	26,586	225,308
Total liabilities	58,992	46,334	392,663
Shareholders' equity			
I Common stock [Note 5 (6)]			
	27,581	—	—
II Capital surplus			
	15,336	—	—
III Retained earnings			
	1,099	—	—
IV Net unrealized gain on securities, net of tax			
	793	—	—
V Cumulative translation adjustments			
	(228)	—	—
VI Treasury stock [Note 5 (7)]			
	(5,117)	—	—
Total shareholders' equity	39,464	—	—
Total liabilities and shareholders' equity	98,457	—	—
Net assets			
I Shareholders' equity:			
1 Common stock [Note 5 (6)]	—	29,915	253,521
2 Capital surplus	—	17,637	149,468
3 Retained earnings	—	5,555	47,083
4 Treasury stock [Note 5 (7)]	—	(8,138)	(68,970)
Total shareholders' equity	—	44,970	381,103
II Valuation and translation adjustments:			
1 Net unrealized gain on securities, net of tax	—	482	4,087
2 Deferred hedges, net of tax	—	1	13
3 Cumulative translation adjustments	—	(326)	(2,769)
Total valuation and translation adjustments	—	157	1,331
III Minority interests in consolidated subsidiaries			
	—	16	143
Total net assets	—	45,144	382,578
Total liabilities and net assets	—	91,478	775,242

The accompanying notes are an integral part of these financial statements.

Consolidated Statements of Income

ANNUAL REPORT 2007

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

	Millions of yen		Thousands of U.S.dollars [Note 1]
	Previous fiscal year (From April 1, 2005 to March 31, 2006)	Current fiscal year (From April 1, 2006 to March 31, 2007)	Current fiscal year (From April 1, 2006 to March 31, 2007)
I Net sales	70,253	74,542	631,717
II Cost of sales	47,799	48,046	407,173
Gross profit	22,454	26,496	224,544
Provision for allowance for sales returns	138	113	964
Net gross profit	22,315	26,382	223,579
III Selling, general and administrative expenses [Notes 6 (1) and (4)]	15,735	16,779	142,199
Operating income	6,580	9,602	81,380
IV Non-operating income:			
1 Interest income	507	882	7,478
2 Dividend income	13	17	149
3 Exchange gain, net	493	444	3,770
4 Other	74	60	514
Total	1,089	1,405	11,912
V Non-operating expenses:			
1 Interest expense	171	72	611
2 Provision for allowance for doubtful accounts	317	151	1,284
3 Other	165	184	1,560
Total	653	407	3,456
Ordinary income	7,016	10,600	89,836
VI Special gains:			
1 Gain on sales of fixed assets [Note 6 (2)]	1	1	11
2 Reversal of allowance for doubtful accounts	114	—	—
3 Gain on settlement of litigation	—	103	874
Total	116	104	885
VII Special losses:			
1 Loss on sales and/or disposal of fixed assets [Note 6 (3)]	65	173	1,473
2 Retirement gratuity to director to resign	44	—	—
3 Loss on revaluation of investments in securities	63	103	873
4 Loss on abandon of development game software [Note 6 (5)]	—	442	3,745
5 Other [Note 6 (6)]	47	—	—
Total	220	718	6,092
Net income before income taxes	6,912	9,986	84,629
Income taxes-current	551	1,085	9,196
Income taxes from previous year [Note 6 (7)]	1,832	—	—
Income taxes-deferred	(2,413)	3,058	25,918
Total	(28)	4,143	35,115
Minority interests in loss of consolidated subsidiaries	—	9	83
Net income	6,941	5,852	49,597

The accompanying notes are an integral part of these financial statements.

Consolidated Statement of Retained Earnings

ANNUAL REPORT 2007

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

	Millions of yen
	Previous fiscal year (From April 1, 2005 to March 31, 2006)
Capital surplus	
I Opening balance of capital surplus	15,336
II Decrease in capital surplus:	
1 Loss on sales of treasury stock	0
III Closing balance of capital surplus	15,336
Retained earnings	
I Opening balance of retained earnings	(4,681)
II Increase in retained earnings:	
1 Net income	6,941
III Decrease in retained earnings:	
1 Cash dividends	1,099
2 Bonuses to directors	60
IV Closing balance of retained earnings	1,159
	1,099

The accompanying notes are an integral part of this financial statement.

Consolidated Statement of Changes in Net Assets

ANNUAL REPORT 2007

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

	Millions of yen										
	Shareholders' equity					Valuation and translation adjustments					Total net assets
	Common stock [Note 7 (1)]	Capital surplus	Retained earnings	Treasury stock [Note 7 (2)]	Total shareholders' equity	Net unrealized gain on securities, net of tax	Deferred hedges, net of tax	Cumulative translation adjustments	Total valuation and translation adjustments	Minority interests in consolidated subsidiaries	
Balance as of March 31, 2006	27,581	15,336	1,099	(5,117)	38,900	793	–	(228)	564	–	9,464
Changes of items during the current fiscal year											
Issuance of new stocks (1)	2,334	2,330			4,665						4,665
Cash dividends [Note 7 (3)] and (2)			(1,336)		(1,336)						(1,336)
Bonuses to directors			(60)		(60)						(60)
Net income			5,852		5,852						5,852
Repurchase of treasury stock				(3,251)	(3,251)						(3,251)
Disposition of treasury stock (3)		(29)		230	200						200
Net changes of items other than shareholders' equity						(310)	1	(97)	(407)	16	(390)
Total changes of items during the current fiscal year	2,334	2,300	4,455	(3,021)	6,069	(310)	1	(97)	(407)	16	5,679
Balance as of March 31, 2007	29,915	17,637	5,555	(8,138)	44,970	482	1	(326)	157	16	45,144

	Thousands of U.S.dollars [Note 1]										
	Shareholders' equity					Valuation and translation adjustments					Total net assets
	Common stock [Note 7 (1)]	Capital surplus	Retained earnings	Treasury stock [Note 7 (2)]	Total shareholders' equity	Net unrealized gain on securities, net of tax	Deferred hedges, net of tax	Cumulative translation adjustments	Total valuation and translation adjustments	Minority interests in consolidated subsidiaries	
Balance as of March 31, 2006	233,738	129,969	9,320	(43,365)	329,663	6,721	–	(1,938)	4,782	–	334,445
Changes of items during the current fiscal year											
Issuance of new stocks (1)	19,783	19,750			39,533						39,533
Cash dividends [Note 7 (3)] and (2)			(11,327)		(11,327)						(11,327)
Bonuses to directors			(508)		(508)						(508)
Net income			49,597		49,597						49,597
Repurchase of treasury stock				(27,556)	(27,556)						(27,556)
Disposition of treasury stock (3)		(251)		1,952	1,700						1,700
Net changes of items other than shareholders' equity						(2,633)	13	(830)	(3,450)	143	(3,307)
Total changes of items during the current fiscal year	19,783	19,499	37,762	(25,604)	51,440	(2,633)	13	(830)	(3,450)	143	48,132
Balance as of March 31, 2007	253,521	149,468	47,083	(68,970)	381,103	4,087	13	(2,769)	1,331	143	382,578

(Note) 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.

The accompanying notes are an integral part of this financial statement.

Consolidated Statements of Cash Flows

ANNUAL REPORT 2007

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

	Millions of yen		Thousands of U.S.dollars [Note 1]
	Prerious fiscal year (From April 1, 2005 to March 31, 2006)	Current fiscal year (From April 1, 2006 to March 31, 2007)	Current fiscal year (From April 1, 2006 to March 31, 2007)
I Cash flows from operating activities:			
1 Net income before income taxes	6,912	9,986	84,629
2 Depreciation and amortization	1,936	2,774	23,512
3 Amortization of goodwill	2	2	23
4 Increase in allowance for doubtful accounts	458	137	1,164
5 Decrease (increase) in accrued bonuses	(87)	676	5,736
6 Increase in allowance for sales returns	138	113	964
7 Increase in accrued retirement benefits for employees	75	117	993
8 Interest and dividend income	(521)	(900)	(7,628)
9 Interest expense	171	72	611
10 Exchange gain, net	(360)	(396)	(3,363)
11 Investment loss on equity method	32	—	—
12 Gain on sales of fixed assets	(1)	(1)	(11)
13 Loss on sales and/or disposal of fixed assets	65	173	1,473
14 Loss on revaluation of investments in securities	63	103	873
15 Gain on settlement of litigation	—	(103)	(874)
16 Other special losses	47	—	—
17 Decrease in accounts receivable, trade	1,795	1,659	14,060
18 Decrease (increase) in inventories	193	(252)	(2,142)
19 Decrease in work-in-progress for game software	3,051	2,933	24,857
20 Decrease (increase) in accounts payable, trade	(1,334)	186	1,576
21 Increase in other current assets	(119)	(331)	(2,810)
22 Increase in other current liabilities	1,341	528	4,477
23 Bonuses to directors	(60)	(60)	(508)
24 Other	607	177	1,507
Sub total	14,409	17,596	149,121
25 Interest and dividends received	513	876	7,426
26 Interest paid	(168)	(67)	(573)
27 Proceeds from gain on settlement of litigation	—	103	874
28 Income taxes paid	(832)	(2,444)	(20,715)
Net cash provided by operating activities	13,921	16,063	136,134
II Cash flows from investing activities:			
1 Payment for acquisitions of tangible fixed assets	(1,512)	(3,804)	(32,241)
2 Proceeds from sales of tangible fixed assets	52	40	341
3 Payment for acquisitions of intangible fixed assets	(85)	(671)	(5,688)
4 Proceeds from sales of intangible fixed assets	0	7	61
5 Payment for purchase of investments in securities	(61)	(116)	(991)
6 Proceeds from sales of investments in securities	45	—	—
7 Payment for loans receivable	—	(100)	(847)
8 Collection of loans receivable	66	73	622
9 Payment for purchase of shares in a subsidiary [Note 8 (2)]	—	(1,612)	(13,665)
10 Payment for other investing activities	(546)	(688)	(5,837)
11 Proceeds from other investing activities	262	157	1,334
Net cash used in investing activities	(1,779)	(6,715)	(56,911)
III Cash flows from financing activities:			
1 Proceeds from short-term borrowings	—	55	470
2 Repayments of short-term borrowings	(4,193)	—	—
3 Repayments of long-term borrowings	(700)	(700)	(5,932)
4 Redemption of convertible bonds	(12,262)	(10,000)	(84,745)
5 Proceeds from sales of treasury stock	0	0	5
6 Payment for repurchase of treasury stock	(6)	(3,251)	(27,556)
7 Dividends paid by parent company	(1,098)	(1,337)	(11,336)
8 Proceeds from issuing shares for minority shareholders	—	26	227
Net cash used in financing activities	(18,259)	(15,206)	(128,867)
IV Effect of exchange rate changes on cash and cash equivalents	1,232	203	1,724
V Net decrease in cash and cash equivalents	(4,885)	(5,654)	(47,919)
VI Cash and cash equivalents at beginning of year	45,538	40,652	344,512
VII Increase due to change in scope of consolidated subsidiaries	—	22	192
VIII Cash and cash equivalents at end of year [Note 8 (1)]	40,652	35,020	296,785

The accompanying notes are an integral part of these financial statements.

1. Major policies in preparing consolidated financial statements:

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

Each amount of the consolidated financial statements and notes is rounded down to the nearest 1 million yen (In the case of translation into U.S. dollar, it is rounded down to 1 thousand dollars).

The rate of ¥118=U.S.\$1, the approximate current rate of exchange prevailing on March 31, 2007, has been used for the purpose of presentation of the U.S. dollar amounts in the accompanying consolidated financial statements. These U.S. dollar amounts are included solely for convenience and should not be construed as representations that the Japanese yen amounts actually represent, have been or could be converted into U.S. dollars at this or any other rate.

