



Yosuke Matsuda

President and Representative Director

- Oct. 2001 Senior Vice President, SQUARE CO., LTD.
(currently SQUARE ENIX HOLDINGS CO., LTD.)
- Apr. 2003 Senior Vice President and General Manager,
Accounting and Finance Division
- Jun. 2004 Director, Accounting and Finance
- Mar. 2013 Senior Executive Managing Director and Representative Director
- Jun. 2013 President and Representative Director (incumbent)

(Significant Positions Concurrently Held)

- President and Representative Director, SQUARE ENIX CO., LTD.
- President and Director, SQUARE ENIX OF AMERICA HOLDINGS, INC.
(the Group's intermediate holding company in the Americas)
- Director, SQUARE ENIX OF EUROPE HOLDINGS LTD.
(the Group's intermediate holding company in Europe and other regions)
- Deputy Chairman of the Board, SQUARE ENIX (China) CO., LTD.
(the Group's operating company in China)

Let me extend my sincere gratitude for your continued understanding and support for the management of the Square Enix Group. It's been one year since I was appointed to the position of President and Representative Director last June. In addition to reporting on the recent progress, I would like to take this opportunity to report to our shareholders on the Group's progress of our businesses during the period, and outline our future strategic directions.

On a consolidated basis, net sales during the fiscal year ended March 2014 totaled ¥155 billion, while operating income was ¥10.5 billion and net income amounted to ¥6.5 billion. In response to our inferior financial results in the fiscal year ended March 2013, the Group made concentrated efforts together for financial recovery to achieve these figures as a result. This achievement is entirely owing to your support. Again, I would like to express my thanks for your help.

The Digital Entertainment segment, our Group's core business, is currently undergoing a business reform, which I will discuss in detail later on. For the fiscal year ended March 2014, we actively reformed our development policy and organization system, focusing on our European and North American studios, and simultaneously worked on earnings

recovery through our existing lineup. Sales of console game titles, including "FINAL FANTASY X/X-2 HD Remaster," "Thief" (Europe and North America only) and "TOMB RAIDER: DEFINITIVE EDITION," were better than our original plan.

In the category of content for smart devices and PC browser platforms, "SENGOKU IXA," a browser game, continued to contribute to earnings. Meanwhile, the smartphone game "Kaku-San-Sei Million Arthur" was expanding across platforms and regions: the game became an instant hit in Korea, Taiwan and mainland China, and a PlayStation Vita edition of the game was released. "DRAGON QUEST MONSTERS SUPER LIGHT," which was launched domestically in January 2014, also made an encouraging start.



"FINAL FANTASY X/X-2 HD Remaster"
©2001-2004, 2013 SQUARE ENIX CO., LTD. All Rights Reserved.
CHARACTER DESIGN: TETSUYA NOMURA



"TOMB RAIDER: DEFINITIVE EDITION"
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Three major MMO titles—“FINAL FANTASY XIV: A REALM REBORN,” which began operation last August, “DRAGON QUEST X,” which was launched in August 2012, and “FINAL FANTASY XI,” which has entered its thirteenth year of operation—maintain nearly 1,000,000 paying subscribers all together, and have established a solid revenue base.

In the Amusement segment, as a result of streamlining arcade store operations, our amusement facility business was showing steady performance compared to existing store

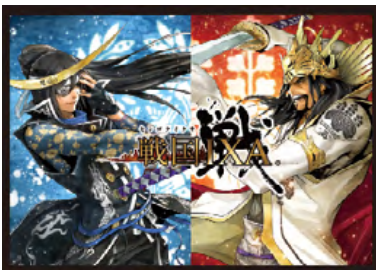
sales in the previous period. In addition, with regard to the development and sales of amusement equipment, we released brand-new machines such as “LORD of VERMILION III,” “GROOVE COASTER” (arcade version), “GUNSLINGER STRATOS 2” and others, which obtained favorable results. In this manner, the Amusement segment has begun to generate stable revenues, and we shall maintain that ongoing momentum.

The Publication segment's results for the fiscal year ended March 2014 were slightly down from the previous period, due in part to several popular manga titles having ended their runs. The fiscal year ending March 2015 will be a time for us to stock up on titles in preparation for our next leap, and we should begin to see results from that stock in the latter half of the fiscal year ending March 2015.

