SQUARE ENIX

2009

ANNUAL REPORT

Corporate Philosophy

To spread happiness across the globe by providing unforgettable experiences
This philosophy represents our company's mission and the beliefs for which we stand.

Each of our customers has his or her own definition of happiness.
Square Enix Group provides high-quality content, services, and products to help those customers create their own wonderful, unforgettable experiences, thereby allowing them to discover a happiness all their own.

Management Guidelines

These guidelines reflect the foundation of principles upon which our corporate philosophy stands, and serve as a standard of value for the Group and its members. We shall strive to achieve our corporate goals while closely considering the following:

1. Professionalism
We shall exhibit a high degree of professionalism, ensuring optimum results in the workplace. We shall display initiative, make continued efforts to further develop our expertise, and remain sincere and steadfast in the pursuit of our goals, while ultimately aspiring to forge a corporate culture disciplined by the pride we hold in our work.

2. Creativity and Innovation
To attain and maintain new standards of value, there are questions we must ask ourselves: Is this creative? Is this innovative?
Mediocre dedication can only result in mediocre achievements. Simply being content with the status quo can only lead to a collapse into oblivion. To prevent this from occurring and to avoid complacency, we must continue asking ourselves the aforementioned questions.

3. Harmony
Everything in the world interacts to form a massive system. Nothing can stand alone.
Everything functions with an inevitable accord to reason. It is vital to gain a proper understanding of the constantly changing tides, and to take advantage of these variations instead of struggling against them. We shall continue to work towards harmony and serve as an integral part of this ever-fluctuating system.

In order to achieve ideal performance levels, we as individuals, shall aim for a mutual respect amongst our coworkers, remain conscious of the duties assigned us, and place an emphasis on teamwork.
As a corporate organization, we shall work diligently to maintain an optimal balance culminating in the ultimate satisfaction of all our stakeholders, including customers, shareholders, counterparties, and employees.
As a business entity, we shall contemplate what functions we are to perform within the realm of industry, while acting in a manner that ensures the mutual harmony and benefit of all parties within it.
Finally, as a member of society, we shall comply with laws and regulation while fulfilling our civic obligations, including community involvement and environmental conservation.

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Disclaimer Regarding Forward-Looking Statements

Statements in this annual report with respect to the current plans, estimates, strategy, and beliefs of SQUARE ENIX HOLDINGS CO., LTD., and consolidated subsidiaries [collectively "SQUARE ENIX HOLDINGS"] include both historical facts and forward-looking statements concerning the future performance of SQUARE ENIX HOLDINGS.

Such information is based on management's assumptions and beliefs in light of the information currently available and, therefore, involve risks and uncertainties. Actual results may differ materially from those anticipated in these statements due to the influence of a number of important factors.

Such factors include but are not limited to: [1] general economic conditions in Japan and foreign countries, in particular levels of consumer spending; [2] fluctuations in exchange rates, in particular the exchange rate of the Japanese yen in relation to the U.S. dollar, the euro and others, which SQUARE ENIX HOLDINGS uses extensively in its overseas business; [3] the continuous introduction of new products, and rapid technical innovation in the digital entertainment industry; and [4] SQUARE ENIX HOLDINGS's ability to continue developing products and services accepted by consumers in the intensely competitive market, which is heavily influenced by subjective and quickly changing consumer preferences.

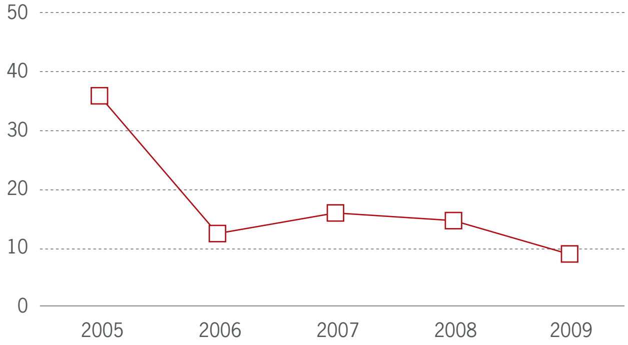
Financial Highlights

SQUARE ENIX HOLDINGS CO., LTD. and Consolidated Subsidiaries
Years Ended March 31

