



Yosuke Matsuda
President and Representative Director

Thank you for your continued support of the Square Enix Group. With your support, we made the fiscal year ended March 2016 one of record net sales and profit attributable to owners of parent as the structural reforms and content investments we have engaged in since I assumed the role of CEO have gradually begun to produce benefits. The past fiscal year was also one in which we launched new initiatives designed to take our Group to further growth. I am pleased to take this opportunity to present this review of our achievements and progress in each of our business segments and to describe the strategies and direction we plan to take going forward.

Business Segment Overview

Digital Entertainment Business Segment

In the fiscal year ended March 2016, games for smart devices continued to demonstrate strong growth in the Japanese market, driving overall Group earnings. New titles released in the first half of the fiscal year ended March 2016, such as “MOBIUS FINAL FANTASY” and “KINGDOM HEARTS Unchained x,” which leverage key IP (intellectual property), delivered brisk performances throughout the fiscal year. Titles such as “HOSHI NO DRAGON QUEST,” “FINAL FANTASY BRAVE EXVIUS,” and “Grimms Notes” released in the second half of the fiscal year were also strong performers right out of the gate. With this accumulation of new titles, the percentage of total Digital Entertainment Business Segment sales accounted for by games for smart devices saw significant year-on-year growth in the fiscal year ended March 2016. Some are quick to point out slowing growth and increased competition in Japan’s smartphone game market, but it remains a market in which new titles can succeed by delivering new gaming experiences, and new titles frequently make their way to the upper end of the sales rankings. As device technology advances at a furious pace and consumers grow increasingly discerning, how companies go about delivering new gaming experiences has become the key determinant of success in a market where the true value of content is evaluated. We will also target further growth by rolling out titles that offer a variety of gaming styles and that run the gamut from derivatives of big franchises to brand new IP.



MOBIUS FINAL FANTASY
©2015, 2016 SQUARE ENIX CO., LTD.
All Rights Reserved.



KINGDOM HEARTS Unchained x
©Disney
Developed by SQUARE ENIX



HOSHI NO DRAGON QUEST
©2015, 2016 ARMOR PROJECT/
BIRD STUDIO/SQUARE ENIX
All Rights Reserved.



FINAL FANTASY BRAVE EXVIUS
©2016 SQUARE ENIX CO., LTD.
All Rights Reserved.
Developed by Alim Co., Ltd.
Illustration/ ©2014, 2015
YOSHITAKA AMANO

A Message to Our Shareholders



Rise of the Tomb Raider

Tomb Raider ©2016 Square Enix Ltd.



JUST CAUSE 3

Just Cause 3 ©2015, 2016 Square Enix Ltd. All rights reserved.
Developed by Avalanche Studios. Published by Square Enix Ltd.
Just Cause 3 and the Just Cause 3 logo are trademarks of
Square Enix Ltd.



DRAGON QUEST BUILDERS

©2016 ARMOR PROJECT/BIRD STUDIO/
SQUARE ENIX All Rights Reserved.
©SUGIYAMA KOBO

We also released a wide range of HD (high-definition) games in the fiscal year ended March 2016. These included the latest installments in the major franchises from our Western studios such as “Rise of the Tomb Raider,” “JUST CAUSE 3,” and “HITMAN”; “DRAGON QUEST BUILDERS,” which offers a new way to enjoy the world of “Dragon Quest”; and “I Am Setsuna,” which leverages newly developed IP to bring a fresh sensibility to the turn-based JRPG (Japanese-style role-playing game) genre. All of these offerings serve to make our Group’s game portfolio richer.

HD games are at the heart of our Group’s content portfolio, and we believe that continued investment in this domain bolsters our Group’s enterprise value in a variety of ways, including by helping us to acquire the latest technology and enhance our brand value. Moreover, leveraging the IP assets derived from our HD games in a diversity of ways provides us with further earnings opportunities, which is another reason why we see continued investment in HD game development as vital.

In the MMO (massively multiplayer online game) domain, “DRAGON QUEST X” and “FINAL FANTASY XIV” continued to help generate stable earnings. We released new content for both of those titles in the fiscal year ended March 2016 via the launch of expansion packs. Player retention is a key earnings indicator in the MMO business, and the release of these expansion packs played a significant part in helping us not only retain existing players but also attract returning players and new players. We have no plans for expansion pack releases in the fiscal year ending March 2017, but we intend to continue to strive for customer satisfaction in the operation of our MMO games, with the aim of retaining existing players and welcoming new ones.