2. Significant accounting policies:

(1) Principles of consolidation

The consolidated financial statements consist of the accounts of the Company and those of its 13 majority-owned subsidiaries (all 14 companies are referred to collectively as the "Companies") at the relevant balance sheet date. All significant inter-company transactions and accounts have been eliminated. The investment in 20% to 50% owned companies (hereinafter referred to as "Affiliated companies") are, with minor exceptions, accounted for under the equity method. In the event of a change in reporting entities, the consolidated financial statements are not restated, but the effect of the change on retained earnings at the beginning of the period is directly debited or credited to retained earnings during the fiscal year.

The 13 subsidiaries are as follows.

CAPCOM U.S.A., INC. (U.S.A.)
 CAPCOM ENTERTAINMENT, INC. (U.S.A.)
 CAPCOM INTERACTIVE, INC. (U.S.A.)
 CAPCOM INTERACTIVE CANADA, INC. (Canada)
 CE EUROPE LTD. (U.K.)
 CEG INTERACTIVE ENTERTAINMENT GmbH (Germany)
 CAPCOM ASIA CO., LTD. (Hong Kong)
 CAPCOM ENTERTAINMENT KOREA CO., LTD. (South Korea)
 CAPTRON CO., LTD.
 CAPCOM CHARBO CO., LTD.
 DALETTO, INC.
 FLAGSHIP CO., LTD.
 CLOVER STUDIO CO., LTD.

Affiliated companies are as follows.

Among of affiliated companies, KOKO CAPCOM CO., LTD. is the only company that is accounted for under the equity method.

DELLGAMADAS CO., LTD., which is an affiliated company, is not accounted for under the equity method, as its impact is not significant on the consolidated net income or loss, consolidated retained earnings and others.

Regarding to the fiscal year end of consolidated subsidiaries and

affiliated companies, except for CLOVER STUDIO CO., LTD., all consolidated subsidiaries and affiliated companies have adopted March 31 as their fiscal year end.

The closing date of CLOVER STUDIO CO., LTD. was March 15, 2007, as its liquidation date. Any necessary adjustments were made to its financial statements to reflect any significant transactions from March 16, 2007 to March 31, 2007.

(2) Investments in securities

Available-for-sale securities with market value are stated at fair value at the fiscal year end.

Net unrealized gains or losses on these securities are recorded as a separate component of "Net assets", at the net of tax amount.

The cost of securities sold is determined based on the average cost of all such securities held at the time of sale.

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

(3) Inventories and work-in-progress for game software

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

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

(4) Tangible fixed assets

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

The primary useful lives are as follows:

Buildings and structures	3-50years
Rental equipment	3-5years
Equipment for amusement facilities	3-20years

(5) Intangible fixed assets

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

(6) Allowance for doubtful accounts

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

(7) Accrued bonuses

Accrued bonuses are stated at the estimated amount of the bonus to be paid to employees based on their services provided for the fiscal year.

(8) Accrued retirement benefits for employees

Accrued retirement benefits for employees are calculated based on the estimated amount of projected benefit obligations and the fair value of the plan assets at the year-end. The unrecognized net transition obligation (¥552 million (\$4,682 thousand)) is amortized over 15 years.

Unrecognized actuarial net gains or losses are amortized over 13 years, the average remaining service year, commencing from the year following that in which they arise.

(9) Allowance for sales returns

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

(10) Leases

Under Japanese accounting practice, capital leases must be capitalized by the lessees except for those leases that do not transfer ownership of the leased asset to the lessee as part of the lease. Such exceptions can be accounted for either as capital leases or operating leases with an appropriate footnote disclosure.

The Companies adopt the exceptions for the capital leases which do not transfer ownership of the leased assets to the lessees at the end of the lease term.

(11) Significant hedge accounting**① Hedge accounting**

Gains or losses arising from changes in fair value of the derivatives designated as hedging instruments are deferred and recorded as "Deferred hedges, net of tax" as a part of "Net assets".

② Hedging instruments and hedge items

The Companies enter into interest swap contracts to manage interest rate risk exposure on certain borrowings.

③ Hedging policy

The execution and control of derivatives is performed by the finance department in accordance with internal policies and rules. It is the Companies' policy to use derivatives only for the purpose of reducing market risk associated with assets and liabilities and, therefore, the Companies do not enter into derivatives for trading or speculative purposes.

④ Assessment of the effectiveness of hedging

The Companies assess hedge effectiveness based on an annual analysis of the cumulative amount of change in cash flows of hedged items and fluctuations in market price.

(12) Accounting for consumption taxes

Consumption taxes on goods and services are not included in the revenue and expense amounts which subject to such taxes in the accompanying consolidated statements of income.

(13) Valuation of assets and liabilities of consolidated subsidiaries

Assets and liabilities of consolidated subsidiaries acquired through business combinations are recorded at fair value at the time of acquisition.

(14) Amortization of goodwill

Goodwill is amortized by the straight-line method over 5 years.

For the goodwill purchased at the US subsidiary, SFAS No.142 has been adopted.

It requires the goodwill not be amortized, but instead it is subject to at least an annual assessment for impairment by applying a fair value approach.

(15) Cash and cash equivalents in the consolidated statements of cash flows

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

3. Change in accounting policies**(1) Impairment of fixed assets**

Effective from the fiscal year ended March 31, 2006, the Company has applied the "Accounting Standard for Impairment of Fixed Assets" issued by the Business Accounting Council in Japan on August 9, 2002, and Guidance on the "Accounting Standard for Impairment of Fixed Assets" (The Accounting Standards Board of Japan (ASBJ) Guidance No.6; October 31, 2003).

There is no impact on operating income, ordinary income and net income before income taxes.

(2) Accounting standard for director's bonuses

Effective from the fiscal year ended March 31, 2007, the Company has applied the "Accounting Standard for Director's Bonus" (The Accounting Standards Board of Japan (ASBJ) Statement No. 4; November 29, 2005). The impact on operating income, ordinary income and net income before income taxes is minor.

(3) Accounting standard for presentation of net assets in the balance sheet

Effective from the fiscal year ended March 31, 2007, the Company has applied the "Accounting Standard for Presentation of Net Assets in the Balance Sheet" (The Accounting Standards Board of Japan (ASBJ) Statement No. 5; December 9, 2005) and Guidance on the "Accounting Standard for Presentation of Net Assets in the Balance Sheet" (ASBJ Guidance No8; December 9, 2005). The amount equivalent to the conventional "Shareholders' equity" for the current fiscal year was ¥45,125 million (\$382,421 thousand).

The consolidated financial statement for the current fiscal year has been made in accordance with the amended regulations of consolidated financial statements.

4. Change in presentation**(1) Consolidated balance sheets****① Goodwill**

"Goodwill" has been reported as a separate account from the current fiscal year due to the increase of significance of its amount.

In the previous fiscal year, "Goodwill" was reported as "Other" in "Intangible fixed assets" and the balance was ¥6 million.

② Lease deposits

"Lease deposits" have been reported as a separate account from the current fiscal year due to the increase of significance of its amount.

In the previous fiscal year, "Lease deposits" were reported as "Other" in the "Investments and other assets" and the balance was ¥4,526 million.

5. Notes to consolidated balance sheets

	Previous fiscal year (As of March 31, 2006)		Current fiscal year (As of March 31, 2007)	
		Millions of yen	Millions of yen	Thousands of U.S. dollars
(1) Accumulated depreciation of tangible fixed assets		9,621	11,147	94,474
(2) Pledged assets and secured debts				
① Pledged assets				
Land		3,902	3,902	33,070
Buildings		5,250	4,992	42,311
Total		9,152	8,895	75,382
② Secured debts				
Long-term borrowings due within one year		700	700	5,932
Long-term borrowings		4,130	3,430	29,067
Total		4,830	4,130	35,000
(3) _____			38	328
(4) _____			72	614
			51	438
(5) The Company has entered into a line of credit agreement with its banks by syndicate financing for the purpose of efficient and sustainable financing, and improvement of efficiency of funds operations and the company's financial ground. The credit line under this contract and the unexercised balance at the end of this fiscal year are shown below:				
Total credit line		5,000	15,000	127,118
Borrowings		-	-	-
Unexercised balance		5,000	15,000	127,118
(6) Outstanding shares				
Common stock		58,435,819 shares		
(7) Treasury stock				
Common stock		3,471,091 shares		

6. Notes to consolidated statements of income

Previous fiscal year (From April 1, 2005 to March 31, 2006)		Current fiscal year (From April 1, 2006 to March 31, 2007)		
	Millions of yen		Millions of yen	Thousands of U.S. dollars
(1) Major items and the amounts under "Selling, general and administrative expenses" are as follows.		(1) Major items and the amounts under "Selling, general and administrative expenses" are as follows.		
Advertising expenses	4,686	Advertising expenses	4,530	38,391
Promotion expenses	916	Promotion expenses	986	8,364
Salaries and bonuses	3,220	Salaries and bonuses	3,829	32,456
Depreciation and amortization	715	Depreciation and amortization	517	4,389
Provision for accrued bonuses	250	Provision for accrued bonuses	739	6,262
Provision for retirement benefits for employees	77	Provision for retirement benefits for employees	63	541
Provision for allowance for doubtful accounts	152	Provision for allowance for doubtful accounts	23	198
Research and development expenses	1,864	Commission	1,074	9,108
		Research and development expenses	1,828	15,492
(2) The breakdown of gain on sales of fixed assets is as follows.		(2) The breakdown of gain on sales of fixed assets is as follows.		
Machinery and vehicles	0	Machinery and vehicles	0	0
Tools, fixtures and furniture	1	Tools, fixtures and furniture	1	11
Total	1	Total	1	11
(3) The breakdown of loss on sales and/or disposal of fixed assets is as follows.		(3) The breakdown of loss on sales and/or disposal of fixed assets is as follows.		
Buildings and structures	0	Tools, fixtures and furniture	15	130
Tools, fixtures and furniture	5	Equipment for amusement facilities	79	675
Equipment for amusement facilities	11	Software ("Other" of intangibles)	71	608
Software ("Other" of intangibles)	48	Other	6	58
Total	65	Total	173	1,473
(4) Research and development expenses included in general and administrative expenses	1,864	(4) Research and development expenses included in general and administrative expenses	1,828	15,492
(5) _____		(5) The loss was incurred by the resolution on liquidation of CLOVER STUDIO CO., LTD. and merger with FLAGSHIP CO., LTD.		
(6) "Other" of special loss mainly consisted of restructuring cost in overseas operation.		(6) _____		
(7) Income taxes from previous year was incurred by tax investigation relating to transfer price taxation.		(7) _____		

7. Notes to consolidated statement of changes in net assets

Current fiscal year (From April 1, 2006 to March 31, 2007)

(1) Number of outstanding shares

	Number of shares as of March 31, 2006	Increase in the number of shares	Decrease in the number of shares	Number of shares as of March 31, 2007
Common stock (thousands shares)	58,435	3,833	—	62,269

Note: The reasons for the increase or decrease in the number of shares are as follows.

Increase due to issuance of new shares by the exercise of conversion rights 3,833 thousands shares

(2) Number of treasury stocks

	Number of shares as of March 31, 2006	Increase in the number of shares	Decrease in the number of shares	Number of shares as of March 31, 2007
Common stock (thousands shares)	3,471	2,507	164	5,813

(Note) The reasons for the increase or decrease in the number of shares are as follows.

