

January 1, 2024

A New Year's Letter from the President

I would like to begin by wishing everyone a happy New Year.

People's lives took a turn for the better in 2023 thanks to the COVID-19 pandemic largely subsiding, after having raged for so long, and to the lifting of the restrictions it had triggered. At the same time, 2023 was also a year of tumult exemplified by an intensification in geopolitical risks and sharp inflation stemming partly from monetary policy moves made by central banks grappling with the pandemic. Regions, countries, and even we as individuals found ourselves in a time of transition as the world struggled to establish what the "new normal" would look like following the pandemic.

With uncertainty on the rise in society as a whole, change was also underway in the realm of digital entertainment, where we position our core business. In 2023, we saw the release of eye-catching products and services in multiple domains where the commercialization and adoption of emerging technologies had seemed a more distant eventuality. The potential of these offerings also garnered greater attention than ever before.

For example, whereas the extended reality (XR) domain had previously developed primarily around business applications for the metaverse and other virtual spaces, 2023 saw the rise of many new services fusing virtual spaces with the real world. A case in point is the way the architecture sector, which previously had limited integration of XR in its business, began increasingly adopting these technologies because they enable the conversion of real-world architectural structures into data, a process also facilitated by the widespread use of commercial drones. In the realm of digital entertainment, where the focus has been on pioneering the development of new content, the experiential value of digital content itself increased dramatically as devices came to market that were capable of delivering even more immersive, realistic experiences using virtual reality (VR) and augmented reality (AR). The next step will be applying these technologies to new forms of content that fuse the real and virtual worlds.

Artificial intelligence (AI) and its potential implications had for some time largely been subjects of academic debate. However, the introduction of ChatGPT, which allows anyone to easily produce writing or translations or to engage in text-based dialogue, sparked the rapid spread of generative AIs. Its release made it apparent that the applicability of generative AI was by no means limited to text, and the subsequent months saw a quick succession of launches of new services and content

that expanded generative AI into a variety of domains with close ties to digital entertainment, including images, video, and music. I believe that generative AI has the potential not only to reshape what we create, but also to fundamentally change the processes by which we create, including programming.

As such, 2023 was a year of numerous innovations in the realm of digital entertainment. It was also a milestone year for the SQUARE ENIX GROUP in that we both celebrated our 20th anniversary and also set forth on a new path under the management team that I head.

Since assuming the roles of president and representative director of SQUARE ENIX HOLDINGS in June 2023, I have worked to reassess our entire Group. Customers, shareholders, investors, employees, and other stakeholders have generously shared their time and insights on numerous occasions to help me do so. These insights have assisted me in identifying the direction we should take to achieve further growth and in beginning to lay the groundwork to make that a reality.

In our Digital Entertainment business, we are working to strengthen both our content development and publishing capabilities.

On the content development side, we are working not only to vet our existing pipeline of titles under development, but also to put the capabilities in place to ensure that development efforts that have yet to begin result in products and services that meet the expectations of our customers more than ever before. Specifically, we have begun optimizing our resource allocation across our entire development chain in order to accelerate an effort that was already underway to strengthen our internal development capabilities. We are also expanding knowledge sharing with the goal of standardizing our processes and enhancing our efficiency.

On the publishing side, which consists of our sales and marketing functions, we are working to enable greater global collaboration and to promote the shift to digital. By sharing information within our Group on the features unique to different geographical markets and on the best practices for addressing them, we are bolstering our publishing capabilities globally. We see this as an effective means not only to maximize our sales of new titles, but also to deliver our rich back catalog to more customers and in turn to expand the fan base for our Group's intellectual properties (IPs).

We are also working to put organizational structures in place that will enable closer collaboration between our content development and publishing functions. Our goal is to strike a balance between a product-oriented and a market-oriented approach so that we are able to share customer views

with our content development team and thereby create content that makes our customers even happier than ever before.

We also intend to be aggressive in applying AI and other cutting-edge technologies to both our content development and our publishing functions. In the short term, our goal will be to enhance our development productivity and achieve greater sophistication in our marketing efforts. In the longer term, we hope to leverage those technologies to create new forms of content for consumers, as we believe that technological innovation represents business opportunities.

With a focus on comics, our Publication business provides content spanning a wide range of genres in both digital and printed formats. Our Amusement business meanwhile provides real-world entertainment, primarily through its TAITO STATION amusement facilities. Both businesses enable us to reach broad customer segments beyond those that engage with our Digital Entertainment business, thus bolstering awareness of our Group. They help us to convey the appeal of our content in a more multidimensional way, which I see as vital. These businesses naturally have potential synergies with our Digital Entertainment and other businesses, and they also play a role in our multifaceted approach to leveraging our IP, including via film and animation adaptations. As such, I see them as capable of contributing to our Group's growth and intend to continue to focus on them.

In terms of new business domains, we previously identified three focus investment fields, namely blockchain entertainment/Web 3.0, AI, and the cloud. Last year we redefined our overarching mission and goals for these three fields. We are currently working to modify our organizational structure and optimize our resource allocations to support these efforts.

In addition to our focus investment fields, we will also endeavor to create mechanisms that enable us to diversify our earnings sources. These initiatives will be the most important determinants of our Group's ability to adapt flexibly to a changing business environment and to continue to create high-quality content. They will also help us create an environment that allows each and every one of our employees to demonstrate the full measure of their individuality and creativity.

Many of the initiatives that were undertaken in 2023 were designed to bring the whole of our Group together to create content that truly satisfies our customers and to establish the capabilities to deliver that content to as many customers as possible.

2024 will mark the starting point for our Group to achieve additional strides forward and further

growth. We will articulate our new corporate strategy in the form of a Grand Design and devote ourselves to executing each of our initiatives. Never fearing change and always maintaining a challenger's mindset, we will work together as one to drive our businesses forward.

I wish you all the very best for the new year.

Takashi Kiryu
President and Representative Director
SQUARE ENIX HOLDINGS CO., LTD.