

## Q&A from Nintendo Analyst Meeting

April 27, 2007

Q1. Some time ago, Mr. Iwata said that the video game hardware business is the business of momentum, so you must achieve a high volume sales at launch. So far, so good. On the other hand, after 4 or 5 months from its launch, I cannot find any titles that can be key for Wii sales. Please tell me when and what game titles will be launched that can satisfy hard-core gamers.

Iwata answer: As you just mentioned, we believe that the video game platform business is a business of momentum. Once you gain momentum, consumers can feel comfortable in choosing your machine. Software makers feel secure to make the applicable titles. These attitudes will further create a positive cycle, like a chain reaction. But if the mood starts to go in the opposite direction, you have to fight against headwind. So, trying to make one brand-new proposal after another in the first and second years, when the platform is still in its infancy, is always important. With the unprecedented challenges our new platforms have, creating launch momentum was critical for both Wii and DS, and I believe it was Nintendo's internal developers' jobs to make that happen. Once our own developers start the momentum, the third-party software makers will expand the applicable software lineup. In my mind, this is the basic structure of how it should be.

Frankly speaking, Wii unfortunately did not receive as much positive anticipation as we had hoped it would before the launch. Accordingly, Nintendo had to rely upon its first-party titles to create the momentum.

As of today, however, between the first-party and second-party titles alone that will be sold under Nintendo's brand name, we have 45 titles for Wii and 79 titles for DS under development. Of course, I cannot say that all these titles will definitely be sold eventually, but these titles were actually given development budgets, specific development teams have been assigned and they are developing the games. So, these titles will be launched one after another.

Back to your question of when we will fulfill the hard-core gamers' titles lineup: It will be from around the end of this summer to the end of this year.

We will then launch a new title of Super Mario (Super Mario Galaxy), Smash Brothers (Super Smash Bros. Brawl) and Metroid Prime (Metroid Prime 3: Corruption) although the last one is primarily for the overseas markets. These will be the key titles for the period ranging from the summer until the holiday sales season of this year, and I think we will be able to cater to the specific needs you mentioned.

Ideally, we should have had one such title already in the spring in order to create a better flow. At the same time, we are strongly holding the belief that we must raise the quality level if we need to introduce something new to our customers. We wanted to avoid a situation where these flagship titles were introduced when they were not perfectly tuned up. Please allow us that it is taking time.

Q2. I notice that an increasing number of companies are making Nintendo DS titles, and I would like to know how you evaluate the effect of increased titles on the market. Will you simply welcome the increase in titles, or do you see a threat of market over saturation?

Iwata answer: For one thing, the increase in software titles is basically welcomed for the sake of the hardware platform. On the other hand, if too many titles are introduced in a certain limited time period, potential customers have to wonder, "which ones of them will be good to buy?" As every one of us has limited time and energy to use for this kind of research, and as the attention of potential customers itself is limited, people would naturally have to wonder what they should buy if there are too many titles to choose from. Our marketing people are telling me that less and less shelf space is available today (due to the increased titles.) Before, all software packages were placed so that the front sides were facing visitors to the outlets. Now, almost all the software for Nintendo platforms are displayed so only the spine of the packages can be seen by customers, and it is becoming hard for our marketers to visually demonstrate the strong appeal of these titles at the outlets. Even when we have titles that have unique and interesting elements, if we cannot conduct effective marketing, they can end up being unnoticed by potential customers.

Also, the more titles there are, the more the possibility of customers purchasing

not exactly the perfect choice. If a person is disappointed by the software he or she has chosen, even though we are expanding the gaming population today, they may say, "I won't play games anymore." So, the increase in software titles per se is good, but we cannot be content with the situation. We have to recognize that our customers have a limited amount of attention, we have to struggle to find out a way to communicate what they really want to know and we have to be considerate so that we will not betray our customers' expectations. This is going to be an increasingly important mission for us. As a matter of fact, this is one of the most critical themes for us to combat this year.

Q3. Bandai-Namco issued a release about your purchase of Monolith Software. Have you changed your position that you will not do M&A (mergers and acquisitions)? Or, is this an exception? What is the purpose?

Iwata answer: When we say we do not do M&A, there are always exceptions, so let me explain about it. We have never said that we will never do M&A in any situation. Actually, we are not against M&A if Nintendo can absorb the real value of the company. However, in most cases, the value of software developing companies is attached to its people, not the company, which is merely a vessel for its people. So, when we purchase a company, we can purchase the vessel, but we cannot necessarily purchase the contents. Even if we should compete with others to purchase a software company, although we might be able to increase the sheer number of our developers and to gain a short-term result, we do not think it will do good for us in the long run. We have been repeatedly saying that we will not do that kind of M&A. In the case of Monolith Software, Mr. Sugiura, the president, and Nintendo have a long-term relationship. How Mr. Sugiura thinks is close to how Nintendo thinks. The software Mr. Sugiura would like to create is in line with what Nintendo would like to have for its platform. So, we thought that Nintendo should support this idea, and we decided to take action. If certain conditions are met, we may do the same thing in the future (M&A). However, we will be very careful and selective, so that we will only partner with people with whom Nintendo can create a long-term working relationship.