Increase due to purchase based on the resolution by the board of directors for May 23, 2006 1,000 thousands shares
 Increase due to purchase based on the resolution by the board of directors for June 23, 2006 1,500 thousands shares
 Increase due to purchase of less-than-one-unit shares 7 thousands shares
 Decrease due to transfer of shares by the exercise of conversion rights 164 thousands shares
 Decrease due to request for purchase of less-than-one-unit shares by shareholders 0 thousands shares

(3) Dividend

① Amount of dividends paid

Resolution	Type of share	Amount of dividends	Dividend per share (yen)	Record date	Effective date
General shareholders' meeting held on June 23, 2006	Common stock	¥ 549 million	10	March 31, 2006	June 23, 2006 (Effective after the meeting)
Board of directors' meeting held on November 9, 2006	Common stock	¥ 786 million	15	September 30, 2006	November 30, 2006

Resolution	Type of share	Amount of dividends	Dividend per share (U.S. dollars)	Record date	Effective date
General shareholders' meeting held on June 23, 2006	Common stock	\$ 4,658 thousand	0.08	March 31, 2006	June 23, 2006 (Effective after the meeting)
Board of directors' meeting held on November 9, 2006	Common stock	\$ 6,668 thousand	0.12	September 30, 2006	November 30, 2006

② Dividends whose effective date is after the end of current fiscal year and record date is included in the current fiscal year.

Resolution	Type of share	Amount of dividends	Source of dividends	Dividend per share (yen)	Record date	Effective date
General shareholders' meeting held on June 21, 2007	Common stock	¥ 846 million	Retained earnings	15	March 31, 2007	June 22, 2007

Resolution	Type of share	Amount of dividends	Source of dividends	Dividend per share (U.S. dollars)	Record date	Effective date
General shareholders' meeting held on June 21, 2007	Common stock	\$ 7,176 thousand	Retained earnings	0.12	March 31, 2007	June 22, 2007

8. Notes to consolidated statements of cash flows

Previous fiscal year (From April 1, 2005 to March 31, 2006)		Current fiscal year (From April 1, 2006 to March 31, 2007)		
	Millions of yen		Millions of yen	Thousands of U.S. dollars
(1) Cash and cash equivalents as of the year end are reconciled to the accounts reported in the consolidated balance sheets as follows.		(1) Cash and cash equivalents as of the year end are reconciled to the accounts reported in the consolidated balance sheets as follows.		
Cash on hand and in banks	40,453	Cash on hand and in banks	35,020	296,785
Securities	199	Cash and cash equivalents	35,020	296,785
Cash and cash equivalents	40,652			
(2) _____		(2) The breakdown of assets and liabilities of the subsidiary acquired during this fiscal year by purchasing its shares is as follows.		
		CAPCOM INTERACTIVE CANADA, INC.		
		Current assets	174	1,495
		Fixed assets	1,537	13,144
		Total assets	1,712	14,639
		Current liabilities	99	852
		Total liabilities	99	852
(3) _____		(3) Significant non-cash transactions during the year are as follows.		
		Exercise of stock acquisition rights of convertible bonds		
		Increase in paid in capital due to exercise of stock acquisition rights of convertible bonds	2,334	19,783
		Increase in capital surplus due to exercise of stock acquisition rights of convertible bonds	2,330	19,750
		Transfer of treasury stocks in response to exercise of stock acquisition rights of convertible bonds	229	1,948
		Decrease in capital surplus due to transfer of treasury stocks	(29)	(251)
		Decrease in convertible bonds due to exercise of stock acquisition rights of convertible bonds	4,865	41,231

9. Accounting for leases

(1) Capital leases that do not transfer ownership of the leased assets to lessees.

① Acquisition cost, accumulated depreciation, and net book value at the fiscal year end for the leased assets

	Previous fiscal year (From April 1, 2005 to March 31, 2006)			Current fiscal year (From April 1, 2006 to March 31, 2007)					
	Millions of yen			Millions of yen			Thousands of U.S. dollars		
	Estimated acquisition cost	Accumulated depreciation	Estimated value	Estimated acquisition cost	Accumulated depreciation	Estimated value	Estimated acquisition cost	Accumulated depreciation	Estimated value
Machinery and vehicles	11	9	2	4	3	0	40	32	7
Tools, fixtures and furniture	444	283	160	330	231	98	2,802	1,965	836
Equipment for amusement facilities	4,606	2,556	2,049	5,011	2,463	2,547	42,467	20,875	21,591
Total	5,061	2,849	2,212	5,346	2,699	2,647	45,310	22,874	22,436

(Note) The assumed interest paid is excluded from the above acquisition cost.

② Future lease payments

	Previous fiscal year (From April 1, 2005 to March 31, 2006)	Current fiscal year (From April 1, 2006 to March 31, 2007)	
	Millions of yen	Millions of yen	Thousands of U.S. dollars
	Due within one year	1,172	1,251
Due over one year	871	1,248	10,584
Total	2,043	2,500	21,187

(Note) The assumed interest paid is excluded from the above balance.

③ Lease payments, depreciation and estimated interest expense for the fiscal year.

	Previous fiscal year (From April 1, 2005 to March 31, 2006)	Current fiscal year (From April 1, 2006 to March 31, 2007)	
	Millions of yen	Millions of yen	Thousands of U.S. dollars
	Lease payments	1,345	1,561
Depreciation expense	1,309	1,548	13,118
Estimated interest expense	44	54	458

④ Calculation method of assumed amount of depreciation and interest paid

- Depreciation:
Straight-line method using leasing term as asset life with residual value at zero.
- Interest expense:
Interest method with the assumed interest expense allocated to each fiscal year.

(2) Operating leases

① Future lease payments

	Previous fiscal year (From April 1, 2005 to March 31, 2006)	Current fiscal year (From April 1, 2006 to March 31, 2007)	
	Millions of yen	Millions of yen	Thousands of U.S. dollars
	Due within one year	0	77
Due over one year	1	542	4,599
Total	1	619	5,254

(For impairment loss)

No impairment losses were recognized for leased assets.

10. Investments in securities

(1) Previous fiscal year (From April 1, 2005 to March 31, 2006)

① Available-for-sale securities with market value (As of March 31, 2006)

Classification	Millions of yen		
	Acquisition cost	Carrying value	Difference
Securities with book value exceeding their acquisition cost			
(1) Equity securities	355	1,695	1,339
(2) Bonds	—	—	—
(3) Others	—	—	—
Total	355	1,695	1,339
Securities with book value not exceeding their acquisition cost			
(1) Equity securities	—	—	—
(2) Bonds	—	—	—
(3) Others	—	—	—
Total	—	—	—

(Note) In regards to the impairment of stocks, impairment is recorded when the market value of the stock falls below 50% of its cost at the end of the fiscal year.

In addition, unless the stock is recognized to have the potential for recovery, impairment is recorded when the rate of stock price decline is between 30% and 50% at the end of the fiscal year. The recognition of impairment is determined after investigating related factors comprehensively. Among those factors are the comparison of the gap between market prices for a certain period and acquired prices, understanding of average market value of securities, and examination of various financial analysis data of stock issued companies.

② Investments in securities sold during the fiscal year (From April 1, 2005 to March 31, 2006)

	Millions of yen
Proceeds from sales	45
Total gain	—
Total loss	—

③ Investments in securities without market value (As of March 31, 2006)

	Millions of yen
Investments in securities	
Unlisted equity securities	559
Investments in limited partner engaged in investment business	50
Foreign investment fund	199

④ Redemption schedule of the above investments which have maturity date (As of March 31, 2006)

	Millions of yen
	Within one year
Other	
Foreign investment fund	199

(2) Current fiscal year (From April 1, 2006 to March 31, 2007)

① Available-for-sale securities with market value (As of March 31, 2007)

Classification	Millions of yen			Thousands of U.S. dollars		
	Acquisition cost	Carrying value	Difference	Acquisition cost	Carrying value	Difference
Securities with book value exceeding their acquisition cost						
(1) Equity securities	358	1,175	817	3,035	9,959	6,924
(2) Bonds	—	—	—	—	—	—
(3) Others	—	—	—	—	—	—
Total	358	1,175	817	3,035	9,959	6,924
Securities with book value not exceeding their acquisition cost						
(1) Equity securities	9	7	2	83	61	21
(2) Bonds	—	—	—	—	—	—
(3) Others	—	—	—	—	—	—
Total	9	7	2	83	61	21

(Note) In the current fiscal year, the impairment of ¥2 million (\$21 thousand) for stocks with market value was recorded.

In regards to the impairment of stocks, impairment is recorded when the market value of the stock falls below 50% of its cost at the end of the fiscal year.

In addition, unless the stock is recognized to have the potential for recovery, impairment is recorded when the rate of stock price decline is between 30% and 50% at the end of the fiscal year. The recognition of impairment is determined after investigating related factors comprehensively. Among those factors are the comparison of the gap between market prices for a certain period and acquired prices, understanding of average market value of securities, and examination of various financial analysis data of stock issued companies.

② Investments in securities without market value (As of March 31, 2007)

	Millions of yen	Thousands of U.S. dollars
Investments in securities		
Unlisted equity securities	525	4,449
Investments in limited partnership	48	411

11. Retirement benefits for employees**(1) Summary of retirement benefit plan**

The Company and its domestic consolidated subsidiaries have unfunded lump-sum benefit plans and funded non-contributory pension plans. Some foreign subsidiaries have defined contribution pension plans.

(2) Accrued retirement benefits

	Previous fiscal year	Current fiscal year	
	(As of March 31, 2006)	(As of March 31, 2007)	
	Millions of yen	Millions of yen	Thousands of U.S. dollars
A. Projected benefit obligations	(2,003)	(2,017)	(17,095)
B. Fair value of plan assets	789	887	7,518
C. Unfunded benefit obligations (A+B)	(1,213)	(1,130)	(9,576)
D. Unrecognized transition obligation	331	294	2,497
E. Unrecognized actuarial differences	65	(97)	(830)
F. Accrued pension liability recognized in the consolidated balance sheet (C+D+E)	(816)	(933)	(7,909)
G. Accrued retirement benefits for employees	(816)	(933)	(7,909)

(Note) Some subsidiaries apply simplified method to compute pension liabilities.

(3) Retirement and pension cost

	Previous fiscal year	Current fiscal year	
	(From April 1, 2005 to March 31, 2006)	(From April 1, 2006 to March 31, 2007)	
	Millions of yen	Millions of yen	Thousands of U.S. dollars
A. Service costs	176	185	1,568
B. Interest costs	22	23	201
C. Expected return on plan assets	(14)	(19)	(167)
D. Amortization of transition obligation	36	36	312
E. Amortization of actuarial differences	25	12	109
F. Net periodic benefit costs (A+B+C+D+E)	246	238	2,024

Previous fiscal year
(Note) Certain foreign subsidiaries have adopted defined contribution pension plans and contributed ¥24 million during the year.

Current fiscal year
(Note) Certain foreign subsidiaries have adopted defined contribution pension plans and contributed ¥18 million (\$155 thousand) during the year.