The Merchandising segment is steadily generating sales and profit. While its sales are relatively small, this segment is considered important from the perspective of enhancing our IP offerings, which include original pieces. We therefore shall maintain this steady profit-generation.

Next, I would like to cover the strategic issues of the Digital Entertainment segment, our Group's core business.

Since I was appointed to the position of President last year, I have been running the Group with emphasis on three major strategic issues: **1) revisiting long-term, large-scale development, 2) focusing on smart devices as game**



“SENGOKU IXA”
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“DRAGON QUEST X”
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consoles, and 3) developing product portfolios tailored to local requirements. I will explain each item.

1) Revisiting Long-term, Large-scale Development

HD (high definition) games are the Square Enix Group's DNA and a showcase for our creativity. HD game development will continue to be an integral part of our businesses. However, as I mentioned in last year's annual report, there are serious structural flaws in the disc sales model that defines the current HD game business, and the question of how to deal with the issue is a significant managerial challenge. One major approach we are currently taking is to apply variable pricing models, such as F2P (free to play) games, to the HD games area. We are already introducing such models and have achieved success in several cases.

Last year, platform providers began to promote content delivery services based on the F2P model, in addition to conventional paid content sales, for newly-released home game consoles. Promotion of online HD games based on this new business model is an important pillar of structural reform for us as well, and we conducted a large-scale review of both our HD games development and our European and American studios, in preparation for this course of action. The list of titles that have been announced is still limited at present, but we will be introducing new HD game titles featuring variable pricing models.

In the previous year's annual report, I mentioned that low asset turnover is another major issue for HD game development. The question is how to properly deal with increasingly protracted development periods. In addition, we have a number of challenges to tackle: to say nothing of research into technological aspects such as game engines and development tools. We are facing several business model issues of how to provide customers with additional content both before and after game launch, and how to introduce new development initiatives such as derivative product and episodic models. We are diligently undertaking these tasks, and will report the results of our efforts at a future date.

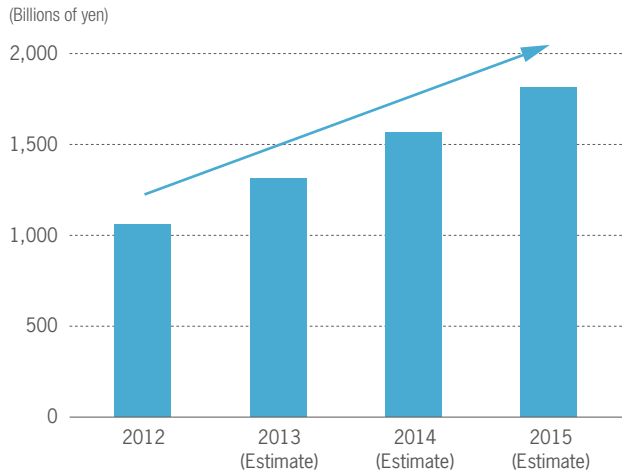
Next, cloud gaming holds new potential on both technological and business model aspects. We have launched a new development project for cloud game technology, and are currently working on the business development to apply the technology to commercial opportunities. It is still fresh in our minds that the innovations in our technology received high acclaim from the media at the E3 trade show held in June. In addition, with the help of Taiwan's Ubitus Inc., we have started a game streaming service of "DRAGON QUEST X" for smartphone and tablet, which will become available on the Nintendo 3DS platform from this September. Cloud gaming is already close to practical use, and we will be able to report several achievements in this area during and after the fiscal year ending March 2015.



"DRAGON QUEST X"
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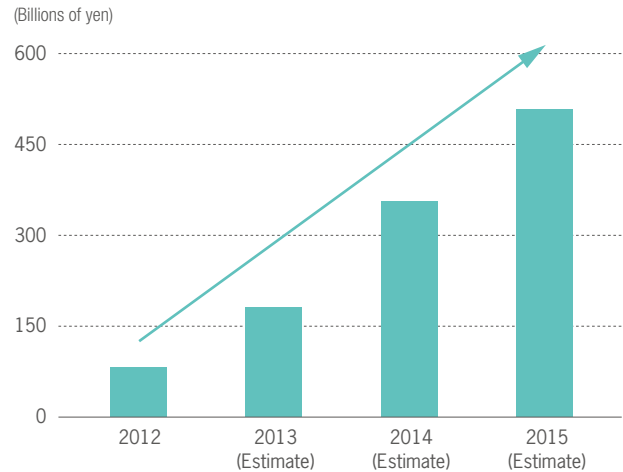
Figure 1 Online Game Market in Mainland China

(including the mobile game market, such as games for smartphones)



(The Company's forecast based on various sources)

Figure 1 Mobile Game Market in Mainland China



(The Company's forecast based on various sources)

As you can see, the HD game business is showing signs of evolving away from the conventional disc-based sellout model for game consoles. The sellout model itself is rapidly shifting from disc-sales to full game downloads, and game sales are entering into an era of full-scale digital distribution. We see this change as a huge opportunity for us, and will endeavor to further expand the HD game business.