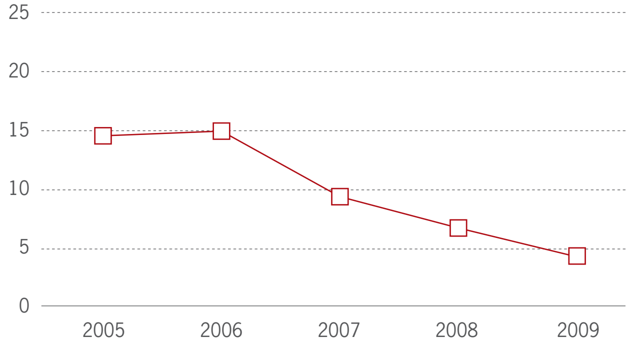
					Millions of Yen	Thousand of U.S. Dollars
	2005	2006	2007	2008	2009	2009
For the Year						
Net sales	¥ 73,864	¥ 124,473	¥ 163,472	¥ 147,516	¥ 135,693	$ 1,381,387
Operating income	26,438	15,470	25,916	21,520	12,277	124,991
Net income	14,932	17,076	11,619	9,196	6,333	64,477
At year-end						
Total assets	¥131,695	¥ 213,348	¥ 215,679	¥ 212,134	¥ 213,194	$ 2,170,360
Total equity	108,933	120,993	129,461	147,034	147,318	1,499,728
					Yen	U.S. Dollars
Per Share of Common Stock						
Net income	¥ 135.63	¥ 154.65	¥ 105.06	¥ 81.85	¥ 55.11	$ 0.56
Total equity	988.19	1,094.50	1,168.91	1,280.50	1,280.92	13.04
					%	
Key Ratios						
Operating income margin	35.8%	12.4%	15.9%	14.6%	9.0%	
Return on equity	14.5	14.9	9.3	6.7	4.3	
Equity ratio	82.7	56.7	60.0	69.3	69.1	

Notes: 1. For the convenience of readers, amounts in U.S. dollars have been translated using the currency exchange rates at March 31, 2009 of ¥98.23=US$1.
2. Total equity = Common stock + Capital surplus + Retained earnings + Treasury stock + Valuation and translation adjustments

Operating Income Margin (%)



Return on Equity (%)



Yoichi Wada
President and Representative Director

To Our Shareholders

I am grateful to our shareholders for the opportunity to present the Company's annual report for the fiscal year ended March 31, 2009.

In the fiscal year under review, on a consolidated basis, net sales decreased 8.0% compared with the previous fiscal year, to ¥135,693 million. Operating income declined 42.9% to ¥12,277 million, and recurring income decreased 40.3% to ¥11,261 million. Net income amounted to ¥6,333 million, a 31.1% decline compared with the previous fiscal year. As a result, the recurring income margin was 8.3%, and return on equity (ROE) stood at 4.3%.

We set dividends applicable to the fiscal year ended March 31, 2009, at ¥30.00 per share, resulting in a consolidated payout ratio of 54.4%.

In light of the very high payout ratio, I would like to provide additional clarification. The Company's dividend policy is to maintain an optimal balance between performance-linked payouts and stable returns to shareholders. In line with this policy, we have stated that our benchmark for the payout ratio is approximately 30%. Underpinning this is our belief that the Company should generate sustained growth and we define the key measurement for this as growth in dividends per share. In other words, it is our policy to maintain the payout ratio at around 30%, as the dividend increases step by step.

Although a characteristic of the entertainment industry is that it is impossible to avoid volatility in operating results, I am conscious that such volatility is only tolerable as long as it occurs within the context of steady growth in the Company's core strengths.

Regrettably, the Company's operating results for the fiscal year under review were disappointing. However, this was not a reflection of a loss of core strength and I think that we have been able to lay the groundwork for our next phase of growth. Although the payout ratio is quite high, we judged that a dividend of ¥30.00 is an appropriate amount in these circumstances.

During the period under review, from a medium- to long-term strategic perspective, did we actually make substantive progress toward sustained growth? I would now like to discuss this point in some detail.

The SQUARE ENIX Group's Growth Strategy

I believe that the entertainment industry's structure, or "ecosystem," is undergoing a major transformation, triggered by the on-going progress of globalization and networking. The SQUARE ENIX Group's growth strategy is based on this perception of the times. Although it is essential to adapt one's tactics flexibly during such a transformative phase, our core strategy remains focused on the following four principal elements.