Amusement Business Segment

Performance at our arcades remained brisk, with year-on-year existing revenue figures topping 100% in the fiscal year. Demand from foreign tourists held strong, with arcade patronage by visitors from Asia especially helping to grow earnings. The e-money system we began rolling out in 2015 has made payment much more convenient for our customers and generated significant benefits for the arcades where it is available. We also garnered considerable attention in the field of game machine development, thanks in part to the release of “DISSIDIA FINAL FANTASY.”



The consumption tax hike in Japan that had been planned for the fiscal year ending March 2017 has been postponed, but the Brexit vote has resulted in greater global economic uncertainty, and following a period of weakness, the yen is now appreciating against other currencies, raising questions about the future of inbound tourism to Japan. Against this backdrop, we intend to continue contributing to earnings through lean arcade operations and services that satisfy our customers.

In the virtual world age, physical spaces are all the more meaningful. We need to create up-to-date arcade facilities by offering new real-world experiences that are not merely an extension of things that have come before. In doing so, we intend to create an amusement business that will even further enrich our Group's content portfolio.



DISSIDIA FINAL FANTASY
©2015, 2016 KOEI TECMO GAMES/SQUARE ENIX CO., LTD.
All Rights Reserved.
CHARACTER DESIGN: TETSUYA NOMURA



Publication Business Segment

Publication Business Segment sales and profits declined on a year-on-year basis in the fiscal year ended March 2016. The declines owe to a high hurdle set by television anime adaptations of our properties, which had been a major earnings driver in the fiscal year ended March 2015. Our mixed-media strategy of growing comic sales by developing anime adaptations has proven effective, so we will continue it going forward, but the fiscal years 2016 and 2017 represent a preparatory period between anime adaptations, thus a bit more time will be required before benefits appear. As such, we see the fact that we were able to maintain a certain profit level by creating an earnings base that does not rely on anime adaptations as a significant achievement. We will strive to move to our next stage of growth starting in the fiscal year ending March 2018 as we renew our commitment to the basic cycle

A Message to Our Shareholders



of identifying high-quality titles and growing them into major properties.

We also see our Publication Business Segment as a fertile ground for cultivating new IP. It serves as an effective IP platform that allows us to continuously identify new properties and test the waters with them. How to further develop the new IP born here is a very important strategic question for us. Comic content is increasingly digitized, and our anime adaptations are very popular overseas, especially in Asia. As such, we frequently receive licensing requests. In the fiscal year ended March 2016, we entered into a licensing arrangement with the major Chinese game publisher NetEase to launch the digital distribution of our Group's comic content in China. This content is very popular in China, and our titles have been particularly well received in the Chinese market. By further heightening brand recognition through digital distribution, we hope to significantly increase our capacity to monetize them via future game deployments and other initiatives.

As the above illustrates, the Publication Business Segment offers the promise of developing a major cross-border content business liberated from the bonds of traditional paper media by digitization. We place great value on this business for this reason and intend to develop it into a key growth driver.

Merchandising Business Segment

The Merchandising Business Segment delivered a stable performance again in the fiscal year ended March 2016. The segment is vital in that it leverages our original products to further enhance their brand value. The segment also naturally offers some products based on properties licensed in from other companies, but that reflects such parties' high regard for our Group's ability to create products based on external IP, and it has helped us significantly enhance those skills. The fiscal year ending March 2017 and subsequent years will see us continue to add to our portfolio of original content and expand our lineup of products that meet our customers' diverse needs.

▶ **Key Business
Development
Initiatives**

The business environment that surrounds our Group undergoes major changes on a daily basis. However, what we strive for remains unchanged: providing our customers around the world with the ultimate in content-based experiences. That and that alone is where our importance to society and our enterprise value lie. Working flexibly to achieve that goal in an ever-changing business environment is the duty with which you, our shareholders, have entrusted us, the management of this Group. With this in mind, we intend to pursue the following three key business development initiatives going forward: 1) enhancing our offering of premium apps for smart devices; 2) developing VR (virtual reality) and AR (augmented reality) offerings; and 3) expanding into emerging markets, especially India, the Middle East, and Latin America.