2) Smart Devices as Game Consoles

Smart devices such as smartphones and tablets are not game consoles. However, smart devices have rapidly spread to gain an important position as a type of gaming device. It has become a common sight to see people playing games on these devices, which leads us to a strategically important theme of how to encourage customers to play our content on smart devices. Based on this understanding, we have focused our methods for accelerating game development and services for smart devices during the fiscal year ended March 2014. Our efforts have been producing noticeable results such as big hits of “DRAGON QUEST MONSTERS SUPER LIGHT” and “SCHOOLGIRL STRIKERS” since the

second half of this fiscal year. While our Japanese studios have been taking a lead in this area, Square Enix Montréal, a studio specializing in game development for smart devices, launched a game called “Hitman GO” in April, which was highly acclaimed around the world. It hasn't proved to be a major hit yet, but I think it is a significant achievement in that the originality of its gameplay and art style won high praise. We are working hard to connect this achievement to future big hits in Europe and North America.



“DRAGON QUEST MONSTERS SUPER LIGHT”
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©SUGIYAMA KOBO
Developed by Cygames, Inc.



“SCHOOLGIRL STRIKERS”
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The global market for smart device games is showing remarkable growth, and the growth of the Asian market, centered on mainland China, deserves special mention (see **Figure 1**). In the fiscal year ended March 2014, we released “Kaku-San-Sei Million Arthur” for Korea, Taiwan and mainland China, and achieved satisfactory results. In addition, while it is not a game for smart devices, “FINAL FANTASY XIV” was successfully launched in Japan, North America and Europe last August, and won high acclaim worldwide. This summer, the service territory for the MMO game has expanded to mainland China with the intent of entering the Chinese market on a full-scale basis, and we will also work to further grow our revenues from the Asian market by actively releasing mobile titles such as “Sangokushi Ranbu.”

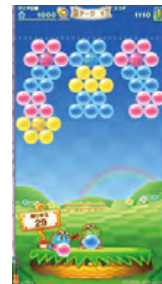
Asia isn't the only region to demonstrate remarkable growth. The Indian and South American game markets are also growing at astounding rates, and smart device games hold the key to capturing these growth markets. It's quite true that, as the economies of developing regions grow, demands for entertainment grow as well. In such regions, people use smartphones or tablets as the device for enjoying entertainment content. Making our content available on these devices will create huge business opportunities for us. We shall establish a foothold of entry into those fast-growing markets through the fiscal year ending March 2015.



“Kaku-San-Sei Million Arthur”
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“Sangokushi Ranbu”
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“LINE Puzzle Bobble”
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3) Product Portfolios Tailored to Regions

Our conventional product sales strategy has been to sell one product worldwide, and we have been developing games for the global market. However, each region holds different cultures and lifestyles, and our customers in those regions have different tastes in games and playing styles. In addition, the gaming environment has become diversified; various options are offered from conventional special-purpose game consoles to smart devices, and other general-purpose devices to cloud streaming. Alongside this trend, the process of game development and distribution are also expanding at an exponential rate. The series of activities in the games business process—procure funding, prepare the development environment, develop games, distribute and sell the finished games—has previously been possible only for major publishers with large-scale funding. However, the shift to “open source, low-cost game development tools,” “fundraising through crowd funding” and “direct sales via download” have created an ecosystem in which large-scale funding is no

longer necessary. This has created a situation where independent developers are appearing one after another, and a large number of new games are being produced all over the world. As seen above, not only the gaming environments, but also the games themselves are increasingly becoming more diverse and decentralized on a world-wide basis, and we therefore recognize that it has become difficult to simply lump the game market together under the term “global.”