(4) Assumption used in calculation of retirement benefits for employees

	Previous fiscal year	Current fiscal year
	(From April 1, 2005 to March 31, 2006)	(From April 1, 2006 to March 31, 2007)
A. Method of attributing the projected benefit obligations to periods of service	Straight-line	Straight-line
B. Discount rate	1.5%	1.5%
C. Long-term rate of return on plan assets	2.5%	2.5%
D. Amortization period for actuarial differences	13 years (Based on the straight-line method over the average estimated service years of employees from the next fiscal period of year when the differences are computed.)	13 years The same method with the previous fiscal year
E. Amortization period for transition obligation	15 years	15 years

12. Accounting for income taxes

Previous fiscal year (As of March 31, 2006)	Millions of yen	Current fiscal year (As of March 31, 2007)	Millions of yen	Thousands of U.S. dollars
(1) Significant components of deferred tax assets and liabilities		(1) Significant components of deferred tax assets and liabilities		
(Deferred tax assets)		(Deferred tax assets)		
Inventories	854	Inventories	933	7,908
Allowance for doubtful accounts	639	Allowance for doubtful accounts	366	3,102
Accrued bonuses	405	Accrued bonuses	594	5,035
Accrued retirement benefits for employees	331	Accrued retirement benefits for employees	357	3,027
Allowance for sales returns	141	Allowance for sales returns	187	1,592
Loss on disposal of inventories	1,895	Loss on disposal of inventories	1,148	9,732
Accrued expenses	555	Accrued expenses	551	4,670
Tax loss carry-forwards in the Company	8,360	Tax loss carry-forwards in the Company	6,855	58,100
Tax loss carry-forwards in the subsidiaries	1,516	Tax loss carry-forwards in the subsidiaries	1,051	8,908
Other	605	Accumulated depreciation expenses	151	1,285
Sub-total	15,306	Other	1,220	10,346
Valuation allowance	(2,706)	Sub-total	13,417	113,709
Total deferred tax assets	12,600	Valuation allowance	(3,914)	(33,171)
		Total deferred tax assets	9,503	80,538
(Deferred tax liabilities)		(Deferred tax liabilities)		
Unrealized gains on securities	(542)	Unrealized gains on securities	(329)	(2,793)
Cumulative translation adjustment	(167)	Valuation on the net assets of the subsidiary company acquired during this fiscal year	(170)	(1,443)
Total deferred tax liabilities	(709)	Other	(1)	(9)
Net deferred tax assets	11,890	Total deferred tax liabilities	(501)	(4,246)
		Net deferred tax assets	9,002	76,291
Net deferred tax assets are reflected in the consolidated balance sheets as follows.		Net deferred tax assets are reflected in the consolidated balance sheets as follows.		
Current assets—deferred tax assets	3,266	Current assets—deferred tax assets	3,215	27,251
Fixed assets—deferred tax assets	8,624	Fixed assets—deferred tax assets	5,786	49,039
Total	11,890	Total	9,002	76,291
(2) Reconciliation of the difference between the statutory tax rate and the effective income tax rate		(2) Reconciliation of the difference between the statutory tax rate and the effective income tax rate		
Statutory tax rate	40.6	The note is omitted due to the minor of the difference between the two rates.		
(Reconciliation)				
Change in valuation allowance	(66.5)			
Foreign tax credit	5.0			
Elimination of unrealized profits among consolidated companies	(6.0)			
Different tax rates applied to foreign subsidiaries	(0.5)			
Income taxes from previous year due to the correction notice by the tax authority	26.5			
Other	0.5			
Effective income tax rate	(0.4)			

13. Segment information

(1) Business segments

① Previous fiscal year (From April 1, 2005 to March 31, 2006)

	Millions of yen							Consolidated total
	Home video games	Arcade operations	Arcade games	Contents expansion	Other businesses	Total	Elimination and corporate	
I. Net sales and operating income								
Net sales								
(1) Customers	42,718	11,568	6,956	5,742	3,268	70,253	(—)	70,253
(2) Inter-segment	—	—	39	—	—	39	(39)	—
Total	42,718	11,568	6,995	5,742	3,268	70,292	(39)	70,253
Operating expenses	39,791	9,130	5,879	3,379	3,070	61,251	2,421	63,673
Operating income	2,926	2,438	1,116	2,362	197	9,041	(2,460)	6,580
II. Assets, depreciation and capital expenditures								
Total assets	20,686	8,399	5,921	3,340	5,274	43,622	54,834	98,457
Depreciation	358	831	39	16	405	1,651	284	1,936
Capital expenditures	296	1,096	146	17	0	1,557	43	1,600

(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 division develops and distributes home video game software.

(2) Arcade operations—This division operates amusement facilities.

(3) Arcade games—This division develops, manufactures, and distributes commercial game equipment 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 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. The major part of this expense is related to the corporate division of the Companies.

4. Corporate assets in the column "Elimination and corporate" were ¥54,853 million. Corporate assets mainly represent surplus operating funds (cash and cash equivalents, available-for-sale securities), long-term investment funds (investments in securities) and assets held by the corporate division of the Companies.

5. Depreciation and capital expenditures include long-term prepaid expenses and amortization of them.

② Current fiscal year (From April 1, 2006 to March 31, 2007)

	Millions of yen							Consolidated total
	Home video games	Arcade operations	Arcade games	Contents expansion	Other businesses	Total	Elimination and corporate	
I. Net sales and operating income (loss)								
Net sales								
(1) Customers	43,813	13,043	8,021	7,102	2,561	74,542	(—)	74,542
(2) Inter-segment	—	—	39	—	—	39	(39)	—
Total	43,813	13,043	8,060	7,102	2,561	74,581	(39)	74,542
Operating expenses	35,757	11,033	6,691	5,477	3,000	61,961	2,977	64,939
Operating income (loss)	8,055	2,009	1,369	1,624	(439)	12,619	(3,017)	9,602
II. Assets, depreciation and capital expenditures								
Total assets	21,552	10,161	7,157	6,759	3,682	49,314	42,164	91,478
Depreciation	335	1,141	667	134	354	2,632	141	2,774
Capital expenditures	782	2,157	740	265	119	4,065	429	4,495

	Thousands of U.S. dollars							Consolidated total
	Home video games	Arcade operations	Arcade games	Contents expansion	Other businesses	Total	Elimination and corporate	
I. Net sales and operating income (loss)								
Net sales								
(1) Customers	371,302	110,538	67,979	60,189	21,707	631,717	(—)	631,717
(2) Inter-segment	—	—	330	—	—	330	(330)	—
Total	371,302	110,538	68,310	60,189	21,707	632,048	(330)	631,717
Operating expenses	303,032	93,506	56,707	46,423	25,431	525,100	25,237	550,337
Operating income (loss)	68,269	17,032	11,603	13,766	(3,723)	106,948	(25,567)	81,380
II. Assets, depreciation and capital expenditures								
Total assets	182,651	86,110	60,659	57,284	31,209	417,915	357,326	775,242
Depreciation	2,842	9,670	5,652	1,142	3,003	22,312	1,199	23,512
Capital expenditures	6,635	18,288	6,273	2,246	1,009	34,453	3,643	38,096

(Note) 1. Same with the previous fiscal year

2. Same with the previous fiscal year

3. Among operating expenses, undistributed operating expenses to each business segment above is included in the "Elimination and corporate" amounted to ¥3,036 million (\$25,729 thousand). The major part of this expense is related to the corporate division of the Companies.

4. Corporate assets in the column "Elimination and corporate" were ¥42,179 million (\$357,456 thousand). Corporate assets mainly represent surplus operating funds (cash and cash equivalents, available-for-sale securities), long-term investment funds (investments in securities) and assets held by the corporate division of the Companies.

5. Same with the previous fiscal year

(2) Geographic areas

① Previous fiscal year (From April 1, 2005 to March 31, 2006)

	Millions of yen						Elimination and corporate	Consolidated total
	Japan	North America	Europe	Other regions	Total			
I. Net sales and operating income								
Net sales								
(1) Customers	48,683	11,748	9,105	717	70,253	(—)	70,253	
(2) Inter-segment	5,620	465	62	—	6,148	(6,148)	—	
Total	54,303	12,213	9,167	717	76,401	(6,148)	70,253	
Operating expenses	45,554	12,039	9,127	644	67,366	(3,693)	63,673	
Operating income	8,749	173	40	72	9,035	(2,454)	6,580	
II. Total assets	37,050	4,960	4,120	397	46,528	51,928	98,457	

(Note) 1. The segmentation of country or region is based on the geographical proximity.

2. Major countries and regions that are not in Japan

(1) North America.....United States of America

(2) Europe.....European countries

(3) Other regions.....Asia and others

3. Among operating expenses, undistributed operating expenses to each business segment above is included in the "Elimination and corporate" amounted to ¥2,484 million. The major part of this expense is related to the corporate division of the Companies.

4. Corporate assets in the column "Elimination and corporate" were ¥54,853 million. Corporate assets mainly represent surplus operating funds (cash and cash equivalents, available-for-sale securities), long-term investment funds (investments in securities) and assets held by the corporate division of the Companies.

② Current fiscal year (From April 1, 2006 to March 31, 2007)

	Millions of yen						Elimination and corporate	Consolidated total
	Japan	North America	Europe	Other regions	Total			
I. Net sales and operating income								
Net sales								
(1) Customers	50,074	15,450	8,090	927	74,542	(—)	74,542	
(2) Inter-segment	6,652	315	—	—	6,967	(6,967)	—	
Total	56,726	15,766	8,090	927	81,510	(6,967)	74,542	
Operating expenses	46,660	14,322	7,074	803	68,860	(3,920)	64,939	
Operating income	10,065	1,443	1,016	124	12,650	(3,047)	9,602	
II. Total assets	40,782	8,050	3,534	219	52,587	38,891	91,478	

	Thousands of U.S. dollars						Elimination and corporate	Consolidated total
	Japan	North America	Europe	Other regions	Total			
I. Net sales and operating income								
Net sales								
(1) Customers	424,356	130,936	68,562	7,862	631,717	(—)	631,717	
(2) Inter-segment	56,373	2,675	—	—	59,049	(59,049)	—	
Total	480,730	133,611	68,562	7,862	690,767	(59,049)	631,717	
Operating expenses	395,426	121,377	59,951	6,808	583,563	(33,225)	550,337	
Operating income	85,304	12,234	8,610	1,054	107,203	(25,823)	81,380	
II. Total assets	345,617	68,224	29,955	1,859	445,656	329,585	775,242	

(Note) 1. Same with the previous fiscal year

2. Same with the previous fiscal year

3. Among operating expenses, undistributed operating expenses to each business segment above is included in the "Elimination and corporate" amounted to ¥3,036 million (\$25,729 thousand). The major part of this expense is related to the corporate division of the Companies.

4. Corporate assets in the column "Elimination and corporate" were ¥42,179 million (\$357,456 thousand). Corporate assets mainly represent surplus operating funds (cash and cash equivalents, available-for-sale securities), long-term investment funds (investments in securities) and assets held by the corporate division of the Companies.

(3) Overseas sales

① Previous fiscal year (From April 1, 2005 to March 31, 2006)

	Millions of yen			
	North America	Europe	Other regions	Total
I. Overseas sales	12,024	8,943	1,071	22,039
II. Consolidated net sales				70,253
III. Percentage of foreign sales included in consolidated net sales	17.1%	12.7%	1.5%	31.4%

(Note) 1. The segmentation of country or region is based on the geographical proximity.

2. Major countries and regions that are not in Japan.

(1) North America.....United States of America

(2) Europe.....European countries

(3) Other regions.....Asia and others

3. Foreign net sales represents the total of all the sales achieved outside Japan by CAPCOM CO., LTD. and its consolidated subsidiaries (excluding internal sales between consolidated subsidiaries).