The SQUARE ENIX Group's Growth Strategy

1. Enhancing the value of our brands
2. Building a global business structure
3. Establishing diverse points of contact with our customers
4. Reinforcing capabilities in community management

❶ Enhancing the value of our brands

The essence of entertainment is the value derived from the entertainment experience. To enhance that value, we believe that it is important to produce our own robust lineup of content and services, and build this lineup into firmly established brands. In other words, the SQUARE ENIX Group's identity is that of a creator—the source of our value is what we create ourselves rather than acting as an intermediary for the creations of others.

By focusing principally on intellectual property (IP) that we own outright, we can promote our own cross-media initiatives with increased flexibility and scalability, without burden of procuring third party rights. This provides a crucial foundation for profit maximization.

In the fiscal year under review, although we successfully reinforced the brand value of our main franchises, only the Publication segment was able to produce significant new IP. We will continue tackling the challenges of enhancing our brand values.

❷ Building a global business structure

Through advances in communications technology, interaction among people spread around the globe is accelerating. Customer preferences are spreading beyond national borders. We therefore have to design strategies based on the premise that the market extends world-wide for entertainment industry players, including among others, the digital entertainment sector.

Having said that, we must also acknowledge that until now, the Group's business foundations have remained—for the most part—within Japan.

A substantial share of our earnings have been dependent on the Japanese market. Although we have several strong franchises appealing to North American and European markets, our business structure has remained as a typical export-driven model, whereby the content we developed in Japan has been exported to overseas markets.

In the fiscal year under review, the major management theme for us has revolved around building a global business structure.

First off, from the fiscal year ended March 31, 2009, we began placing orders for game development with U.S. and European companies. We have forged strategic relationships with such renowned game developers as Gas Powered Games Corp. We have already shown several of these titles at the 2009 E3 (Electronic Entertainment Expo) in Los Angeles.

Additionally, leveraging our significant marketing strength within Japan, we commenced domestic sales of game titles produced by leading game publishers. These include titles from Ubisoft (released exclusively by Square Enix in Japan) and Activision Blizzard.

We expect these moves to contribute to earnings from the second half of 2009.

Regarding our efforts to build a global business structure, we have already taken another decisive step in 2009. I will provide further details on this development later in this report.

Gas Powered Games Corp.

Gas Powered Games is currently developing "Supreme Commander 2," which is scheduled for release by the Group in 2010. In June 2009, "Supreme Commander 2" received considerable attention after winning the Best Strategy Game award at E3 2009 in Los Angeles.

❸ Establishing diverse points of contact with our customers

Since the content we create is not a commodity with physical value but derives its value from the experience it provides, this content cannot reach our customers without passing through some point of contact. I use "contact points" as a generic term including such communications devices as game consoles, personal computers (PCs), and mobile phones; such media as books, DVDs and broadcasting; and such distribution channels as movie theaters, game arcades, DVD retailers, ISPs and mobile communications carriers.

The revenue model for content has been established in each contact point. A customer's choice of a certain contact point depends on his/her lifestyle. In other words, even if a customer's content-related tastes do not change, if the customer's lifestyle changes, there is the possibility that we may no longer be able to convert those customer tastes into revenue.

For this reason, we are committed to offering content across a broad array of contact points. No matter which contact point a customer chooses, we have the opportunity to convert tastes into revenue. Furthermore, we can maximize revenue opportunities by providing multiple contact points for the same content. At the same time, the exposure our content receives becomes multilayered and brand value is enhanced.

Until now, the entertainment industry has been divided, according to the point of contact chosen by the customer, into such sectors as movies, music, manga (comics), and games. However, many sectors, including the movie sector, have pursued a multi-window strategy while the digitization of content formats has also contributed to the blurring of boundaries between sectors. This evolution means that the business environment has been transformed into one in which brand development has a far stronger impact on profitability than ever.

Whilst we fully recognize this environmental change, our business segments are purposefully divided according to customer contact point. Our most fundamental value is the centripetal force—or drawing power—of our content. Although this value is not dependent on a particular point of contact, unless each segment succeeds at its own business, we cannot generate synergies between segments. This fundamental rule effectively disciplines the day-to-day business operations.

The Mobile Phone Content segment has performed very robustly, achieving new records for both operating income and operating income margin. However, the most pressing issue we must address is that, so far, this success has been limited to the Japanese market alone. We are committed to accelerating the development of this business in North America and Europe to further bolster the segment's profitability.

The Publication segment has also performed strongly. Each year, some of our new titles achieve hit-product status, leading to extremely favorable results. However, this segment must also address the issue of being a domestic market-only business. In the future, driven by online development, we aim to expand the Publication segment's geographic territories.