Q4. Tell me about the Wii Channel possibilities and its effects upon your sales and profits. Right now, except for Virtual Console, you are offering all the

services for free of charge. How will you take advantage of them, as marketing tools or as a revenue source? Will you also increase the number of paid services?

Iwata answer: We created the Wii Channel structure after asking ourselves such questions as “How can we make a video game machine that will be relevant to all family members?” and “How can we make Wii the machine that puts smiles on surrounding people’s faces?” In other words, we did not mean to make it to be a revenue source in the beginning. Having said that, however, the Wii Channel has ended up with a structure that has a number of potentials (to create revenue.) The structure to electronically deliver and bill for the contents is up and running globally, as has already been demonstrated with the Virtual Console. So, when Nintendo thinks we have a Channel which is worth asking our customers to pay for, we are in a position to make a business out of it. I am not saying that the existing services that we are offering for free of charge today will suddenly become a paid service. The Internet Channel will be a paid service, but we have been stating from the outset that the download of the Internet Channel would be free of charge by the end of June and that, afterward, the new download would cost you 500 Wii Points. All the other channels have been offered free of charge. Again, we have no intention to charge for these existing free services out of the blue, but when it comes to future Wii Channels, there must be a number of possibilities, and aside from the business model in which we receive money directly from our customers, we may also be able to establish a new type of business model, to receive advertisement fees or by an alliance with other companies. For many years, Nintendo has been exercising the businesses of “making its own commodities and marketing them around the world” and “making the efforts to expand the platform and obtaining the licensing fees from the software makers who are willing to take advantage of our platform.” I believe Nintendo has been able to establish a foundation upon which other business structures may be built in the future. Although I do not have any concrete plan as to when and what kind of businesses we will initiate, an increasing number of companies are approaching us with their proposals, so we may be able to make some announcement not too far in the future. It is too premature for me to predict the size such a business could be.

Q5. You said that you would like to double the current unit software sales. How are you improving the current development status? You are increasing the number

of developers and R&D costs every year. Will you continue this position, or will you put more emphasis on R&D efficiency? How do you position you and Mr. Miyamoto in that scheme?

Iwata answer: For the mid-term prospect, as was the case with the previous few years, we are increasing the number of developers to some extent. Otherwise, we would not be able to invest for future research and development while maintaining the current platforms. So, in that sense, we will naturally intensify our R&D position. On the other hand, when I said that we would like to establish a market where we will be able to sell twice the number of software, I did not mean to double the number of Nintendo's internal developers, needless to say. The number of software developers who are partnering with Nintendo may increase. Also, when a certain platform can enjoy good sales, third-party software publishers will see it as a good business opportunity. That kind of aspect was also included when I said that we would like to establish a market where more than 300 million software can be sold in one year.

As long as Miyamoto is concerned, I would like him to concentrate as much time and energies as possible on the products that his teams are developing. I said that we are currently developing 45 and 79 titles, but it is not humanly possible for Mr. Miyamoto to take care of every single one of them. We would like Miyamoto to focus upon the games that his teams are developing. We would like him to focus his energies to realize the highest quality level so that other companies will think that they cannot duplicate it. I think it important for Nintendo's operations. Although I myself am looking into some software titles, we have been able to nurture other excellent developers among ourselves. Some of them are starting to take on what Mr. Miyamoto had to do for himself in the past. Probably because we now have more highly-skilled developers, we are now being able to generate a number of million-seller titles.

Q6. You told us that the U.S. market has yet to show the significant sales and that you would like to focus your efforts upon the American markets this year. Now that Pokémon Diamond & Pearl are launched in the U.S., you may be expecting the shift from Game Boy Advance to DS to take place there. But how about Wii? Would you be more specific as to how you market Wii in the U.S. this year?