② Current fiscal year (From April 1, 2006 to March 31, 2007)

	Millions of yen			
	North America	Europe	Other regions	Total
I. Overseas sales	15,488	7,697	1,481	24,667
II. Consolidated net sales				74,542
III. Percentage of foreign sales included in consolidated net sales	20.8%	10.3%	2.0%	33.1%

	Thousands of U.S. dollars			
	North America	Europe	Other regions	Total
I. Overseas sales	131,258	65,233	12,555	209,047
II. Consolidated net sales				631,717
III. Percentage of foreign sales included in consolidated net sales	20.8%	10.3%	2.0%	33.1%

(Note) 1. Same with the previous fiscal year

2. Same with the previous fiscal year

3. Same with the previous fiscal year

14. Related party transactions

(1) Previous fiscal year (From April 1, 2005 to March 31, 2006)

① Directors and major individual shareholders

Category	Name	Address	Amount of capital (¥ million)	Nature of business	Proportionate interest (%)	Relationship			Amount of transactions (¥ million)	Account	Balance as of March 31, 2006 (¥ million)
						Concurrent directors	Business relationship	Nature of transaction			
Director and close relatives	CROSS ROAD LIMITED PRIVATE COMPANY	Habikino city Osaka pref.	3	Asset management	Direct 11.6	2	Office rent	Office rent	1	Deposits received of "Other" in "Long-term liabilities"	1
	DREAM INCUBATOR INC.	Meguro ward Tokyo	4,517	Business consulting etc.	Direct 0.8	1	Business consulting service	Business consulting service	90	Account payable -other	47

(Note) Consumption taxes are excluded from the amount of transactions.

(Business policy on terms and conditions)

Office rent is decided based on those in the neighborhood.

Business consulting fees are decided based on negotiations with the counter party like other business transactions, after examining effects in advance.

② Subsidiaries and affiliated companies

Category	Name	Address	Amount of capital (millions won)	Nature of business	Proportionate interest (%)	Relationship			Amount of transactions (¥ million)	Account	Balance as of March 31, 2006 (¥ million)
						Concurrent directors	Business relationship	Nature of transaction			
Affiliated company	KOKO CAPCOM CO., LTD.	Seoul Korea	1,000	Development and distribution of home video game software	Direct 49.0	1	Distribution of products of the Company	Distribution of home video game software	10	Accounts receivable, trade	64

(Note) Consumption taxes are excluded from the amount of transactions.

(Business policy on terms and conditions)

Prices of home videogame software are decided based on negotiations with the counter party like other business transactions, after examining effects in advance.

(2) Current fiscal year (From April 1, 2006 to March 31, 2007)

① Directors and major individual shareholders

Category	Name	Address	Amount of capital (¥ million)	Nature of business	Proportionate interest (%)	Relationship			Amount of transactions (¥ million)	Account	Balance as of March 31, 2007 (¥ million)
						Concurrent directors	Business relationship	Nature of transaction			
Director and close relatives	CROSS ROAD LIMITED PRIVATE COMPANY	Habikino city Osaka pref.	8	Asset management	Direct 12.0	2	Office rent	Office rent	3	Deposits received of "Other" in "Long-term liabilities"	1

Category	Name	Address	Amount of capital (\$ thousand)	Nature of business	Proportionate interest (%)	Relationship			Amount of transactions (\$ thousand)	Account	Balance as of March 31, 2007 (\$ thousand)
						Concurrent directors	Business relationship	Nature of transaction			
Director and close relatives	CROSS ROAD LIMITED PRIVATE COMPANY	Habikino city Osaka pref.	67	Asset management	Direct 12.0	2	Office rent	Office rent	30	Deposits received of "Other" in "Long-term liabilities"	13

(Note) Consumption taxes are excluded from the amount of transactions.

(Business policy on terms and conditions)

Office rent is decided based on those in the neighborhood.

15. Per share information

	Previous fiscal year (From April 1, 2005 to March 31, 2006)	Current fiscal year (From April 1, 2006 to March 31, 2007)	
	Yen	Yen	U.S. dollars
Net assets per share	716.91	799.35	6.77
Basic net income per share	125.19	107.52	0.91
Diluted net income per share	93.49	84.81	0.72

(Note) 1 The basis for computation of net assets per share is as follows.

	Previous fiscal year (As of March 31, 2006)	Current fiscal year (As of March 31, 2007)	
	Millions of yen	Millions of yen	Thousands of U.S. dollars
Total amount of net assets	—	45,144	382,578
Amounts to be deducted from total amount of net assets (Minority interests)	—	16	143
Ending balance of net assets attributable to common stock	—	45,127	382,434
Number of common stocks used for computation of net assets per share (thousands shares)	—	56,455	56,455

2 The basis for computation of basic and diluted net income per share is as follows.

	Previous fiscal year (From April 1, 2005 to March 31, 2006)	Current fiscal year (From April 1, 2006 to March 31, 2007)	
	Millions of yen	Millions of yen	Thousands of U.S. dollars
Basic net income per share			
Net income	6,941	5,852	49,597
Amount not allocated to common stock (Bonuses to directors by appropriation of retained earnings)	60	—	—
Net income allocated to common stock	6,881	5,852	49,597
Average number of common stock outstanding during the fiscal year (thousands shares)	54,967	54,432	54,432
Diluted net income per share			
Adjustment made on net income	67	24	209
(Interest paid with tax adjustment)	36	—	—
(Administrative fees to commission banks with tax adjustment)	30	24	209
Increase of common stocks (thousands shares)	19,353	14,869	14,869
(Convertible bonds (thousands shares))	19,353	14,869	14,869

16. Significant subsequent events

Previous fiscal year (From April 1, 2005 to March 31, 2006)	Current fiscal year (From April 1, 2006 to March 31, 2007)
By the resolution of the board of directors held on May 23, 2006, the Company decided to repurchase its treasury stocks in accordance with the section 2 of the article 165 of the Companies act to raise funds flexibly in response to change in the business environment. The Company actually repurchased as follows.	
(1) Type of stocks Common stock	Not applicable
(2) Total number of stocks purchased 1,000,000 shares	
(3) Aggregate cost of stocks purchased ¥1,231 million	
(4) Period of repurchase From May 24, 2006 to June 8, 2006	

17. Supplemental schedule of bonds

Issuer	Name of bond	Issuance date	Balance as of March 31, 2006 (¥ million)	Balance as of March 31, 2007 (¥ million)	Interest rate	Type	Date of maturity
CAPCOM CO., LTD.	4th unsecured convertible bonds	December 20, 2001	10,000	—	—	Unsecured	March 30, 2007
CAPCOM CO., LTD.	5th unsecured convertible bonds	December 20, 2001	15,000	15,000	—	Unsecured	March 31, 2009
CAPCOM CO., LTD.	Zero coupon convertible bonds due 2009	October 8, 2004	11,500	6,635	—	Unsecured	October 8, 2009
Total	—	—	36,500	21,635	—	—	—

Issuer	Name of bond	Issuance date	Balance as of March 31, 2006 (\$ thousand)	Balance as of March 31, 2007 (\$ thousand)	Interest rate	Type	Date of maturity
CAPCOM CO., LTD.	4th unsecured convertible bonds	December 20, 2001	84,745	—	—	Unsecured	March 30, 2007
CAPCOM CO., LTD.	5th unsecured convertible bonds	December 20, 2001	127,118	127,118	—	Unsecured	March 31, 2009
CAPCOM CO., LTD.	Zero coupon convertible bonds due 2009	October 8, 2004	97,457	56,228	—	Unsecured	October 8, 2009
Total	—	—	309,322	183,347	—	—	—

(Note) 1 Description of unsecured convertible bonds

Name of bond	Conditions of conversion	Stock types to be issued by conversion	Exercisable terms of conversion
4th unsecured convertible bonds	Conversion price of 3,230 yen (27.37 U.S. dollars) per share	Common stocks of CAPCOM CO., LTD.	From February 1, 2002 to March 29, 2007
5th unsecured convertible bonds	Conversion price of 3,020 yen (25.59 U.S. dollars) per share	Common stocks of CAPCOM CO., LTD.	From February 1, 2002 to March 30, 2009

2 Description of zero coupon convertible bonds

Type of stocks to be issued	Price of conversion rights	Exercise price (yen)	Total exercise price (¥ million)	Amount of stocks issued due to exercise of conversion rights (¥ million)	Ratio (%)	Exercisable terms of conversion	Substitute deposits
Common stocks of CAPCOM CO., LTD.	Free of charge	1,217	11,500	4,665	100	From October 15, 2004 to October 2, 2009	Note

Type of stocks to be issued	Price of conversion rights	Exercise price (U.S. dollars)	Total exercise price (\$ thousand)	Amount of stocks issued due to exercise of conversion rights (\$ thousand)	Ratio (%)	Exercisable terms of conversion	Substitute deposits
Common stocks of CAPCOM CO., LTD.	Free of charge	10.31	97,457	39,533	100	From October 15, 2004 to October 2, 2009	Note

(Note) When the holders request for exercise of the conversion rights, the exercise price is deemed to be paid from maturity payment. Also, if the conversion rights are exercised, it is treated that such request is made.

3 Redemption schedule of bonds for 5 years subsequent to March 31, 2007

Due within one year (¥ million)	Due after 1 year but within 2 years (¥ million)	Due after 2 years but within 3 years (¥ million)	Due after 3 years but within 4 years (¥ million)	Due after 4 years but within 5 years (¥ million)
—	15,000	6,635	—	—

Due within one year (\$ thousand)	Due after 1 year but within 2 years (\$ thousand)	Due after 2 years but within 3 years (\$ thousand)	Due after 3 years but within 4 years (\$ thousand)	Due after 4 years but within 5 years (\$ thousand)
—	127,118	56,228	—	—

18. Supplemental schedule of borrowings

Category	Balance as of March 31, 2006 (¥ million)	Balance as of March 31, 2007 (¥ million)	Average interest rate (%)	Date of maturity
Short-term borrowings	—	55	2.14	—
Current portion of long-term borrowings due within one year	700	700	1.73	—
Long-term borrowings (Excluding current portion)	4,130	3,430	1.73	From April 1, 2008 to September 28, 2012
Total	4,830	4,185	1.74	—

Category	Balance as of March 31, 2006 (\$ thousand)	Balance as of March 31, 2007 (\$ thousand)	Average interest rate (%)	Date of maturity
Short-term borrowings	—	470	2.14	—
Current portion of long-term borrowings due within one year	5,932	5,932	1.73	—
Long-term borrowings (Excluding current portion)	35,000	29,067	1.73	From April 1, 2008 to September 28, 2012
Total	40,932	35,470	1.74	—

(Note) 1 The average interest rate represents the weighted-average rate applicable to the ending balance.

2 The following table shows the aggregate annual maturities of long-term debt for 5 years subsequent to March 31, 2007 (excluding the current portion).

	Due after 1 year but within 2 years (¥ million)	Due after 2 years but within 3 years (¥ million)	Due after 3 years but within 4 years (¥ million)	Due after 4 years but within 5 years (¥ million)
Long-term borrowings	1,960	420	420	420

	Due after 1 year but within 2 years (\$ thousand)	Due after 2 years but within 3 years (\$ thousand)	Due after 3 years but within 4 years (\$ thousand)	Due after 4 years but within 5 years (\$ thousand)
Long-term borrowings	16,610	3,559	3,559	3,559

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

We have audited the accompanying consolidated balance sheet of CAPCOM CO., LTD. ("the Company") and its subsidiaries as of March 31, 2007 and the related consolidated statements of income, changes in net assets and cash flows for the year then ended, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

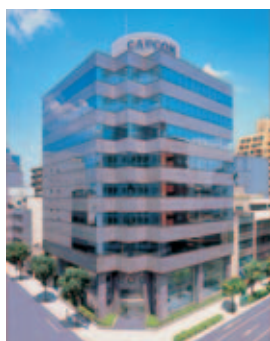
In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company and its subsidiaries as of March 31, 2007 and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2007 are presented solely for convenience. Our audit also included the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

PricewaterhouseCoopers Aarata

PricewaterhouseCoopers Aarata

August 27, 2007



Head Office



Tokyo Branch



R&D Building

Corporate Profile

Name of Company	CAPCOM CO., LTD.
Date of Establishment	May 30, 1979
Date of Initiation	June 11, 1983
Business Segments	<ol style="list-style-type: none"> 1. Planning, development and sale of home video games 2. Planning, development, manufacture and sale of arcade games 3. Management of amusement arcades
Paid-in Capital	¥ 29,915 million
End of Term	March 31
Number of Employees	1,320 (Including consolidated subsidiaries) 1,196 (Capcom CO., LTD.)