The Amusement segment is facing an uphill struggle. Since our acquisition of TAITO CORPORATION four years ago, we have successfully restructured the business and built up operating profitability to around ¥4–5 billion per year. Unfortunately, in the year under review, we faced the impact of slumping economic conditions. It seems likely that an adverse economic climate will persist for another one or two years, and we believe this industry is in a shakeout phase where the surviving participants will eventually reap rewards. For this reason, we are exerting our utmost efforts now to ensure that we are one of the future winners.

Synergy is emerging between SQUARE ENIX and TAITO. Such successes as "DRAGON QUEST Monster Battle Road" and "LORD OF VERMILLION" are drawing much attention within the amusement industry.

❹ Reinforcing capabilities in community management

Brand value rests not only on the relationship between the customer and us. The brand should become a kind of hub, facilitating communication among customers themselves, and thereby further bolstering value. By running a wide range of communities, from "FINAL FANTASY XI" to "Nicotto Town," we aim to reinforce our group's community management capabilities.

The four strategies I have outlined above form the core of our growth strategy.

Nicotto Town

SQUARE ENIX HOLDINGS wholly owned subsidiary SMILE-LAB Co., Ltd., officially launched the Nicotto Town online virtual community in September 2008. In the nine months since its official launch, Nicotto Town has recorded over 240,000 user registration. With site page views now exceeding 200 million per month, Nicotto Town continues to enjoy steady growth.

Game Entertainment becomes Mainstream

Computer games had their first boom around thirty years ago through the emergence of arcade games. More than twenty years ago, Nintendo's Family Computer (or NES) game console became a major hit product in Japan, ushering in an era of intense competition in the home game console market. Game consoles spread in popularity to North America in the second half of the 1990s and subsequently to Europe at the beginning of this decade, eventually leading to global market penetration.

During this time, PC-based computer games steadily strengthened their footing in Europe and North America, while online games achieved a breakthrough in popularity in the Asia region from the second half of the 1990s, particularly centered on South Korea and China. Since 2000, as the functionality of mobile phones has advanced, the range of games played on mobile phones has also expanded rapidly.

In terms of demographic spread, although computer games started out mainly as entertainment aimed at children, over the industry's thirty-year history it has evolved into a popular entertainment genre for adults too.

Games have spread their popularity from almost any perspective one might choose—geographically, across age groups, and to a wide variety of platforms. Games have become a mainstream genre of global entertainment.

The game industry has now grown to become one of the world's major industries, with continuing growth expected in the future. Consequently, as an industry participant, we must take all possible measures to serve the game market as one of the world's most sophisticated markets. I believe such efforts will be rewarded.

Eidos Ltd. joins the SQARE ENIX Group

Since the reach of the game industry is global, we must also become a truly global business. We need to establish game development studios in multiple locations around the world and transform our sales and marketing organization in each region from a mere outpost agency of Japan-based headquarters to one that has firm roots in the local market.

In April 2009, as our first move aimed at forging more globalized operations, we acquired Eidos Ltd. as a wholly owned subsidiary. The acquisition price was £84.3 million (¥12.1 billion as of the purchase date).

Three main reasons contributed to our decision that Eidos would make a suitable member of the SQUARE ENIX Group.

Firstly, Eidos has proven its extremely high game development capabilities. The company boasts a strong lineup of high-quality content, including such major franchises as "Tomb Raider" (more than 30 million units shipped) and "Hitman" (over 8 million units shipped).

Secondly, among major European and North American game publishers, Eidos is one of the few companies to own nearly all of it titles' IP outright. From the perspective of our core strategy of establishing a diverse range of customer points of contact, this is particularly significant.

Thirdly, Eidos has a corporate culture that emphasizes the importance of what we in Japan refer to as "monozukuri"—a passion for the art and science of producing high-quality products. This also fits closely with our philosophy. Eidos places importance on the world view articulated through its products. The company's culture of pursuing the richest game experience possible

Eidos studios and its major titles

■ Crystal Dynamics	United States	Tomb Raider : Underworld (Published in November 2008)
■ IO Interactive	Denmark	Hitman : Blood Money (Published in May 2006)
		Kane & Lynch : Dead Men (Published in November 2007)
		Mini Ninjas (In development, September 2009)
■ Eidos Montréal	Canada	Deus Ex 3 (In development, TBA)
		Thief 4 (In development, TBA)
■ Beautiful Game Studios	United Kingdom	Championship Manager 10 (In development, September 2009)
■ Eidos Game Studios*	United Kingdom	Just Cause 2 (In development, 2010)
		Battlestations : Pacific (Published in May 2009)

*Eidos Game Studios includes the Eidos Hungary Studio (Battlestations: Pacific) and the management of all external studio projects such as Rocksteady Studios (Batman: Arkham Asylum) and Avalanche Studios (Just Cause 2). Eidos owns 25% of Rocksteady Studios.

for its customers has much in common with our own approach.