1) Enhancing our offering of premium apps for smart devices

Currently, the global market for smart device games is dominated by F2P (free to play) games, and the market for premium games that players pay to purchase is practically nonexistent. However, our Group has for some time been offering premium games for smart devices, including brand new titles. When viewed across the Group, these offerings represent a considerable volume of earnings.

F2P games have achieved remarkable growth thanks to their massive download numbers and significant active user bases that generate fee revenues. Many companies entered the market because of the perception that F2P games cost less to develop than traditional console games while also offering the potential for significant earnings. As a result, the market as a whole saw major growth, but competition reached excessive levels. Meanwhile, marked advancements were made in smart device performance, and consumers of F2P games grew more demanding. As such, the market ceased to provide major returns for low-budget development.

However, the picture for premium games is different. Initial development costs for both F2P and premium games are roughly the same as or even higher than those for new games for dedicated handheld game machines. In other words, the level of investment required cannot be considered low risk. The risk involved in F2P games is even higher than for premium games because of the need to spend on ongoing operational and additional development efforts.

F2P games generate massive download numbers because basic play is free. They thereby establish significant active user bases and present major earnings potential. Premium games, meanwhile, offer the advantage of generating purchases over a long period of time after their initial development costs have been fully depreciated.

Premium games naturally need to be modified to keep pace with frequent OS updates and require ongoing marketing spending to generate user awareness. However, smart devices still provide a better platform for playing greatly loved games for many years than dedicated game consoles do because of the latter's issues with backward compatibility.

Continuing the comparison with dedicated handheld game machines, we note that significant advances have been made in both the specs and operability of smart devices and that this evolution

A Message to Our Shareholders

is likely to continue unabated. Moreover, smart devices have a much greater installed base globally than dedicated handheld game machines. The smartphone-native generation already sees smart devices as all-in-one game consoles.

For these reasons, it makes sense for game manufacturers such as ourselves to supply games that we have traditionally developed for dedicated handheld game machines not only for such consoles but also for multipurpose smart devices.

We believe that the operability of smart devices makes them a good match for turn- and simulation-based RPGs, among other games. We see turn-based RPGs as a style or format of game and do not believe them to be outdated at all. The development of such RPGs is something that our Group has excelled at for some time.

By releasing new RPGs not only for dedicated handheld game machines but also for smart devices, we hope to develop the premium game market into a pillar of our business on a par with the F2P market. In so doing, we believe that we can enrich the portable game market in the broader sense in order to respond to a variety of customer needs.



SCHOOLGIRL STRIKERS

©2014-2016 SQUARE ENIX CO., LTD. All Rights Reserved.



Kai-ri-Sei Million Arthur

©2014-2016 SQUARE ENIX CO., LTD. All Rights Reserved.

2) VR/AR

2016 is being referred to as “year zero” for VR as VR machines, peripherals, and content are finally making their way to the market in significant volumes. Our Group is also extremely interested in this domain and already working on developing VR content for some of our projects. That said, consumers cannot grasp the appeal of VR without having experienced it, so the spread of VR is currently being driven by supply-side entities such as hardware manufacturers and game developers. While equipment and other purchases currently demand a significant upfront investment on the part of users, VR offers never-before-experienced surprises and the possibility for a variety of applications that extend beyond the world of gaming. We therefore look for VR to grow into a major market.

Effectively leveraging VR and AR will enrich our Group’s content portfolio, and we also plan to develop unique VR and AR content. We provide content in a wide range of formats, including not only consumer game consoles and smart devices but also amusement machines, publications,

and even tangible objects like figurines. We look forward to our creators applying their talents to generate new chemical reactions by combining new VR and AR technologies with such content.

We note also that VR and AR are catchall terms for technologies that can take on a variety of forms, and we believe that our Group should offer content that leverages our unique strengths. In our view, gamers are likely to come to expect a “VR mode” as a standard feature on HD game consoles. Incorporating VR content into HD games enables us to create a more immersive gaming experience. We believe this represents the very domain that will enable us to further demonstrate our Group’s strengths.