Capcom's Subsidiaries

- CAPCOM U.S.A., INC.**
 800 Concar Drive, Suite 300 San Mateo, California 94402 U.S.A.
 PHONE: 1-650-350-6500 FAX: 1-650-350-6655
<http://www.capcom.com/>
 Paid-in Capital: US\$ 159,949 thousand
 Business Segment: Holding company and administration of subsidiary in U.S.
- CAPCOM ENTERTAINMENT, INC.**
 800 Concar Drive, Suite 300 San Mateo, California 94402 U.S.A.
 PHONE: 1-650-350-6500 FAX: 1-650-350-6655
 Paid-in Capital: US\$ 1,000 thousand
 Business Segment: Sale of home video games
- CAPCOM INTERACTIVE, INC.**
 10960 Wilshire Blvd. Suite 1500, Los Angeles, CA 90024 U.S.A.
 PHONE: 1-310-943-5470 FAX: 1-310-943-5489
<http://www.capcommobile.com/>
 Paid-in Capital: US\$ 0 thousand
 Business Segment: Distribution of mobile phone games
- CAPTRON CO., LTD.**
 3-1-3 Uchihirano-machi, Chuo-ku, Osaka, 540-0037, Japan
 PHONE: 81-6-6920-3626 FAX: 81-6-6920-5126
 Paid-in Capital: ¥ 1,640 million
 Business Segment: Rent, lease and operation of real estate properties
- CAPCOM ASIA CO., LTD.**
 Units 1510-1511, North Tower Concordia Plaza, No.1 Science Museum Road, Tsimshatsui East, Kowloon, Hong Kong
 PHONE: 852-2366-1001 FAX: 852-2366-1985
<http://www.capcomasia.com.hk/>
 Paid-in Capital: HK\$ 21,500 thousand
 Business Segment: Sale of home video games
- Capcom Entertainment Korea CO., LTD.**
 Dong IL Highvill Office 410 1542-1 Seocho-dong Seocho-gu, Seoul, Korea
 PHONE: 82-2-525-2160 FAX: 82-2-525-2161
<http://www.capcomkorea.com/>
 Paid-in Capital: KRW 1,000 million
 Business Segment: Sale of home video games, Operation and development of online games
- CAPCOM CHARBO CO., LTD.**
 3-1-3 Uchihirano-machi, Chuo-ku, Osaka, 540-0037, Japan
 PHONE: 81-6-6920-3616 FAX: 81-6-6920-5170
<http://www.juden.net/>
 Paid-in Capital: ¥ 300 million
 Business Segment: Rental, maintenance and lease of electronic game machines
- DALETTO CO., LTD.**
 26th Floor, Shinjuku Mitsui Building 2-1-1 Nishi Shinjuku, Shinjuku-ku, Tokyo 163-0425, Japan
 PHONE: 81-3-3340-0696 FAX: 81-3-3340-0655
<http://www.daletto.co.jp/>
 Paid-in Capital: ¥ 90 million
 Business Segment: Online Portal Site Management
- CE EUROPE LTD.**
 9th Floor, 26-28 Hammersmith Grove, Hammersmith, London W6 7HA, U.K.
 PHONE: 44-20-8846-2550 FAX: 44-20-8741-4176
<http://www.capcom-europe.com/>
 Paid-in Capital: £ 1 thousand
 Business Segment: Sale of home video games
- CEG INTERACTIVE ENTERTAINMENT GmbH.**
 Barmbeker Str.4b 22303 Hamburg Germany
 PHONE: 49-40-6965-620 FAX: 49-40-6965-6222
 Paid-in Capital: € 25 thousand
 Business Segment: Sale of home video games

Major Offices

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

Capcom has been creating one blockbuster title after another over an extended period of time. This is a proof that we have never ceased to win the hearts and minds of many people around the world.

Since its inception, Capcom has been creating a series of industry-leading game titles with remarkable commercial success around the globe, including the classic "Street Fighter", which was the rage of the times, and the worldwide blockbuster survival horror game "Resident Evil" to name two. All of these original and innovative games have helped make the Capcom brand a household name. Continuing this tradition, we aspire to be a company that entertains people around the world and touches their heart.

<p>1983</p> <p>Jul. Released our first originally developed coin-op "Little League".</p> <p>Oct. Released the coin-op "Fever Chance".</p> <p>Dec. Opened "Acty 24", a video arcade under the direct management of Capcom.</p>	<p>1985</p> <p>May. Released the arcade video game "Commando".</p> <p>Sep. Released the arcade video game "Ghosts'n Goblins".</p> <p>Dec. Released our first home video game "1942" for Nintendo Entertainment System (NES).</p>	<p>1991</p> <p>Mar. Released the arcade video game "Street Fighter II" and it triggered the "Street Fighter II" boom.</p>
<p>1984</p> <p>May. Released our first arcade video game "Vulgus".</p> <p>Dec. Released the arcade video game "1942".</p>	<p>1986</p> <p>Jun. Released "Ghosts'n Goblins" for NES.</p> <p>Sep. Released "Commando" for NES.</p> <p>1987</p> <p>Aug. Released the arcade video game "Street Fighter".</p> <p>Dec. Released "Mega Man" for NES.</p> <p>1989</p> <p>Dec. Released the arcade video game "Final Fight".</p>	<p>1992</p> <p>Jun. Released "Street Fighter II" for Super NES, and it was a mega-hit.</p> <p>1993</p> <p>Apr. Released "Breath of Fire" for Super NES.</p> <p>Jul. Opened "CapcoCircus Nigata East", the largest arcade in Nigata.</p> <p>1994</p> <p>Aug. Premiere of the animated movie "Street Fighter II".</p> <p>Dec. Premiere of the Hollywood movie "Street Fighter."</p>

1979	1985	1990
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<p>May. 1979 Established I.R.M. Corporation (capital of 10 million yen) with objectives of developing and selling electric applied game machines in Matsubara, Osaka.</p> <p>May. 1981 Established the subsidiary JAPAN CAPSULE COMPUTER CO., LTD.</p> <p>Sep. 1981 Corporate name was changed to SAMBI CO., LTD., and the head office was moved to Habikino, Osaka.</p> <p>Jun. 1983 Established old CAPCOM CO., LTD., (capital of 10 million yen) in Hirano, Osaka for the purpose of selling software.</p> <p>Oct. 1983 Established Tokyo Branch in Shinjuku, Tokyo.</p>	<p>Aug. 1985 Established CAPCOM U.S.A., INC., in California for distribution of Capcom's products in the U.S.A.</p> <p>Jan. 1989 Old CAPCOM CO., LTD., was merged with SANBI. Corporate name was changed to CAPCOM CO., LTD., and the head office was moved to Higashi-ku, Osaka.</p> <p>Aug. 1989 Established a resident office in the U.K.</p>	<p>Oct. 1990 Stocks registered as OTC securities with the Japan Securities Dealers Association.</p> <p>Feb. 1991 Purchased YUNIKA CO., LTD. and turned it into a 100% subsidiary.</p> <p>Dec. 1991 Changed the name of YUNIKA CO., LTD. to CAPTRON CO., LTD.</p> <p>Jul. 1993 Established CAPCOM ASIA CO., LTD. in Hong Kong for distribution of Capcom's products in China and Southeast Asia.</p> <p>Oct. 1993 Stock was listed on the second section of the Osaka Stock Exchange.</p> <p>May. 1994 Constructed Ueno facility in Mie.</p> <p>Jul. 1994 Constructed head office, which was relocated to Uchihirano-machi, Chuo-ku, Osaka.</p>
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➤ 1995

Apr.
Began broadcasting the TV animation "Street Fighter II V".

➤ 1996

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



➤ 1999

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



➤ 2001

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



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



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



➤ 2002

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

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



➤ 2004

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



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

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



➤ 2005

Mar.
Premiere of the animated movie "Mega man".



➤ 2006

Jul.
Capcom and TOMY COMPANY, LTD. co-launch "Wantame Music Channel", a card game machine geared towards girls under 10.



➤ 2007

Jan.
Two new game titles for the Xbox 360, "Lost Planet" and "Dead Rising", achieve global sales of one million copies each.

Mar.
"Monster Hunter Freedom 2" becomes the first million-selling game for the PlayStation Portable.

Jul.
A roadside amusement arcade, "Plaza Capcom Iruma", opens in Saitama Prefecture.



1995

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

Apr. 1997
Established FLAGSHIP CO., LTD. with a view of game scenario creation.

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

2000

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

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

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

Feb. 2003
Established CEG INTERACTIVE ENTERTAINMENT GmbH in Germany.

2005

Jun. 2006
CAPCOM INTERACTIVE, INC., tasked with developing and distributing mobile games in the overseas market, is established in the United States and makes CAPCOM INTERACTIVE CANADA, INC. (the former COSMIC INFINITY, INC.) a wholly-owned subsidiary by buying all its shares.

Oct. 2006
CAPCOM CO., LTD. and the DWANGO group co-found DALETTO CO., LTD., responsible for managing a portal site.

Mar. 2007
CAPCOM ENTERTAINMENT KOREA CO., LTD., a wholly-owned subsidiary of Capcom, is established to oversee marketing operations for the Asian market.

Jun. 2007
CAPCOM CO., LTD. acquires FLAGSHIP CO., LTD.

Stock Data

ANNUAL REPORT 2007

(As of March 31, 2007)

Stock Data

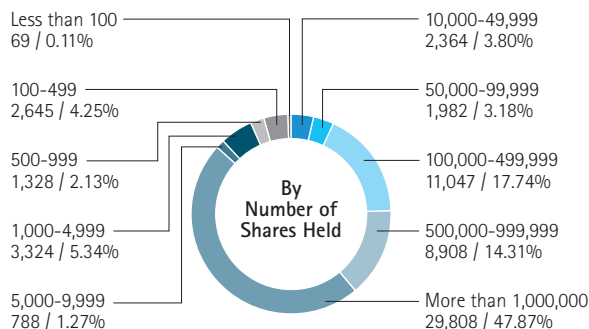
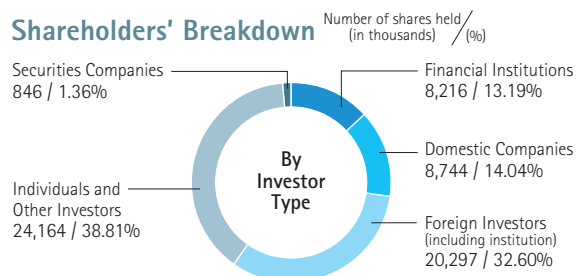
Stock Exchange Listings ————— Tokyo, Osaka
 Number of Shares Authorized ————— 150,000,000 shares
 Number of Shares Issued ————— 62,269,007 shares
 Number of Shareholders ————— 20,373 shareholders