We anticipate significant opportunities to generate short- and medium-term synergies between SQUARE ENIX and Eidos. Although Eidos develops excellent content, the company's major source of revenue is limited to game software sales. By promoting SQUARE ENIX's unique strength in creating multiple revenue opportunities for content, we will strive to maximize Eidos' earnings potential. In addition, since the entire SQUARE ENIX Group's sales will become more geographically balanced, we believe we can generate substantial scale advantages through our publishing of games. Furthermore, while SQUARE ENIX has built its reputation principally based on its strengths in the role-playing game (RPG) genre and on its capabilities in high-quality graphics, Eidos is known for its strengths in the action and adventure genres. Consequently, we think the two companies can build an ideal complementary relationship. I am sure that by providing opportunities for game creators from both companies to communicate and share their know-how, we can forge a sound base for the creation of superior content.

Another key point is the potential for long-term advantages. Unlike consumer electronics or business software, the "global standard" model is not applicable to the entertainment industry. By this, I mean that a single standard does not dominate all markets. I believe that striking the correct balance between global and local is particularly crucial. Based on this awareness, I think that there are limitations to what can be achieved in overseas business expansion if we simply rely on extending bridgeheads out from Japan. By this, I mean a model whereby Japanese staff members are sent out to overseas locations to establish offices and hire local staff as a means of expanding the business internationally.

Eidos has a history in Europe spanning over twenty years, and was listed on the London Stock Exchange prior to the acquisition by SQUARE ENIX. The experience and track record built up by Eidos now becomes part of the SQUARE ENIX Group, and we anticipate significant benefits from the ideal fusion of these two corporate cultures.

Established Framework for Growth

We can spare no effort as we strive to create the highest quality content. Naturally, until now, we have focused on building a sound framework for growth. We have been making every effort to establish a broad variety of points of contact with our customers and to build a business platform capable of expansion into a global concern.

The beginning of this building process was the merger of ENIX and SQUARE. Through the birth of SQUARE ENIX, we have been able to construct a solid business foundation comprising of our respective game businesses, characters and derivative products, publication and mobile phone content. Through this we have successfully established a diverse range of customer points of contact.

Later, by acquiring TAITO, we added physical points of contact with our customers through the game arcade-based Amusement business. Now, with the addition of Eidos, we have successfully established the foundations for a truly global enterprise.

The framework we have been aiming for is now largely visible. What remains is the establishment of business bases in China and other parts of Asia, and the shift to an online business platform. Of course, a framework on its own does not make a business. We must build out from what we have established, and, I am acutely conscious of the necessity to follow up with tangible results.

Over thirty years ago, the arcade revolution was triggered by "Space Invaders" (TAITO). Twenty years ago, home game-console software first entered popular consciousness with the arrival of "DRAGON QUEST" (ENIX). Ten years ago, the 3-D graphics that enabled game content to provide the same viewing experience as other video-based content was "FINAL FANTASY" (SQUARE). Also 10 years ago, a milestone in 3-D action adventure was reached with the launch of "Tomb Raider" (Eidos).

The SQUARE ENIX Group has consistently been at the forefront of major breakthroughs in the history of the game industry. Although it may seem somewhat immodest, I believe we have a mission to play a major part in the coming convergence between media and entertainment. Our focus on building a sound growth framework is based on this mission.

Although our business results for the fiscal year under review were less than satisfactory, we are steadfast in our commitment to be a driving force in the media and entertainment industries. In these endeavors, I look forward to your continuing loyal support.

July 2009

Yoichi Wada

Yoichi Wada
President and Representative Director
SQUARE ENIX HOLDINGS CO., LTD.

Review of Operations

General Overview

The Group's operations are classified into six business segments—Games (Offline), Games (Online), Mobile Phone Content, Amusement, Publication and Others. In each business segment, the Group strives to reinforce its business base and enhance its earnings potential. The Group has been pursuing research and development (R&D) in core technology areas, with particular emphasis on network-related businesses, and aims to apply network technologies to its products and services.

