

First-Quarter Consolidated Financial Results Conference
Call for the Fiscal Year ending March 31, 2017: Q&A Summary
(July 28, 2016)

Q. Why have sales decreased in the PC Online sub-segment compared to the same quarter last year?

A. While *Monster Hunter Frontier G* is performing steadily, some existing titles have fallen slightly short of expectations. Moving forward, we plan to improve upon both product appeal to users and customer satisfaction by actively carrying out updates on a continuous basis with the aims of invigorating our games and stabilizing long-term earnings.

Q. Results in the Mobile Contents sub-segment are improving; does this mean it has stopped declining?

A. We believe that currently it has bottomed out and that moving forward it will continue to improve. Under our new structure, this year we plan to successively launch titles featuring Capcom IPs, with the aim of contributing to earnings.

Q. The full-year plan is heavily focused on the second half; how do you plan to even-out quarterly results?

A. Due to reasons concerning the release schedule for this year's major titles, we're forecasting Consumer earnings for the first half to be effectively 20% of the full-year amount. From next year onward, we would like to aim for stabilized quarterly results by strategically building a profit structure that does not rely on the existence of major titles. We plan to do this by not only continuing to pursue shortened development cycles for major titles, but also via increasing the ratio of digital download sales and catalog titles.

Q. Tell me about the impact of exchange rates on this year's plan. Will the release of numerous overseas titles in the second half affect operating income?

A. Within this year's operating income plan, we anticipate that a ¥1 fluctuation in the exchange rates will have an impact of approximately ¥100 million for the US Dollar and approximately ¥50 million for the Euro. With major titles being released overseas in the second half, it is necessary to monitor exchange rate trends; however, at present our assumed rates have not changed. Further, there have been no changes in our results forecast for our full-year plan as well.

Q. How much was the cost increase to make *RESIDENT EVIL 7 biohazard* VR-compatible?

A. Certain things were required in making the game VR-compatible, such as graphic needs that are more complex than before, thus there was an increase in development investment. However, we believe we have succeeded in optimizing our development process via fundamental technologies including our 3D scanning system, lighting and shading, which allowed us to minimize additional costs while achieving high-quality development.

Q. Tell me about progress with digital download sales in the Digital Contents business and what your projections for the future are.

A. The digital download sales ratio in Consumer reached 46% due to growth in catalog sales during the first quarter. Because the ratio of package sales will increase with the release of major titles, our plan has the digital download ratio at approximately 30% for the full year. However, we believe that in the future it is possible we can improve this ratio to as high as 40-50%.

Q. When will you be able to increase the full-year digital download sales ratio to 50%?

A. We would like to achieve this as quickly as is possible, however we are unable to give a definite timeframe for achieving this at the present time since it depends on factors such as the future title lineup and human resource allocations for development staff.

Q. Tell me the breakdown of your development staff.

A. As of the end of June 2016, we have approximately 2,200 people working as developers. Within that number, there are approximately 1,500 people in Consumer, 500 people in Online (Mobile, PC Online), and 200 people in Pachislo and Arcade Games.

Q. Tell me about future human resource allocation of developers.

A. Essentially, we will allocate developers to our core businesses of Consumer, Online and Mobile Contents. While there is an urgent need to nurture creators that are highly-skilled with operations in the Online business, at the same time we must continue generating IP, the linchpin of our business, and therefore believe that strengthening human resources in Consumer is also important.