Iwata answer: I told you today that the U.S. market was the last in making the changes. In fact, as long as the market change caused by DS is concerned, the U.S. appears to be the last market. We launched Brain Training software in Europe and in the Americas almost simultaneously, but there exists a big difference in sales. Until some point in time, Europe was constantly selling significantly more number of DS hardware on weekly basis, which was unthinkable in terms of the past when it was taken for granted that American markets would easily sell twice the number of sales made in Europe. So (specifically referring to the market change), I said today that Europe was first in blooming and the Americas are yet to show their real strength. Of course, we anticipate the expansion of DS there thanks to Pokémon and other titles. We will be glad as more Pokémon are sold, but it is not enough when we want to expand the gaming population. When I received a report from the U.S. that they sold 1 million Pokémon Diamond & Pearl already, I asked them, “why did you sell only 10,000 Brain Age last week, when Europe sold through 30,000?” This is a typical example of how I communicate with our people in the U.S. If that segment of customers is encouraged to buy a significant amount, we will be able to see the real market change. So, we will need to constantly make efforts to appeal to the new audiences.

About Wii, on the other hand, we are feeling higher expectations in Americas than in Japan. People at NOA (Nintendo of America) tell me, “We have no recollection of a time when our products were being talked about this much in non-business situations.” Probably, the U.S. practice of holding home parties and Wii’s features, especially its unique aspect of “anyone can understand how to play instantaneously and can fully enjoy the play even in 5 minutes,” are a good match. We think that we need to appeal to that aspect of Wii right now. Later this year, as I said, we will also be able to launch hard-core games, when we hope we can accelerate the Wii’s installed base. We would like to make efforts to maximize the unit sales of Wii and DS in the American markets this year.

Q7. At the Tokyo Game Show of September 2005, Mr. Iwata mentioned that the unique controllers for Wii would be good for First-Person Shooter games. What kind of core-gamer reactions have you received, say, for Metroid Prime 3?

Iwata answer: The game has yet to hit any market, so my comments are referring only to the feedback from the game's testers. Talking about the first-person shooters in general, many of the players are playing FPS games on their PC, not on home console systems. Specifically, I heard they often say that FPS are more effectively played with keyboard and mouse rather than home video game systems' controllers. They can aim the target with mouse and move their characters with keyboard. Those who recognize that mouse and keyboard combination is the best for FPS are now sharing with us their impression that Wii Remote and Nunchuk of Wii give them quite similar play feel and that they find some more potential with this new combination than with the existing controlling mechanism of other home console video game machines. Of course, no actual consumers have ever tested it yet, but I think it important for us to create the market where the developers will say, "Wii's controllers are perfectly suited for this genre of games." I think it is one of the important elements for us in order to expand the gaming population. For those who are accustomed to it and currently enjoying it, manipulating two levers at the same time to aim the target and move the character is easy, but it is almost impossible for beginners. After all, it is not something we are doing in our daily lives. Even those who are not good at FPS are now commenting that the Wii Remote and Nunchuk are lowering the hurdle for them to get started. We really want to invite newcomers to the world of first-person shooter games. Also, there are other areas where rather sophisticated play control systems have already been established, such as sports game titles that EA is famous for. With the Wii Remote and Nunchuk, we believe there are lots of new possibilities which are worth exploring.

Q8. You said that DS and Wii are both hardware to expand the gaming population and that you would like to expand to retail outlets beyond the video game retailers. What is your current situation on this regard?

Iwata answer: I recognize the possibility to expand to new retail outlets. On the other hand, we are currently facing product shortages even at the existing retailers. We have been running short of inventories, and they are getting after us. We are sorry that we were unable to sufficiently forecast this kind of demand, but now that this extraordinary situation has been going on, it makes sense for us to comply with such requests from our retailers as, "you have to supply enough

to meet the demands from our existing customers” before we try to expand to new outlets. As each and every one of the retailers is demanding to receive more Wii and DS from Nintendo today, we cannot afford to take an action to expand to new retail outlets. However, even without trying to expand to new outlets, I believe it is possible for us to make new proposals on Wii and DS with the prospects of “enriching people’ s daily lives” or “putting smiles on surrounding people’ s faces.” So, when the current extraordinary product shortages are solved, we would like to consider making a variety of moves.

Q9. Please give us your impressions about the announcement that Mr. Kutaragi resigns from his post of chairman at Sony Computer.

Iwata answer: I cannot say anything. Of course, it is not something we decide. Even if you ask me, I am not in a position to say anything. Sorry.

Q10. Tell us about the current production capability of DS and Wii, and the future plans.

Iwata answer: About DS, as I said before, we have been continuing the monthly production level of 2.5 million. Previously, Nintendo has produced 2.3 million Game Boy Advance hardware in a month only one time in the past. Few months in the past had we produced more than 2 million of any one hardware. In case of DS, however, we raised the monthly production to 2.5 million last year, and we have been keeping that production volume ever since then. As for Wii, we are not disclosing the monthly production number today. Of course, now that Wii is facing product shortages in the markets, we are working on increasing production, and the effect is starting to show up little by little in this month already. As this month’ s production will be sold in the worldwide markets by the end of the next month, a small increase is expected at the retail outlets from next month. While we are on this subject, it looks like some people are misunderstanding that Nintendo is not incorporating state-of-the-art technologies into its products. It is not true. Just as an example, we are using the state-of-the-art technologies to realize the compact-sized Wii console with low power consumption. Making a significant volume of the high-tech hardware, and making an additional volume, is not an easy task at all. In fact, when we clear one bottleneck for a production



increase, we will face another one. We are repeating this process as of today, and it is just premature for us to declare how many we will make from when. We would like to confirm this sometime later. One thing is clear, though, that shipments will increase and that we are trying to increase the shipments in order to comply with the needs of patiently waiting customers.