The Company moved to a holding company structure on October 1, 2008.

In the fiscal year ended March 31, 2009, on a consolidated basis, net sales declined 8.0%, to ¥135,693 million. Operating income decreased 42.9%, to ¥12,277 million, and recurring income declined 40.3%, to ¥11,261 million. Net income amounted to ¥6,333 million, a 31.1% decrease compared with the previous fiscal year.

Overview by Business Segment

Games (Offline)

The Group plans, develops and distributes games for game consoles (including handheld game machines) and personal computers. The Group also handles localization of games developed and distributed in Japan, which are distributed overseas principally by two wholly owned subsidiaries of the Company. In North America, distribution is handled by SQUARE ENIX, INC., and in Europe and other regions that use the PAL video format, by SQUARE ENIX LTD.

During the fiscal year under review, the Group released a number of titles for Nintendo DS, including "DRAGON QUEST V" (released in Japan, North America and Europe) and "CHRONO TRIGGER "(released in Japan, North America and Europe). For PlayStation Portable (PSP), the Group released "DISSIDIA FINAL FANTASY" (released in Japan) and "CRISIS CORE – FINAL FANTASY VII-" (released in Europe).For XBOX 360, the Group released "THE LAST REMNANT" (released in Japan, North America and Europe) , "INFINITE UNDISCOVERY"(released in Japan, North America and Europe) and "STAR OCEAN 4 – THE LAST HOPE-" (released in Japan and North America).

Consequently, sales in the Games (Offline) segment totaled ¥36,343 million (down 12.6% from the previous fiscal year), and operating income amounted to ¥4,162 million (down 53.1%, ditto).

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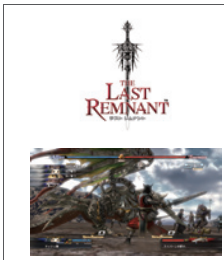

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Business Segment Information (Fiscal year ended March 31, 2009) (Millions of yen)

	Games (Offline)	Games (Online)	Mobile Phone Content	Publication	Amusement	Others	Elimination or Unallocated	Consolidated Total
Net sales	36,343	10,629	7,092	12,985	58,269	12,370	(1,996)	135,693
Operating income	4,162	3,087	3,689	3,540	(944)	3,266	(4,523)	12,277
Operating income margin	11.5%	29.0%	52.0%	27.3%	—	26.4%	—	9.0%

Games (Online)

The Group plans, develops, distributes and operates network-compliant online games.

The Group operates “FINAL FANTASY XI” (“FFXI”), an MMORPG (massively multi-player online role-playing game) with approximately 500,000 paying subscribers in Japan, North America and Europe.

Consequently, sales in the Games (Online) segment totaled ¥10,629 million (down 12.1% from the previous fiscal year), and operating income amounted to ¥3,087million (down 47.5%, ditto).

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Mobile Phone Content

The Group plans, develops and provides content for mobile phones, and provides a wide range of mobile content services, including ring tones, wallpapers, game and portals. Led by such portal services as “DRAGON QUEST” and “FINAL FANTASY,” the service lineup leverages the Group’s strength in original content.

Consequently, sales in the Mobile Phone Content segment totaled ¥7,092 million (up 7.8% from the previous fiscal year), and operating income amounted to ¥3,689 million (up 109.7%, ditto).

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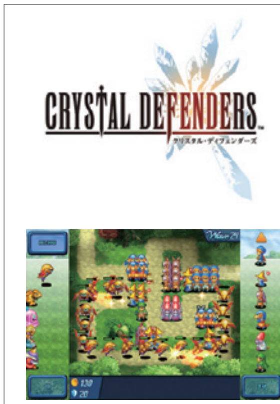

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Consolidated Sales by Geographic Segment (Fiscal year ended March 31, 2009) (Millions of yen)

	Japan	North America	Europe	Asia	Total
Consolidated net sales	113,396	14,285	6,713	1,298	135,693
Percentage of share	83.6%	10.5%	4.9%	1.0%	100.0%

Publication

The Group publishes comic magazines, comic books, and game related books including game strategy books.

In the fiscal year under review, comic collections taken from regular monthly magazine serials such as “Kuroshitsuji” and “SOUL Eater” contributed to increase of sales of this segment, due to TV broadcasting of animated film version of these comics.