Major Shareholders

Major Shareholders	Number of Shares Held (in thousands)	Investment Ratio (%)
Crossroad Limited	6,771	12.00
Kenzo Tsujimoto	2,745	4.86
Japan Trustee Services Bank, Ltd. (Trust Account)	2,024	3.59
State Street Bank and Trust Company	1,884	3.34
The Master Trust Bank of Japan, Ltd. (Trust Account)	1,853	3.28
Yoshiyuki Tsujimoto	1,669	2.96
Haruhiro Tsujimoto	1,546	2.74
Ryozo Tsujimoto	1,545	2.74
Molgan Stanley and Company Inc.	1,425	2.53
Deutsche Bank AG London-PB Irish Residents 619	1,357	2.40

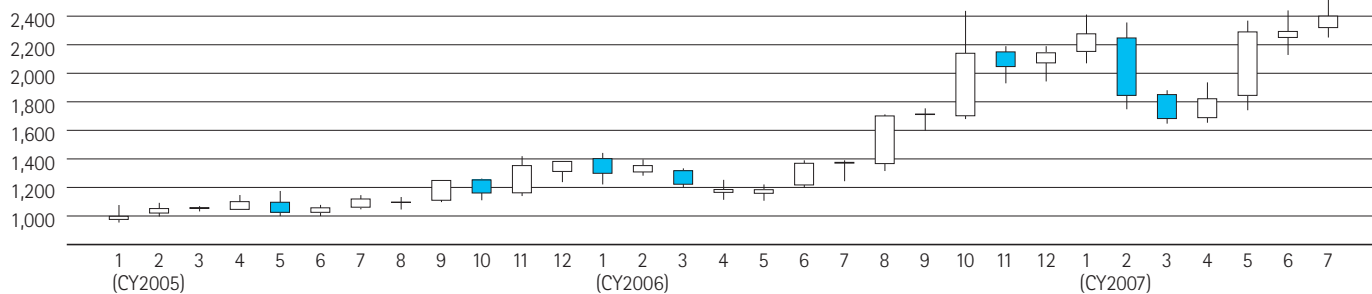
Note: Capcom owns 5,813 thousand stocks as treasury stocks.
 The stocks owned by the company are excluded from the above list.

Shareholders' Breakdown



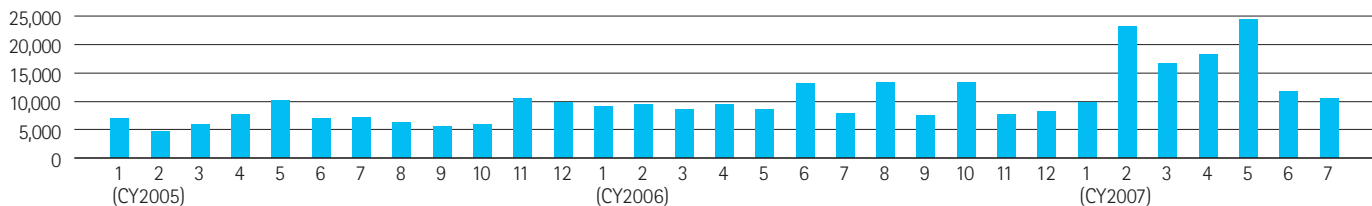
Stock Price Range

Stock Price (Yen)



Trading Volume

Trading Volume (thousand shares)



11 Year Trend of Stock Price and Trading Volume

	1997. 3	1998. 3	1999. 3	2000. 3	2001. 3	2002. 3	2003. 3	2004. 3	2005. 3	2006. 3	2007. 3
Stock Price	1,367	1,080	1,080	4,700	3,580	3,470	1,033	1,032	1,047	1,209	1,692
High	1,993	1,960	1,280	6,140	4,360(5,100)	4,460	3,860	1,685	1,246	1,450	2,445
Low	1,227	867	667	970	2,935(2,975)	2,400	999	857	884	1,000	1,110
Trading Volume	11,896,000	8,121,000	6,859,000	76,522,000	54,022,000	59,785,000	69,891,000	109,458,000	90,897,000	93,992,000	137,965,000

Note: 1 Stock prices are adjusted for stock splits, up to fiscal year ended March 31, 2000.

2 Stock prices in brackets and stock prices up to fiscal year ended March 31, 2000 are those quoted on the Osaka Securities Exchange Co., Ltd.

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

We have been focusing on IR activities by providing our shareholders and investors with timely and updated information through our website. The CAPCOM IR website provides a whole range of information, such as management strategies, in addition to financial data and stock information.



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

What's New

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

IR Presentation Materials

We have posted marketing data and unit sales of popular game software using easy to understand layout that includes charts and images. Moreover, in addition to making footage of conference calls available for viewing on a computer, we have also made them compatible with graphic podcasts, thus offering a wealth of information to our users.



Capcom IR Mail

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

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



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

* See your mobile phone manual for information on how to scan QR codes.

* This service supports only Japanese.

CAPCOM CO., LTD.

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Osaka, 540-0037, Japan
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<http://www.capcom.co.jp/>

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Corporate Profile

(As of March 31, 2007)

Name of Company	CAPCOM CO., LTD.	Head Office	3-1-3 Uchihirano-machi, Chuo-ku, Osaka, 540-0037, Japan PHONE: 81-6-6920-3600 FAX: 81-6-6920-5100
Date of Establishment	May 30, 1979	R&D Building	3-2-8 Uchihirano-machi, Chuo-ku, Osaka, 540-0037, Japan PHONE: 81-6-6920-7600 FAX: 81-6-6920-7698
Date of Initiation	June 11, 1983	Tokyo Branch	Shinjuku Mitsui Building 2-1-1 Nishi Shinjuku, Shinjuku-ku, Tokyo, 163-0425, Japan PHONE: 81-3-3340-0710 FAX: 81-3-3340-0711
Business Segments	1. Planning, development and sale of home video games 2. Planning, development, manufacture and sale of arcade games 3. Management of amusement arcades	Ueno Facility	3902 Hatta, Iga, Mie, 518-1155, Japan PHONE: 81-595-20-2030 FAX: 81-595-20-2044
Paid-in Capital	¥ 29,915 million		
Number of Employees	1,320 (Including consolidated subsidiaries) 1,196 (CAPCOM CO., LTD.)		

History

1990

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

1991

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

1992

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

1993

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

1994

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

1996

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

2001

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

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

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

2002

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

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

2004

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

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

2005

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

2006

Jul. Capcom and TOMY COMPANY, LTD. co-launched "Wantame Music Channel", a card game machine geared at girls under 10.

2007

Jan. Two new game titles for the Xbox 360, "Lost Planet" and "Dead Rising", achieved global sales of one million units each.

Mar. "Monster Hunter Freedom 2" became the first million-selling game for the PlayStation Portable.

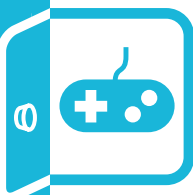
Jul. A roadside amusement arcade, "Plaza Capcom Iruma", opened in Saitama Prefecture.



Company Guide

Research & Development Edition





We have developed an integrated development environment called the “MT Framework” to better enable us to pursue multi-platform strategies

Senior Manager
Home Video Games R&D Department
MASARU IJUJIN

A group of highly talented system programmers, hand-picked from within the company, have spent nearly two years developing the “MT Framework”. This set of programs and game development tools for home video games is specially designed to work across the Xbox 360, PS3® and PC platforms.

In the past, each software title required a development team to spend three to six months creating dedicated development tools—a process that was time consuming, costly, and redundant. The “MT Framework” has completely changed this with its versatility in providing a common development environment for different platforms and game software titles, improving the internal sharing of technologies, information and expertise. In addition, it enables us to achieve greater efficiency in software development. Another benefit we have gained from its development is the potential to raise the standard of all our software titles by minimizing variations in quality. This is possible due to better use of our available engineering resources.

The idea of a multi-platform development engine was previously unheard of in Japan, and had an unknown chance of success. However, its eventual development was made possible by the fact that we had a number of extremely skilled programmers who had been working exclusively in R&D over an extended period of time. Furthermore, the management understood the importance of undertaking advanced research in fundamental technologies.

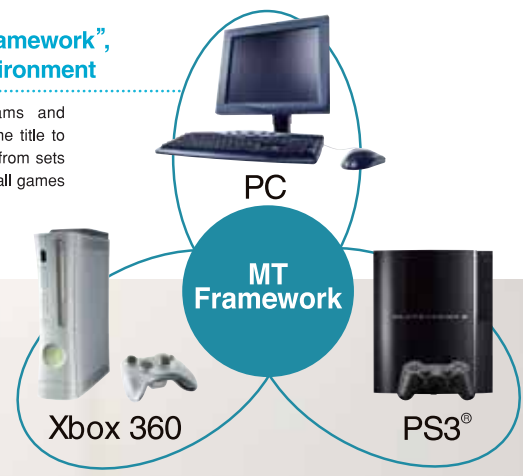
The “MT Framework” is still a work in progress, and we will continue to refine its versatility in handling different subject matter and improve its rendering capability. We will continue to upgrade it with the expectation that it will one day become the world’s top-performing development engine for game software.



Conceptual diagram of “MT Framework”, an integrated development environment

Standardizing 80% of development programs and processes, making it easy to port a single game title to multiple platforms. A database stores anything from sets of basic action sequences used in common by all games to special rendering methods and techniques.

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Design and specifications are subject to change without notice.



organization's power Organization's power

Extensive technological expertise and confidence in our R&D team have made the impossible possible

Corporate Officer
Head of Home Video Games R&D Department **NOBUYUKI MATSUSHIMA**

At the heart of the decision to go ahead with the development of the “MT Framework” was the belief that only CAPCOM could build a development engine that would meet CAPCOM’s needs. We had no doubt that our R&D team had the necessary technological skills and expertise to deliver on such a project.

In the short term, resources could have been utilized to develop software titles for quicker monetary returns as opposed to investing in an R&D project. But in the long term, the importance of having a multi-platform engine was obvious to everybody. This shared understanding and confidence in the R&D team’s ability has made the development of the “MT Framework” a success.

With one of the most advanced development environments in the world in place, CAPCOM continues to operate in high gear.





Packed with outstanding graphics and powerful action, "Devil May Cry 4" takes full advantage of the graphics capabilities of next-generation game consoles

Producer of "Devil May Cry 4"
Home Video Games R&D Department

HIROYUKI KOBAYASHI

Worldwide, we have sold a combined 6.9 million copies of "Devil May Cry", the extremely popular stylish action series. By using actors overseas to deliver top-notch dialogue and action scenes, the game has a universal appeal, and puts it on par with a Hollywood movie. "Devil May Cry 4" has been specially designed to attract users who have not played any of the earlier titles in the series. By bringing in a new hero named Nero and adjusting the difficulty level at the start of the game, we have made it more appealing and user-friendly for first-time players. Dante, the long-time hero of the series, makes a return so that die-hard fans can also enjoy the action. Utilizing the powerful graphics capabilities of

next-generation game consoles, "Devil May Cry 4" undoubtedly offers the most beautiful visuals in the series to date. When we unveiled a preview version of "Devil May Cry 4" at the Tokyo Game Show in September 2006, it attracted a huge crowd, with many show-goers waiting in line for up to three hours just for a chance to experience the game. It also captured the attention of overseas media, generating many positive reviews, which has really motivated both the creator and staff. Our goal is to continue producing high-quality game software that will meet the needs of even the most demanding users.

Introducing a new hero named Nero into the fourth chapter of our leading stylish action game series

Taking place in the castle town of Fortuna, "Devil May Cry 4" puts you in control of a powerful Devil Hunter facing-off against the hordes of demon-kind. "Devil May Cry 4" introduces a new main character to the series, Nero, and teams him with the series' stalwart, Devil Hunter Dante, in the latest Stylish Action adventure.