Q11. Please tell us how you came up with the annual 14 million Wii hardware production schedule. You mentioned that you are increasing the production capacity. Is 14 million due to the supply limit? How do you estimate the demands in each market?

Iwata answer: We take into consideration many aspects when we make our financial forecasts. In this video game business, everyone is making efforts to become the number one company. Nintendo is making such efforts, and others are making the same efforts. Where everyone is making efforts, each one of us is trying to appeal its hardware and software to the hearts of customers. Naturally, we have to make assumptions on many different scenarios. Though we do not want that to happen, we may be late in developing a key software title that may affect the platform's sales speed. Or, more people than we expected may appreciate our offer and our platform may increase its sales beyond our expectations. Both are always possible. So, we have to first write a variety of different scenarios, ranging from extremely conservative to extremely aggressive ones. In the end, after reviewing all of them, we will decide upon the financial forecast that must be most appropriate to be presented to our investors in terms of the actual market. So, the yearly shipment forecast cannot be directly interpreted as a production limit. It is the target we have chosen as most appropriate among many different scenarios.

Q12: You are forecasting a smaller Nintendo DS shipment than the actual shipment you made during the previous term. If you are aiming to have DS replace Game Boy Advance in the U.S., why do you have to lower the DS sales number? What is the total lifespan of Nintendo DS in your opinion? What kind of mid-term prospect do you have for the product, including the next generation of DS?

Iwata answer: Just looking at the Japanese domestic market in the fiscal year ended March 2007, we sold more than 9 million DS hardware, and we have to say it was an extraordinary case. Nothing can sell this much unless some social phenomena factor is there. In fact, as I see it, no other video game hardware was able to sell 6 million in one year in the past. But DS has sold far beyond this number. If we should try to base our forecasts upon such an extraordinary year, we would end up making too aggressive a target. We had to rather think, now that we sold this many in Japan last year, hitting the ceiling must not be incredibly far ahead. Including this kind of thinking, we had come up to the estimate that others might find a bit conservative, and we think it was appropriate. Speaking of platform life cycle, so far, home console hardware was changing the generation every 5 years or so, and the hand-helds had a comparatively shorter lifespan. This may be the case for the current generation of hardware, and Nintendo is always thinking, "what kind of new proposal can provide the customers with meaningful surprises?" Having said that, however, the actual lifespan of a platform has not been set in advance by anybody. Actually, it can vary depending upon the proposals made by the combination of software and hardware. If Nintendo thinks that we have met all of our challenges with DS and should just repeat the same things to stay conservative, the lifespan of DS as a platform would be rapidly shortened. On the other hand, if we can continue our efforts with DS to challenge the unprecedented, and if we can be successful on some of them, DS may be able to enjoy a far longer lifespan than any hardware in the past. Think if one hardware platform with one single architecture can enjoy very long lifespan on the market, to the extent it can be used as a social infrastructure. For example, it is said that more than 90 million of us have cell phone contracts in this country and that number of cell phones is being used today but, unfortunately, they are not sharing the same architecture. So, when someone is trying to use JAVA to create a game for cell phones, they must make one for one company and another for another company, each in order to comply with the different architectures. In the case of DS, we have yet to hit a 20 million installed base here, but when any software can run on this many hardware based upon a single architecture, I believe that platform will take on a completely different value. So, Nintendo is always working to prolong the lifespan of our existing platforms by exploring a variety of different proposals which create a lot of challenges for us. If we can succeed in these challenges, and if people

will start saying, "I did not imagine that Nintendo DS would be used for this purpose" or "You should definitely bring your DS for this occasion because it will make a big difference," DS may enjoy a longer life, and we will continue our efforts to make that happen. On the other hand, the whole world may completely change with a single incident, so Nintendo has to prepare to make the next proposal to the world all the time. Of course, our hardware development teams are thinking about many things in making something new.

Q13: Nintendo has been taking very cautious attitudes on doing anything other than game entertainment. I also understand that this is not the year when you should explore something completely different in a public way, as you should focus upon the expansion of Wii hardware. However, I would like Mr. Iwata to tell us what kind of image you have about the challenge, schedule and size of these non-gaming efforts.