Consequently, sales in the Publication segment totaled ¥12,985 million (up16.4% from the previous fiscal year), and operating income amounted to ¥3,540 million (down 2.4%, ditto).

Amusement

This segment includes results from all businesses of the Taito group, along with amortization of goodwill relating to consolidation of the Taito group into the Group.

Although arcade operations upon a like-for-like basis demonstrated better performance than competitors, this segment was not in good shape in the fiscal year under review.

Consequently, sales in the Amusement segment amounted to ¥58,269 million (down 15.7% from the previous fiscal year), and operating loss was totaled ¥944 million (the segment recorded operating income of ¥3,129 million in the previous fiscal year).

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Others

The Others segment covers the planning, production, distribution and licensing of SQUARE ENIX titles' derivative products.

In the fiscal year under review, the successful distribution of a kids' card game machines distributed by Square Enix Co., Ltd., including "DRAGON QUEST Monster Battleroad" and "LORD of VERMILION" have contributed to the earnings of this segment.

Consequently, sales in the Others segment amounted to ¥12,370 million (up 37.4% from the previous fiscal year), and operating income totaled ¥3,266 million (down1.8%, ditto).

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CHARACTER DESIGN: TETSUYA NOMURA

Basic Stance on Corporate Governance, etc.

1. Status of Corporate Governance.

Basic Stance on Corporate Governance

The Company has adopted the corporate auditor system for its corporate governance. To strengthen monitoring functions and ensure the maintenance of sound management, at least half of the corporate auditors are drawn from outside the Company. Furthermore, in accordance with the objective standards provided under the Company's internal decision-making authority rules, the Board of Directors, which sets management policy, is clearly separated from the decision-making bodies responsible for the execution of operations. This system aims to enhance the efficiency and balance of management decision-making and operational execution.

Status of Implementation of Corporate Governance Policies

(1) Management control structure and other corporate governance systems relating to management decision-making, execution of operations and audit functions

The Board of Directors comprises five directors, including one outside director. The Company has four corporate auditors, three, including one standing corporate auditor, are drawn from outside the company. The directors are appointed for a term of one year, the same as for companies adopting the committee system.

The Auditing Division reports directly to the president as an autonomous internal unit currently comprising one member. The Auditing Division performs regular monitoring and evaluation of internal control systems, including those of Group companies, taking into account the relative importance and risk inherent in each part of the organization, and provides reports and recommendations to the president. The Auditing Division's functions are carried out while sharing information with the Board of Auditors and the independent audit firm.

To ensure a rigorous compliance system, the Company clearly specifies the importance of compliance in its management guidelines and The Group Code of Conduct. The Company has established the Internal Control Committee and an internal compliance reporting (whistleblower) system, through which Companywide compliance measures are integrated laterally across organizational reporting lines. With regard to the management and operation of the Company's information systems, which form the foundation of efficient operational functions, the Company has established the Information System Management Committee to oversee information systems on a companywide basis.

In principle, the Board of Directors convenes monthly, and each of the directors, including one outside director, engages in vigorous discussion and exchange of opinions aimed at enhancing their mutual oversight functions.

In principle, the Board of Auditors convenes monthly, and conducts accounting and operational audits based on the audit plan. The corporate auditors attend meetings of the Board of Directors to audit the execution of duties of the directors.

With regard to the use of independent outside professionals, the Company consults with several outside legal counsels as necessary on significant transactions and legal matters. The Company retains Ernst & Young ShinNihon as its statutory audit firm under the Companies Act and the Financial Instruments and Exchange Law to perform independent third-party accounting audits. The Company fully cooperates with the statutory audit firm to ensure smooth performance of their duties.

The following certified public accountants (CPAs) conducted audits of the Company during fiscal year ended March 31, 2009.

• CPAs performing audits:
Partners: Koichiro Watanabe, Kenichi Shibata, Tatsuya Yokouchi

• Personnel providing audit assistance:
10 CPAs and 12 assistant CPAs

• Remuneration to directors and corporate auditors:
Remuneration paid to directors totaled ¥374 million, of which ¥11 million was paid to the outside director.
Remuneration paid to corporate auditors totaled ¥34 million, of which ¥34 million was paid to outside auditors.

(2) Personal, financial business or other relationships constituting conflicts of interest between the Company and its outside director or outside corporate auditors

There are no such relationships to be specified.

