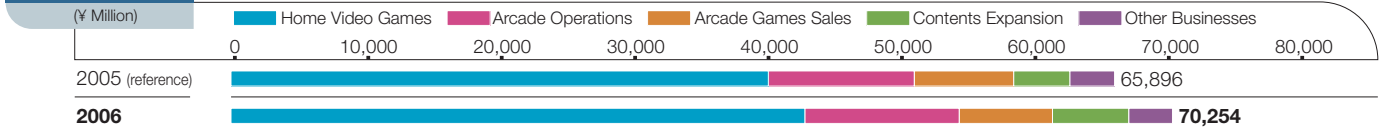


## Growth and reinforcement of our revenue base through enforcement of our strategy of multiple usage of original content.

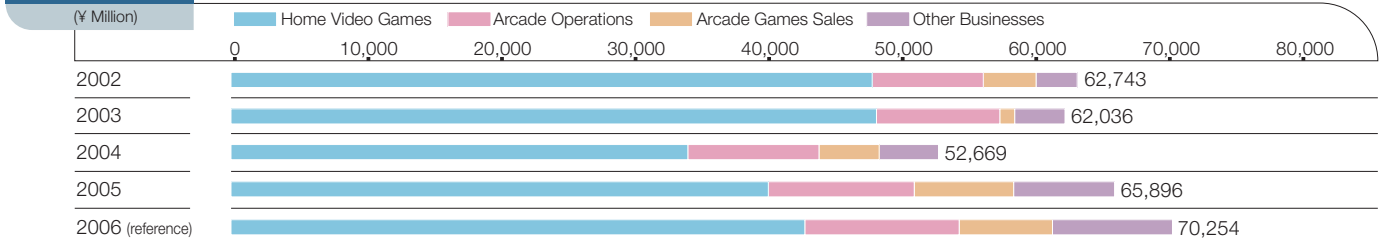
Capcom has achieved success in the promotion of inter-media strategy in recent years, increasing the recognition of Capcom's proprietary characters and expanding the sales of game software by producing movies and animated TV series featuring proprietary contents. Moving forward, we will strive for further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

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

(Year ended March 31)



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



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

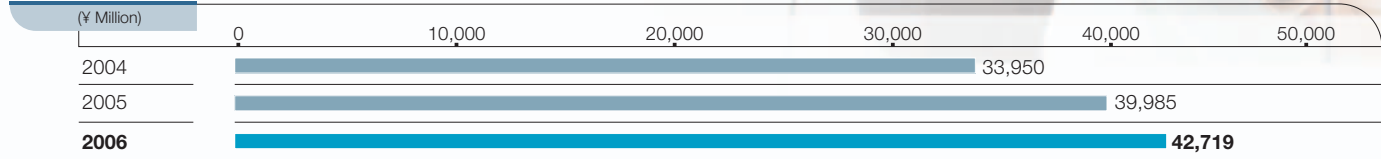


# Home Video Games

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



## Sales



### Market Trends

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

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

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

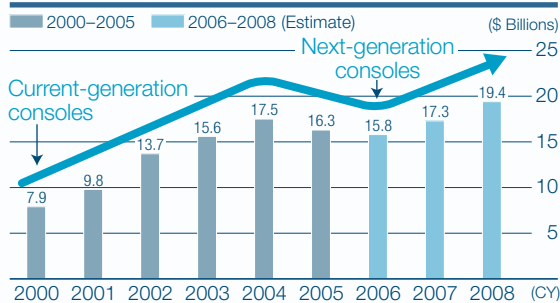
Furthermore, foreign markets account for 80% of the total game software market, which is comprised of North America, Europe and Japan at a proportion of 5:3:2(Cf. Diagram 2). Although the Japanese market accounted for 50% of the total in the past, the

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

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

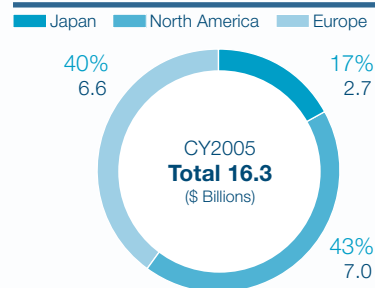
In terms of future market outlook, the game

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



\*Source: IDG Report

**Diagram 2. Major Game Software Markets**



\*Source: IDG Report



## Home Video Games

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

### Operating results for this fiscal year

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

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

To promote our global business, Capcom works

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

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

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

Diagram 3. Market Share by Region

#### Japanese Market

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

\*Source: f-ism

#### North American Market

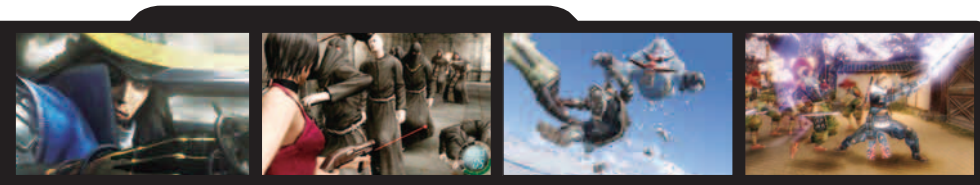
Company Name	Sales (US\$1,000)	Share (%)
1. EA	1,313,028	22.00
2. Nintendo	617,326	10.34
3. Activision	555,048	9.30
4. THQ	426,576	7.15
5. Sony	399,982	6.70
6. Take2	348,423	5.84
⋮	⋮	⋮
<b>14. Capcom</b>	<b>130,554</b>	<b>2.19</b>
Other	2,177,372	36.48
<b>Total</b>	<b>5,968,309</b>	<b>100.00</b>