Iwata answer: You said that Nintendo has been cautious in doing anything other than games. It is true that Nintendo is an entertainment company and that Nintendo should focus upon entertainment. However, my understanding is that entertainment is expanding its framework. In the past no one would think that training your brain or studying English could be a video game, but they do now. Even cooking is a video game today. Compared with how Nintendo defined video games 5 or 10 years ago, we are now involved in far greater fields. When many of one hardware platform are used, and always bringing the hardware with you will make your life more efficient or interesting, it will further promote the expansion of the hardware. When great many numbers of a portable machine with one single architecture are there in the real world, the things that can be done with the hardware will also increase. I do not know if this is a good example, but Nippon Television hosted the Escher exhibition at the end of last year. When visitors visited the museum to see the illusionism paintings of Escher, they were temporarily given a DS that Nintendo provided. Museums often let you borrow earphones so that you can listen to the explanations of the articles on display. Nippon TV provided the interactive version of this. Visitors could learn about the Escher's works. One of the exhibitions was Escher's note, but it was so valuable that it was contained in a glass case, but you could read the contents of the note by touching and turning the pages contained in the DS and appearing on the screen. Nippon

Television was glad about the outcome and told us that only the thing they had failed to estimate at the beginning was that visitors ended up spending a longer time in the museums than expected. This is just one of the many proposals we have received, and an increasing number of inquiries are being made to our Licensing department regarding new uses of DS. We cannot review any proposals that may harm our existing business model of video games. On the other hand, as long as they do not interfere with our business model, I think we should review any such possibility. I am afraid but I cannot give you any concrete example today, but Nintendo is not reluctant in this kind of approach. With the increased numbers of a hardware with one architecture, there will be a variety of different possibilities for the machine to be used for the better sake of society, and it can be a step to make DS “the machine that enriches the owners’ daily lives.”

Q14. Our family bought Wii last year and is enjoying it. But as far as I’m concerned, I have many DS software to play with, but I have hardly played with Wii yet. Also, I found Virtual Console software so interesting that I have hardly purchased Wii’s packaged software. I am concerned that this may be a cause to have lowered the software tie ratio of Wii in Japan. What does Mr. Iwata think about this? Also, I often hear such comments from my friends who own DS, “DS is so handy and interesting that I do not feel like buying Wii, which will be time-consuming.” What is your approach to this type of people this year?

Iwata answer: Thank you very much for buying and enjoying so many of our products. Each customer has his or her own needs, and one platform, in order for it to succeed, must cater to so many different needs. So, for some customers, Virtual Console appears to be the optimal system and I personally know several people like that who have already filled almost all the 48 channels with Virtual Console software. For those kind of people, Wii is already like a dream machine, and they have a number of 5,000 Wii Points cards and think they are content with the existing features of Wii. At the same time, of course, there are other people who have shown no interest in Virtual Console. Some people make votes in the Everybody Votes Channel but do not play video games. Some people just play *Wii Sports*, and some others just watch weather forecasts. Currently, there are so many different types of Wii owners, but as for now, we want as many people as possible to make

it a point of just touching the Wii Remote by whatever means. If people make it a point of touching a Wii Remote, when we can have a software that can later be regarded as a social phenomena, such as Brain Training for DS, it can be a solid foundation for the software and the hardware to spread. For those who have not touched a video game controller, the notion that they have to try to do anything on video game hardware in front of TV set is a huge hurdle to clear. However, if you are regularly checking weather forecasts with the Wii Remote, simply touching an icon next to Forecast Channel is much easier. This is where we are at now, I think. Even after people started to say that DS has successfully expanded into the Japanese market, I have been repeatedly saying, “the success of DS cannot guarantee anything for Wii” even though Wii has similar concepts with DS, or “asking customers to try and appreciate something unprecedented is a tremendously huge hurdle especially when we need them to try it in front of a TV set” and “that is why we need to ask them to touch Wii by any means in the first place.” Probably, this is something we will need to focus on in the first half of this year. Later this year, as I said, we will launch hard-core gamers’ games and, as we referred to on several occasions, we will also introduce “software with a health theme.” At that time those who have gotten used to touching a Wii Remote will find it relatively easy to try these new software applications, we hope.

Q15. You said you want people to touch Wii, but there are few places where people can have a hands-on demo of Wii at retail shops. How do you cope with this situation?

Iwata answer: It is always difficult to let visitors have a hands-on experiences when wireless controllers are used (for the controller security reason). Also, when *Wii Sports* is the most wanted product for the demonstration, the retailers have to secure a large enough space to avoid physical contact with bystanders. These are the primary reasons why Nintendo is not doing hands-on demos for Wii right now in Japan. When we have Wii software for hands-on demos that does not require dynamic actions of the players, and if a wired controller will not diminish the feel of play, we may want to more proactively consider that possibility.