AI (artificial intelligence) is another field undergoing significant innovation. We intend to leverage our advanced research in the realm of gaming AI and believe that gaming AI technology we have developed in entertainment contexts will likely be applied in fields such as the development of robots. We feel certain that once robots expand from the B2B realm to the B2C realm, consumers will expect their robots to be entertaining. Our gaming AI technology and insights may help in that realm. We intend to look for ways to become involved in robot AI technology from the perspective of entertainment.

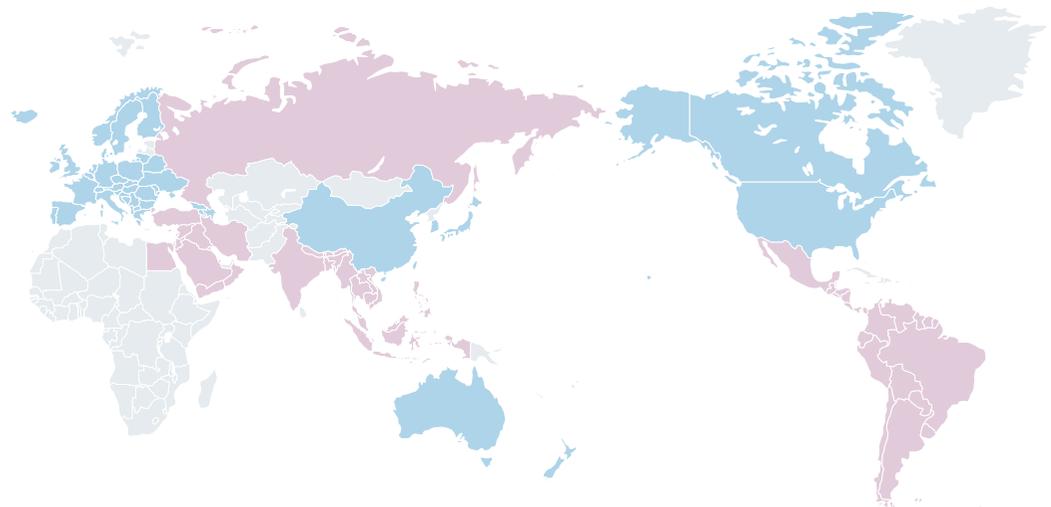
3) Expanding into emerging markets

We have cited expansion into emerging markets as a target for the past several years, but unfortunately have not produced sufficient results. During that time, emerging markets have continued their steady growth, and it goes without saying that taking advantage of the growth in those markets needs to be a key focus under our Group’s growth strategy.

China is a leading country in terms of gaming and online and mobile gaming, in particular.

Overseas Expansion of the Digital Entertainment Segment

- Target markets
- Existing markets



A Message to Our Shareholders

As such, it is a key market on a par with those of Japan and the West. We believe that partnerships with local companies will prove effective in developing our content business there and intend to continue to collaborate with key players.

The Middle East and Latin America (especially Mexico and Brazil) are growing rapidly as consumer markets. Language localization is critical to supplying our games to these countries. To date, our localization efforts have focused primarily on the so-called EFIGS languages (English, French, Italian, German and Spanish). However, to improve access to our games for large populations, we believe that we also need to localize into Chinese (simplified), Arabic and Portuguese.

Our Western studios have produced multilingual offerings for some time, but we believe that our Japanese studios urgently need to develop the capacity to localize into these major languages at any given time and are working to ensure that at the moment. We also believe that by localizing our globally strategic titles, we should be able to enhance our presence in the relevant regions, thus laying the groundwork for our emerging markets strategy.

This is how our businesses performed in the fiscal year ended March 2016 and what we expect for the fiscal year ending March 2017 and beyond. In the fiscal year ended March 2016, our net sales exceeded ¥200 billion for the first time, and we set a new record at the profit attributable to owners of parent line as well. By implementing the aforementioned initiatives, we intend to strive for further growth in our sales and profits.

Dividends will serve as the centerpiece of our shareholder return policy, and we will target a consolidated payout ratio of 30% while giving consideration to the appropriate balance between investing and distributing our profits. From VR through AR to AI, we are seeing a constant stream of new investment and business opportunities. We believe that such opportunities should not be missed and that investments in future growth should be made in a timely fashion.

We look forward to your continued support.



Yosuke Matsuda
President and Representative Director