\*Source: TRSTS Report

#### European(UK) Market

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

\*Source: Chart Track/ELSPA



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

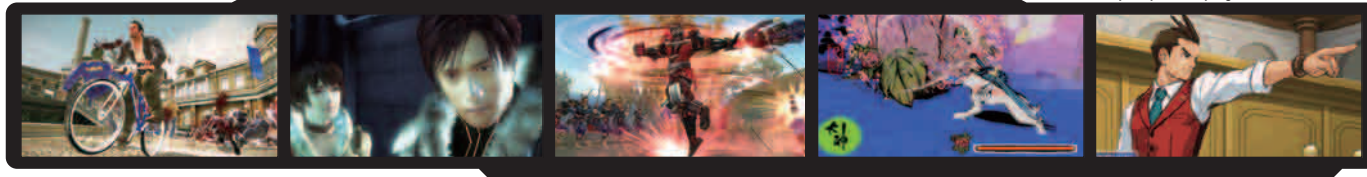
Diagram 4. Popular Game Series

(As of March 31, 2006)

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



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



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

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

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

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

#### Projection for the next fiscal year

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

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

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

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

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

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

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

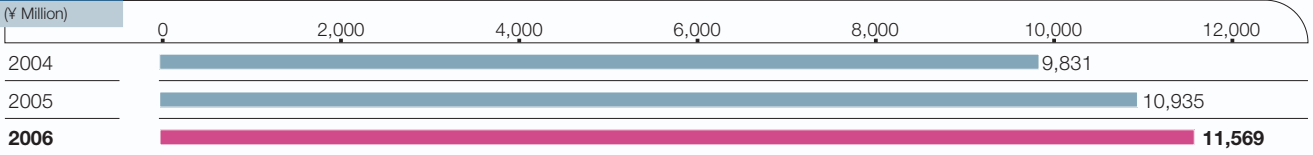


# Arcade Operations

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

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

## Sales



## Market Trends

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

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

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

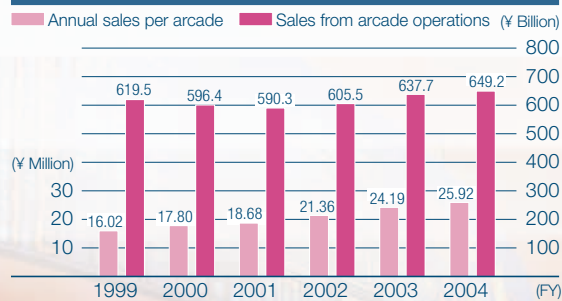
As reflected by the trend toward increased market

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

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

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

Diagram 5. Trend in the Arcade Operations Market



\*Source: Report in Amusement Industry

Diagram 6. Comparison of Arcade Operations Performance

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

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

### Operating results for this fiscal year

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

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

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

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

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

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

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

contributed to even further sales growth.

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

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

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

### Projection for the next fiscal year

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

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

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

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

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

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



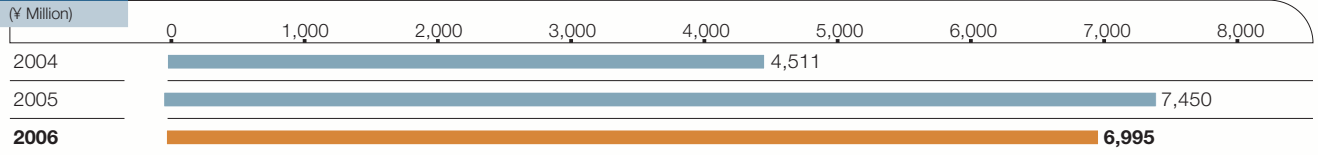




# Arcade Games Sales

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

## Sales



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



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

## Market Trends

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

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

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

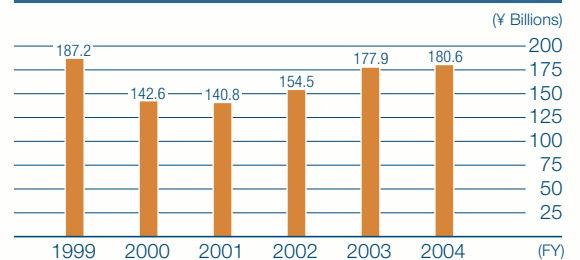
Analysis by genre indicates that prize-winning games and coin-operated games account for 50% of total sales (Cf. Diagram 8).