Q16. Though Mr. Kutaragi will leave the front line operations of Sony, I can hardly imagine that he will retire from any activities in the video game industry. How about headhunting him?

Iwata answer: I don' t think we will do that.

Q17. I don' t know if we can call it a game, but something called Second Life is gaining in popularity. What do you think of Second Life? Will it have any impact on the video game industry? What do you think is the definition of "Video Games" in the first place? Where will video games be heading in the future? To understand your philosophy, I would like you to tell us your observations on these points.

Iwata answer: I personally have virtually no interest in Second Life. I don' t think it will be considered as an important existence in the future. That is all I can say today. If I need to supplement my remarks, modern human beings have less and less time and energy to spend on any activity. A great many things are changing with incredible speed. The energy one can spend on any entertainment has never been very big in the first place. With this background, I would define a video game as something to which a human being makes an input and from which the human being receives something more valuable than the labor needed to make the input. Maybe it is more of the definition of interactive entertainment than of video game. You touch something and, as the result, you receive something back. That something is more beneficial than what you originally did to get that result. In such a circumstance, people feel like continuing their efforts, without stopping them, I believe. If you receive a smaller reward than the energy you have spent, a lot of you won' t feel like continuing. The reward varies depending on the software. We have very unusual software for DS, which tells you how to make a dish. I myself love to use this cooking software and I myself am now cooking at our home on my days off. There are no rewards in this game. But it will let you cook real dishes, and you will enjoy eating the results. That is the reward in this case. So, because I received the reward as the result of my efforts, I have not gotten tired of this software by now. Ever since I touched this when it was still a prototype and I gave the developers my advice, I have been touching this software from time to time. I think it important for us to create this type

of software that will keep the owners' interests for a long time period without letting them stop using it. There are different types of people. Some of us want to spend a lot of energy in a short time period and look for rather complicated play natures. Some of us just don't have time and want to have quick fun in a short time. So, there are different types of ways to let the users feel they have received their due rewards. But rewards must be there if it is being called a game, I believe.

Q18. Your expressions of "enriching daily lives" and "putting smiles" are rather abstract to me. Without disclosing trade secrets, I would like you to share with us your ideas about the next change in the market and your tricks to make that happen. As a result of such efforts, I understand you are aiming to sell 300 million copies of software in one year. Someone already asked about the number of developers, and another asked about the expansion of outlets. In addition, do you have any plan to increase your territories, such as Asian countries?

Iwata answer: I'm afraid that any concrete answer would reveal secrets, and it would create competitive issues here. We have a number of bitter experiences with revealing our plans too early in the past. In case of Wii, a lot of people asked why Nintendo was not willing to disclose its controller. In retrospect, I think we did the right thing in delaying the disclosure until the last minute. Right now, I have some concrete images about what I am talking about. However, the results of a lot of our projects will be introduced to the market in 6 months or one year from today. For competitive reasons, we really have to avoid a situation where similar products are introduced by other companies. So, allow me to refrain from talking about anything concrete.

When we want to create a market where we can sell 300 million software, not only do we have to expand the gaming populations in Japan, the Americas and in Europe, but also we should tackle other challenges. Actually, we have established our Korean subsidiary to initiate the local business. I also heard that Wii is much talked about in Taiwan. Many other Asian and non-Asian countries are thriving in their economies. However, if you ask me if we should seriously expand into these countries, we have to prioritize on meeting the current demands from existing markets. In the mid-term, however, the challenge of cultivating the

foundation to sell our software in such regions will also be important. However, each country has its own needs and the types of software it will appreciate.

Q19. Don't you have any plan to provide your software for the other platforms, such as mobile phones that are expanding game offerings?

Iwata answer: I understand many people have been predicting that mobile phones would eat up the portable game machine business in the future, since more than 5 years ago. If their predictions were right, we would not have today's situation. Also, we are able to offer a comprehensive business approach by making use of both our own hardware and software, and we have been able to create a number of tricks to surprise people in meaningful ways. This is our strength and this makes our business lucrative. If we conducted only the software business on someone else's hardware, we might be able to have some decent success. However, doing so would be like throwing away one of our strengths. So, rather than looking for a small increase in our revenue for the short term by licensing our products to other platforms, I believe it is more important for us to realize what we can do only with our own platforms, which no other machines can offer. What we really have to do is to find out the themes that can give pleasant surprises to people, that none other than the combination of Nintendo hardware and software can realize. Nintendo is unique because hardware engineers and software developers are working in the same building and closely communicating with each other to create new products. We are disclosing some of these stories on our official Web site in detail, in which I was playing the role of interviewer. I hope you can read them to have a better understanding, but this is our unique strength, and we should not throw away this strength of Nintendo. Also, if we should be content with the success we have so far achieved with DS and stop going after new challenges, others would surely try to duplicate our success, whether it was the result of our challenges on DS or Wii. After all, what we have done was not by magic, and most of the successes are reproducible by the others. So, Nintendo has to always try to create something other platforms, including cell phones, cannot do. Cell phones will make improvements and will show better performances. The bottom line of Nintendo is how far ahead we can go beyond what others will be able to reach. And to do so, we need to stick to our existing hardware-software integrated business approach. This is our basic policy.



