

January 1, 2019

A New Year's Letter from the President

I would like to wish everyone a Happy New Year.

The spread and adaptation of technologies: Potential for new services

In 2018, we saw multiple new technologies make robust strides toward practical business use. Smartphones have already reached the entire world. Adoption of VR and AR technologies has shown an especially marked increase in the enterprise domain, and in the entertainment content space, they are being used not only in game content, but also for new services such as “virtual YouTubers.” With the subsiding of the cryptocurrency bubble, the use of blockchain technology has spread to a variety of non-cryptocurrency domains as well. One has been the gaming space, where there have been some interesting developments with games and game platform services using blockchain technology. We are also very interested in potential applications for blockchain technology in the digital content space. In addition, with both the public and private sectors supporting cashless payments, numerous digital currency services are currently battling for supremacy in that field.

Rapid adaptation to new platforms

Against this backdrop of significant change, the current generation of game consoles has entered the late stage, and the next generation of consoles has become a topic of discussion in the digital entertainment industry. Meanwhile, cloud streaming services for gaming have at last begun to show signs of taking off. Streaming is likely to bring a number of new platform operators into the market in addition to the existing console providers, while platform holders are also joining the PC gaming space. These developments produce a growing number of avenues through which game publishers and developers can provide content. In particular, game streaming services will be the ultimate driver of a rapid transition from the sale of games in boxes to digital consumption. Streaming also lends itself to new subscription-based business models, so we believe deciding how to engage with these forthcoming trends will be key to future growth.

Aggressive expansion in overseas markets

Looking overseas, we first note the unpredictability of future developments in the regulatory landscape for games in China. As though in response to that unpredictability, many Chinese publishers and developers are ramping up efforts at growing their international presence, including by actively engaging in M&A activity and business alliances in regions other than China. We also intend to pursue a global strategy that involves building collaborative and cooperative relationships with them.

Furthermore, we plan to relaunch our dormant Indian subsidiary and pursue the robust expansion of our Indian business. Given India's developing telecommunications and payment infrastructure, we see it as an extremely promising market for entertainment consumption in terms of both the size of its population and its economic power. As we

restart our business there this year, we will also have representation from our Japan team on the ground in India. We will work to ensure a powerful launch and to establish solid underpinnings for our Indian business.

As laid out above, we are likely to see a variety of major changes in the digital content industry and elsewhere in 2019. The fluidity and unpredictability of the situation are all the more reason that there should also be major opportunities. With its imperial throne scheduled to change hands, Japan will ring in a new era in 2019. The entire Square Enix Group will work to ensure that the year is also one of dramatic new progress for us.

We thank you for your continued support in the new year.

Yosuke Matsuda
President and Representative Director,
SQUARE ENIX HOLDINGS CO., LTD.