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

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

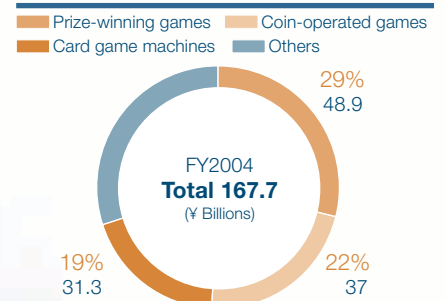
Sales generated from cards used in satellite-type mass video packages compatible with on-line networks and children's card games totaled 31.3 billion yen,

Diagram 7. Trend in the Arcade Game Market



\*Source: Report in Amusement Industry

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



\*Source: Report in Amusement Industry



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

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

#### Operating results for this fiscal year

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

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

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

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

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

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

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

#### Projection for the next fiscal year

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

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

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

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



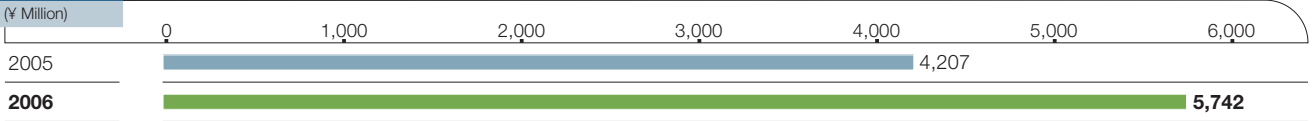


# Contents Expansion

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

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

## Sales



## Market Trends

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

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

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

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

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

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

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

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

Diagram 9. Trend in the Pachinko Game Market

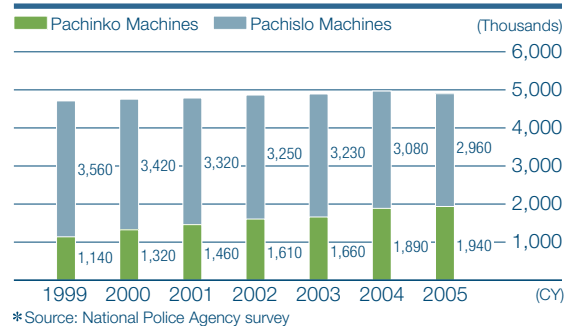
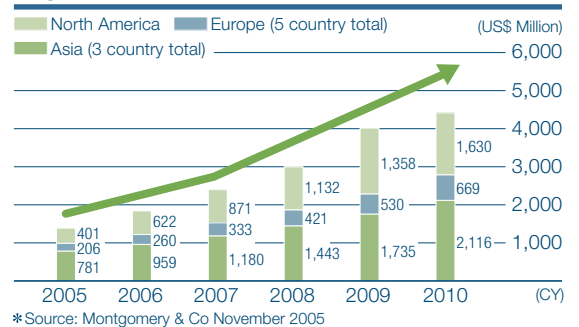


Diagram 10. Trend in the Mobile Phone Game Market



Pachislo machine "Onimusha 3"

©CAPCOM 2004/ ©Sammy ©RODEO



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



### Operating results for this fiscal year

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

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

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

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

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

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

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

### Projection for the next fiscal year

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

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

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

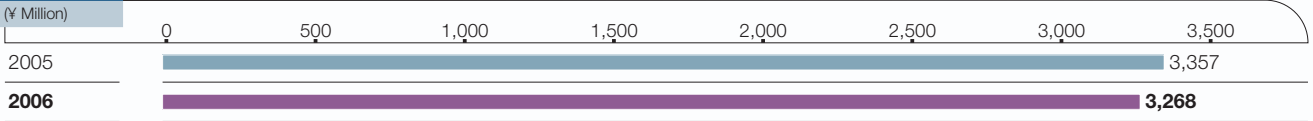
As a result of the above efforts, we predict net sales of 6,200 million yen and operating income of 1,700 million yen.



# Other Businesses

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

## Sales



### Operating results for this fiscal year

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

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

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

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

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

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

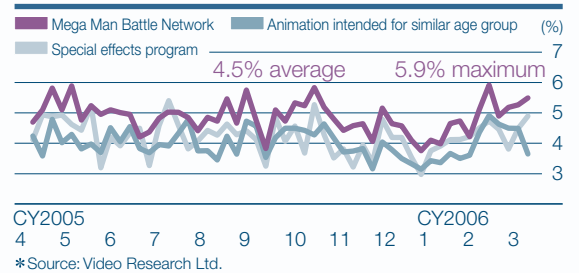
### Projection for the next fiscal year

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

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

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

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



\*Source: Video Research Ltd.



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

©2004 DAVIS FILMS IMPACT (CANADA) INC.  
 CONSTANTIN FILM (UK) LIMITED. All Rights Reserved.  
 ©CAPCOM, Shogakukan, ShoPro, TV Tokyo 2002, 2006 All Rights Reserved.