Q20. You had so many million-seller DS titles in the previous fiscal year. Some of them sold even 4 million and 5 million or more, which was just incredible. Will you be able to do the similar thing this fiscal year? In comparison, Wii had few million-seller titles and none of them appear to have created a strong impact. Is this because the developers are late in making Wii software? How will you improve the situation?

Iwata answer: When 2 million hardware is being sold in one marketplace, if one software tops its millionth sales mark, it means one out of two hardware owners have already purchased the software, which is not normal at all. In the case of Japan, we already had two million-seller titles for Wii. I do not think we are lacking million-seller titles for Wii at this moment. Of course, as we expand the Wii sales towards the end of this year, we have to make efforts so that the third and fourth million-seller Wii titles will be there. In the case of DS, we were able to have a number of titles which sold 3 million or 4 million. If anyone were to say, "In fact, I was carefully planning to make that great sales success happen," he would be a liar. We are always trying to make software that will be appreciated by as many different types of people as possible, but only when we have the following wind, such as when the hardware and software can be taken as a social phenomenon, can they sell in this huge volume. In other words, these are not numbers we can artificially try to create with our own efforts. Looking at the software unit shipment forecast, some of you may think that Nintendo has not increased the number over the actual sales result of the previous year especially when the hardware are expected to enter into its expansion phase in this year. If we should base upon more aggressive assumption, or if we should assume that a series of 3 million- or 4 million-seller titles will be sold one after another like the previous year, we might be able to increase the target now that we are expecting even more hardware installed basis. Please note, however, having a number of 3 million- or 4 million-seller titles is not a norm but an exception. While we are always trying to make that happen, we can never base our forecast upon such ambitious assumptions. As a result, we have disclosed our financial forecasts as they are. Nevertheless, we will always try to achieve great sales. In case of DS, for example, when there are 16.5 million DS hardware in Japan, software can become a million seller if just one out of 16.5 DS hardware

owners have purchased the software. In that sense, the hurdle to develop a million-seller title is becoming less high, so we will challenge to create software that can sell more than a million. Some can say that making a million seller means, from one perspective, that you will have to let only one out of 120 Japanese to have purchased the software, and from that perspective, having million seller title may appear not so hard in theory, but it is not that easy in real business. We have to ask potential consumers to know the contents of the software, have them become interested in purchasing the software and actually have them purchase the software. From my own experiences of the past many years, I know how hard it is. By understanding the hardship, we would like to continue our efforts to realize as many million-seller titles as possible.

Q21. You said that you would write many scenarios before coming up with the financial forecasts. Were the results of the previous term (ending March 2007) in line with the scenario you had originally prepared?

Iwata answer: Approximately one year ago, when we made the annual financial announcement, we set our original estimates, which have ended up being too small against the actual results. Around that time, we had a good feel for the Japanese gaming population expansion, but DS Lite had yet to hit the overseas markets. We could not tell how the launch of DS Lite could accelerate DS hardware sales in the overseas markets, especially in the Americas, which is the biggest video game market. In other words, between the best- and worst-case scenarios, we had to anticipate a wide range of discrepancies in the U.S. Because we had to revise our forecasts four times, it is inevitable that we are criticized for the lack of making good forecasts. However, in each occasion, there were things we were sure of and things we could not be certain about. We were trying to make the best guesses in order to make the forecasts. However, the result was, our efforts have borne more fruits than we could anticipate. As for Wii software too, we feel that more people than we had expected appreciated our offers.

Q22. You were already so close to 1 trillion yen sales. Aren't you concerned about the so-called "big company disease" ?