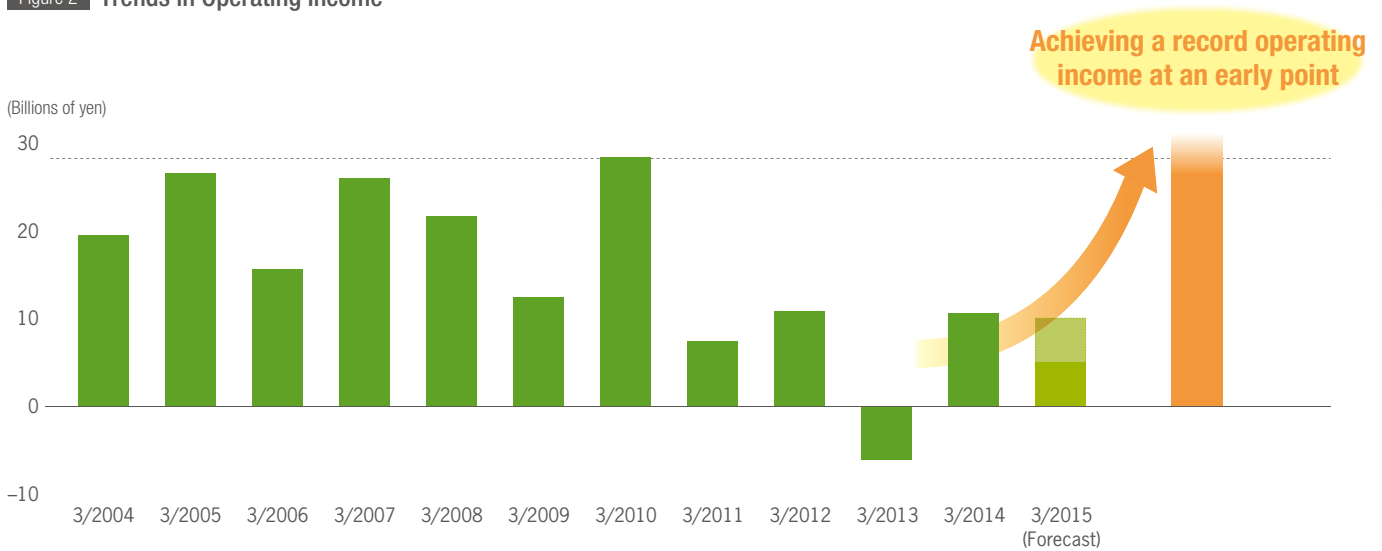
How should our content development deal with such circumstances? I think the key lies in “focus.” Precisely because customer tastes are diversifying and decentralizing, we will be able to create quality content that attains higher customer reviews if we focus on the strengths and specialties that our creators are best at. The regions I mean here are not physical regions. In the current world of digital entertainment, physical borders and boundaries are no longer meaningful. The world is fully connected by the Internet, and content is disseminated to the whole world simultaneously. In this context, “regional” refers to customer diversity, not physical regions.

The fields in which our creators excel are also diverse. Therefore, creators can provide customers with the ultimate experience by focusing on their specialized areas. For example, there are many customers loving JRPGs (Japanese Role Playing Games) worldwide. By focusing on JRPGs tailored to these customers and offering the ultimate games, we will win acclaim from the world. I think that is a reality of the modern digital content business.

This concludes my summary of the fiscal year ended March 2014, and my outline of our future initiatives.

In light of the extremely disappointing results from the fiscal year ended March 2013, we performed a vast review of our domestic and overseas development systems, and developed content with a conscious focus on areas in which we excel. Such efforts will enable us to produce diverse content for a variety of genres in the future. The important value underlying all of this diversity is “fun.” By letting our creators focus on the fields in which they are

Figure 2 Trends in Operating Income



best, and work on delivering their perfect “fun,” we will provide customers with the ultimate content. That is what our Group’s content development strategy should be, and it is also our raison d’etre.

Through realizing these principles, we will endeavor to achieve a record operating income at an early point (see Figure 2), and we intend to establish a business base on which we can generate a stable profit at that level.

The content industry, particularly the games industry, is right in the middle of a major transformation. Although such a transformation is a threat, it’s also a tremendous opportunity for us. By resolutely pressing forward, we shall seize the opportunity through an aggressive approach in order to make the next leap forward as the content industry’s leading company. I would like to ask your continued support.

Yosuke Matsuda
President and Representative Director