Thanks to the graphical prowess of the PS3® and Xbox 360 next-generation game consoles, users will be amazed at the unprecedented high-resolution graphics. Incredibly detailed outdoor environments like towns, castles and snow-covered mountains in the distance will leave users in awe.

Users will also be able to experience a new form of combat as they grab and throw opponents to the ground at a distance using Nero's demon arm, "Devil Bringer". State-of-the-art graphics processing makes it possible to offer seamless action scenes that are completely lifelike and deliver vivid realism.

Introducing New Hero Nero

In pursuit of legendary stylishness, hundreds of storyboards were produced to fine-tune the design of the new leading man.



Enormously Popular Action Game Series

The three titles in the popular stylized action game series had achieved global sales of a total of 6.9 million units as of June 2007.



Two Leading Characters

Dante, the leading character who appeared in the first three installments of the franchise, co-stars with new hero Nero, each bringing with him a distinctive personality and strength.

Dynamic Action Sequences

Battle scenes fought with a giant sword and handguns have been created featuring exceptional visual effects.



Intricate Detail Coming to Life

With the advanced graphical capabilities of the next-generation systems, high-definition visuals and intricate detail come to life in facial expressions, skin tones and the textures of the costumes.



Offering the gaming experience to cell phone users

General Manager of Mobile Contents Development Department **TAKESHI TEZUKA**

Although all cell phone users are potential target customers for mobile games, the core are those whose favorite pastime is playing games. Unlike home video games, mobile games are sold directly to the end-user. It is important to tailor services to individual needs, which includes not only game content but also billing systems. In the Japanese cell phone market, the cycle for updating models is very rapid, and therefore the development of mobile games must be flexible enough to take advantage of the features found on new cell phones. We will become more aggressive in proposing new games to cell phone carriers, focusing on original games available exclusively on mobile devices.



The Mobile Game Version of "Phoenix Wright"

The popular adventure game franchise is now available for play on cell phones. Original quizzes and ringtones are also available.



The Mobile Game Version of "Monster Hunter"

The popular hunting action game is now available for play on cell phones. The player's mission is to complete one task after another, tracking down gigantic beasts along the way.

New to the market, CAPCOM achieving fast growth within the North American mobile business

President CAPCOM INTERACTIVE, INC. **MIDORI YUASA**

When CAPCOM entered the North American mobile games business, we decided to acquire Cosmic Infinity, an established mobile developer, with an aim of quicker success. With this acquisition, CAPCOM gained the ability to develop titles locally, as well as North American mobile rights to several consumer franchises. As a result, CAPCOM Interactive has become one of the top 10 publishers in the industry, a huge jump from a year ago at the 62nd position. This remarkable achievement was made possible by a North American development team that has a thorough understanding of the target market and the fragmented nature of the territory, which is characterized by more than 300 different types of cell phones in use.



Shade TM ©2007 CAPCOM Interactive Inc.

Developed Exclusively for Mobile Application - "Shade"

In this original MMO mobile title, players can create their own custom character and explore a diverse landscape. The game is being spun off into comic book and action figures based on the series unique storyline.



"Millionaire 2007" ©Valleycrest Productions Ltd, 2006



Beautiful and powerful visual effects that enhance an already exciting gaming experience

Director of Pachislo "Devil May Cry 3" Pachinko and Pachislo Business P&S Development Department **KENTARO ONO**

Building on the success of "Onimusha 3", CAPCOM joined forces with a hardware manufacturer to develop the Pachislo machine "Devil May Cry 3". Pachislo is a unique term coined from Pachinko and slot machine. When incorporating home video game titles into a Pachislo machine, it is important to preserve their original themes and concepts. With "Devil May Cry 3", this means its stylishness. Extra footage and action not seen in the original game were added to create a sense of excitement and

anticipation, in addition to the sound of a fanfare when you hit the jackpot. These are all features people have come to expect from Pachislo games, and they maintain the cool style of the game and its characters. Presenting appealing visual imagery has become increasingly important for Pachislo machines, as they are no longer allowed to pay out over the limitation. We will use our large assortment of distinctive game titles to differentiate ourselves from the competition.



The Pachislo machine "Devil May Cry 3"

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organization's power

Turning Pachinko and Pachislo into one of our core businesses by building a solid working relationship with hardware customers

Corporate Officer Head of Pachinko and Pachislo Business General Manager of P&S Development Department **YOICHI EGAWA**

Our Pachinko and Pachislo business supplies circuit boards and video content to hardware manufacturers. More than anything else, we value the relationship of trust we have built with them, as it allows us to exchange ideas as professionals on equal standing. We intend to become more important to our customers by establishing a good track record and delivering the breadth of game titles and video production excellence that CAPCOM has built its reputation on. We conduct ongoing market research studies to collect information on new machines and their operation in the field, and based on the analysis of this data, our team works to develop new game titles. The key to success is to find the optimum way to infuse entertainment elements unique to these machines into the development of our proprietary titles. We intend to make this field another core business area for CAPCOM.





Leveraging on the company's expertise in developing home video game software when launching an online game business

Managing Corporate Officer
Head of R&D Management Group and Online Business

KEIJI INAFUNE

My vision for the online entertainment offered by CAPCOM is that it will grow into a virtual theme park where people can not only play games but also join a user community or shop online. The hardest part of running an online business, though, is that we have to invest in unknown territory that may or may not attract traditional game users. We also cannot afford to be just a content provider, we have to provide hardware support to run the business.

CAPCOM was able to launch an online business built upon an organizational structure that has successfully produced a series of popular home video games. More specifically, we have launched an integrated communication portal called "daletto", jointly operated by CAPCOM and DWANGO group. This is a virtual theme park offering online games and a host of other features. We will provide our own quality content as well as that of third parties in order to attract a high

volume of traffic to the site. The online business has unlimited potential for growth, and it will undoubtedly become another core business for our company. For it to be a success, we have to devise a solid, medium to long-term strategy, and at the same time have the flexibility to quickly respond to any changes in the business environment.



organization's power

Offering the fun of multiplayer online games

General Manager of Online R&D Department YOSHINORI ONO

The online game "Monster Hunter Frontier Online", downloadable from the "daletto" site, is aimed at all PC users, including those who do not own dedicated gaming consoles. It enables users to play either against or with other users they meet online. In other words, they can communicate with other users online when they play the game. To attract a large number of first-time users, we have made the game available for download free of charge. Those who like the trial version have the option of upgrading to the full version for a fee. I am sure that the online version of one of the most popular game titles we have ever had will be a huge success.



Launching a new portal site, "daletto" packed with fun features

The online game market is growing to huge proportions in Japan as a result of the large user base of PCs and the widespread availability of broadband Internet access in homes. This market is attracting a broad spectrum of users ranging from the young to homemakers to the elderly. The overseas market is also expanding, particularly in China. In October 2006, CAPCOM and DWANGO group established a new company named "DALETTO" and

launched a communication portal site by the same name the following July. The site offers online games, shopping and amusement elements such as avatars and characters through which subscribers can enjoy expanding the communities in which they belong. The content we offer is developed both in-house and by third parties. With the launch of this portal site that is full of exciting new and original content, we are targeting a broader base of online gamers.



"Monster Hunter Frontier Online"

"Monster Hunter Frontier Online" is the first game exclusively developed for online application for PCs from the popular "Monster Hunter" franchise. The game is about the fantasy adventure of a monster hunter, and the online version has many added features such as the Mezoporta Plaza that attracts hunters, as well as end-user community functionality that connects one hunter to other fellow hunters online.

Commencing from July 2007

Our communication portal site "daletto". We intend to develop a new service incorporating plenty of amusement elements, from online video games to avatars and characters.



Forming "Monster Hunter" Online Community

Members get connected and participate in online gameplay for fun. The difficulty level is initially set at the lowest so that even novice players can enjoy the game, with the level getting higher as they get used to it for greater fun.



DALETTO website :
<http://www.daletto.co.jp/>



Expanding into animation and toys to reach out to younger audiences

Licensing Team
Character Contents Business

NAOTO MINAMIDE

We believe that expanding the “Mega Man” franchise into animation and toys is the best way to reach younger users and achieve the synergy we desire.

The most important things we have to keep in mind when bringing the “Mega Man” franchise into animation and toys are to make sure children will have fun with them and to preserve—or even enhance—the positive image of the character. In the “Mega Man” series, we have tried to depict a futuristic world that many children dream of, which means we have to constantly change to keep up with the times. Accordingly, we aim to come up with new storylines and merchandise that will appeal to the mind-set of children such as those who aspire to be a little bit more grown-up.

We hope to bring the wonderful world of “Mega Man” to as many happy children as we can by bringing out a series of animated features and toys starring the lead character.



Animated TV “Mega Man Star Force”

The animated “Mega Man” TV series has been on the air for five years, and is watched by a broad audience.



©CAPCOM・小学館・ShoPro・テレビ東京



An Assortment of Toys Inspired by the Game Now Available

Intriguing toys based on the designs of the tools or items that the leading character uses in the game and animation, have been made commercially available to younger fans.



“A clothing fashion card”

“A puppy card”

Insert a card into the slot to change the background image on the LCD screen or turn it to “Outside” mode.



Dispensing a new card



Data exchange via infrared connection

LCD handheld game “Wantame Idol Puppy” ©2007 CAPCOM/TOMY

Arcade game “Wantame Music Channel” ©2006 CAPCOM/TOMY

Our company’s strengths come into play in developing commercial game machines

Director of “Wantame Music Channel”
Arcade Games R&D Department

YUSUKE YOSHIDA

“Wantame Music Channel”, a commercial game machine co-developed by CAPCOM and TOMY COMPANY, LTD., works in tandem with an arcade game geared toward girls under the age of 10. The target group of kindergarteners and elementary school students was outside of the traditional CAPCOM scope, but we were able to reach and capture them by partnering with TOMY, a toymaker renowned for its expertise in merchandising and sales promotion targeted toward younger customers.

The game machine, designed with CAPCOM’s well-known user-friendliness, is loaded with features such as child-friendly touch-panel controls. It also accepts prepaid cards printed with a bar code that allows players to select virtual puppies, clothes and accessories. These features have made the game such a huge success that children wait in line to play it at game arcades.



organization’s power

organization’s power

When you produce games for children, you have to enjoy the whole process

Managing Corporate Officer
Head of R&D Management Group and Online Business KEIJI INAFUNE

In 2007, we celebrate the 20th anniversary of the “Mega Man” series, which was first brought to the market to entertain children with the underlying theme of “A Dream for the Future”. The latest title in the series, “Mega Man Star Force”, is based more on the concept of working together with friends, and places less emphasis on fighting with enemies. Bearing the difficulty of producing the game for children by adults in our minds, we have been doing this successfully for a long time, partly because we value the feedback we receive from children, and partly because it is fun working with them to produce games. The children who played the early “Mega Man” games are now old enough to be parents themselves. It is a developer’s dream come true that the “Mega Man” games can help two generations of players communicate better with each other at home.



organization’s power

organization’s power

Working with a partner has created tremendous synergy

Corporate Officer
Head of Arcade Games R&D Department OSAMU IZUMI

What motivated us to explore a partnership with TOMY was our commitment to creating things that are fun. The success of the project seemed to be guaranteed when staff from both companies found they could understand each other, and they rapidly established a good working relationship in which they were free to exchange ideas. Additionally, the two teams combined their individual strengths to offer much broader entertainment options. This synergy was the driving force behind the development of a game system that has created a financial win-win situation for both companies. For future projects involving the development of commercial game machines loaded with more fresh and interesting new features than before, partnering with other companies as we did with “Wantame” will be considered as a viable option. Our goal is to continue to offer game machines that appeal to a wide spectrum of users by having a flexible production setup.