Iwata answer: Nintendo has just about 1,500 employees in Japan. Even when we look at our global operations, we just have little more than 3,000 people. I think that Nintendo's value lies in the fact that this small number of people is achieving these numbers, rather than the sheer number themselves or the sharp increase in our sales and profits. With this small number of people involved, it is hard to suffer from the "disease" that gigantic organizations are somehow susceptible to. How to prevent "big company disease" for the really big company with 100,000 employees must be fundamentally different from when people talk about the threat of similar symptoms in a company with 1,500 people. For your information, ever since I became the president of the company, I have been paying special attention to facilitate partnership between our hardware teams and software teams and cooperation between development divisions and production divisions and marketing divisions. Gigantic corporations which are susceptible to big company disease cannot increase their annual sales by 90% in a year in the first place. In that sense, I believe Nintendo is operating just as it should be right now. However, we have to recognize that a 90% increase in sales is not the fruit of our own ability. A sales increase of this magnitude is the result of so many different factors. We did make efforts and our abilities have contributed to the sales increase, but there were so many other elements working in favor for us. I am not concerned about the possibility of big company disease, but I would like to be always considerate enough so that we would never be conceited nor be unvigilant.

Q23. A big home electric shop I know is selling 1,000 DS hardware at the end of every week, and each one of them is snatched up instantaneously. On the other hand, I know that some of the small retail shops in town complains that they never receive supplies. What do you think about this situation?

Iwata answer: Please note that Nintendo is dealing with wholesalers. We sell our products to wholesalers, and they make allocations based upon their own decisions. Usually, Nintendo and wholesalers decide our allocations based upon actual transactions made in the past. In terms of the current situation that any DS and Wii hardware can be sold through in a relatively short time period at the outlets, every wholesaler demands more allocations. However, basically, between Nintendo and the wholesalers, we are agreeing to allocations based upon past transactions.

On the other hand, there are some small retail outlets that have been kindly dealing with Nintendo products for a very, very long time and which do not belong to any big retail franchise and, for these specific retailers, some special allocations are being made. So, if our products are not allocated to some specific retailers, unfortunately, it is the issue between the retailer and the wholesalers, which Nintendo cannot control. Please note, however, that our basic policy is to realize as fair allocation as possible based upon the past transactions and their willingness to sell Nintendo products.

Q24. You mentioned some negative observations of past DS sales in North America. How do you see the current condition?

Iwata answer: One year ago, my observation was, "the delay was obvious." However, today's observation is, "the change is starting to take place." For example, according to NPD research company in the U.S., more than 500,000 DS hardware were sold in March alone. Selling any hardware more than 500,000 in March in the U.S. is not a bad figure at all, and we should not be pessimistic. On the other hand, Japan, which traditionally has only half the market size of the Americas, as a result of successfully expanding the gaming population, was able to sell 600,000 or 700,000 DS hardware in months which were not in the holiday sales season. From such a perspective, it can be said that the U.S. is merely duplicating the good sales which have been achieved in traditional game business or before the actual gaming population expansion starts. Having said that, however, the sales in the Americas are far better than one year ago, so it is improving. We are also noticing what the U.S. people often call "early signs." In many different places, something unprecedented is actually taking place in the U.S. People who would never talk about video games are actually discussing DS and Wii or actually touching them. These are the early symptoms for the market to change. So, we have the early signs. But the real market change has not taken place yet. When the change has occurred, the Japanese market doubled its size. I think that same thing can happen in the U.S. We have not gone that far yet but we are listening to the earth rumbling. We have come to that stage. That is why I am saying, "we really want to make it happen," and "If we can make the change to happen, Nintendo has the huge potential to make a great leap in Americas." And, because we would like to surely take this great chance, I said, "we would like to pay special

attention to the U.S. market this year.”

Q25. Then, you will have to do your best on Wii while you sell more of DS. How do you balance between the two?

Iwata answer: The situations are little bit different between Japan and the U.S. In Japan, we could focus upon Wii marketing only after we were able to observe the DS' momentum in the local market. In the Americas, we have to make simultaneous progress for both. To make the progress on both of these products, we will need to make tweaks. Specifically, we will need to identify the different focuses for them. In order to expand the audiences, DS has the advantage because DS play is not confined to being in front of a TV set, so word of mouth can be more easily encouraged. In the case of Wii, we need to invite potential customers to a place where both a TV set and Wii are located. DS has more opportunity to spread its appeal as people can bring DS with them to show it to other people wherever they go by saying, “I am enjoying this now” or “this is fun.” Accordingly, gaming population expansion efforts must be crafted by putting DS as the center player of it. On the other hand, for Wii as the video game machine with brand-new entertainment proposals, the Americas are a big enough market for home console video games. We will continue our steady efforts to spread Wii in this healthy market with the momentum for home console video games. And, we would like to leverage such opportunities as home parties, where we can invite newcomers to play Wii.

Q26. Will you be able to make Wii the best-selling home console video game hardware in the U.S.?

Iwata answer: All I can say is, we would like to make efforts to make that happen. It is the analysts' job to predict whether or not we can make it, isn't it? (laugh)

Q27. Can we interpret that you are aiming to make that happen?

Iwata answer: Of course. We want as many people around the world as possible to accept our commodities, and we would like to put smiles on as many people as possible.

End.