(3) Basic policy on the establishment of internal control systems

The Board of Directors has passed a resolution establishing the Company's Basic Policy on Building an Internal Control System. The Company is building such systems to ensure auditing and supervisory functions are strictly maintained and to confirm that all business activities comply with all relevant laws and regulations and the Company's Articles of Incorporation, as well as to enhance the efficiency of the directors' exercise of duties.

(4) Overview of liability limitation agreements

The Company has liability limitation agreements in place with its outside director and outside corporate auditors in accordance with Article 427, Paragraph 1, of the Companies Act to limit liabilities provided under Article 423, Paragraph 1, of the Companies Act. These agreements limit the liability of the outside director and each outside corporate auditor to ¥10 million or the legally specified amount, whichever is greater, on condition that the director or corporate auditors have performed their duties in good faith and without gross negligence.

(5) Prescribed number of directors

The Company's Articles of Incorporation stipulate that the number of directors shall not exceed 12.

(6) Resolution requirements for the election of directors

The Company's Articles of Incorporation stipulate that resolutions for the election of directors shall be made by the majority of votes of shareholders exercising their voting rights at the General Meeting of Shareholders where shareholders in attendance hold one-third or more of outstanding voting rights.

(7) Bodies able to determine dividends paid from retained earnings

The Company's Articles of Incorporation stipulate that matters provided under Article 459, Paragraph 1, of the Companies Act may be determined by the Board of Directors unless legally stipulated otherwise. The objective of this provision is to expand the range of options enabling flexible execution of capital policies.

(8) Exemption from liability of directors and corporate auditors

Pursuant to Article 426, Paragraph 1, of the Companies Act, the Company's Articles of Incorporation stipulate that a director (including former directors) may be exempted from liability for actions related to Article 423, Paragraph 1, of the Companies Act, up to the limit provided by law, through a resolution passed by the Board of Directors. This provision aims to ensure the maintenance of an environment in which directors may exercise their duties to the maximum of their abilities and are able to fulfill the roles expected of them.

(9) Matters requiring special resolutions at the General Meeting of Shareholders

The Company's Articles of Incorporation stipulate that the special resolutions provided under Article 309, Paragraph 2, of the Companies Act may be passed by a majority of two-thirds or more of the votes of shareholders present at the General Meeting of Shareholders where shareholders in attendance hold one-third or more of outstanding voting rights. The objective of this relaxation of special resolution requirements is to ensure the smooth proceedings of the General Meeting of Shareholders.

2. Compensation to Independent Audit Firm, etc.

(1) Compensation paid to statutory audit firm

Category	Fiscal year ended March 31, 2008		Fiscal year ended March 31, 2009	
	Compensation for statutory audit operations (Millions of yen)	Compensation for non-audit operations (Millions of yen)	Compensation for statutory audit operations (Millions of yen)	Compensation for non-audit operations (Millions of yen)
Parent company	—	—	52	10
Consolidated subsidiaries	—	—	78	—
Total	—	—	130	10

(2) Other significant compensation

The Company's consolidated subsidiaries SQUARE ENIX LTD. and SQUARE ENIX OF AMERICA HOLDINGS, INC., paid compensation to the Ernst & Young Group amounting to ¥31 million for statutory audit operations and ¥13 million for non-audit operations. The independent audit firm retained by the Company is also affiliated with the international auditing network of the Ernst & Young Group.

(3) Non-audit operations provided by statutory audit firm

The non-audit operations provided by the statutory audit firm for which the Company paid compensation comprised of advice relating to internal control systems, as required for financial reporting.

(4) Policy on determining audit compensation

The Company's policy on determining compensation for audits conducted by the statutory audit firm takes into account such factors as the size of the Company's business operations, the number of days the audit requires and unique characteristics of the Company's operations.

Directors, Auditors and Executive Officers

(As of June 30, 2009)

Board of Directors

President and
Representative Director
Yoichi Wada

Executive Vice President
and Representative Director
Keiji Honda

Director
Yosuke Matsuda

Director
Yukinobu Chida

Director *1
Makoto Naruke

Corporate Auditors

Standing Auditor *2
Ryoichi Kobayashi

Auditor *2
Norikazu Yahagi

Auditor *2
Ryuji Matsuda

Auditor
Nobuhiro Saito

*1: Outside Director
*2: Outside Auditor

Honorary Chairman

Yasuhiro Fukushima

Financial Section

CONTENTS

SQUARE ENIX HOLDINGS CO., LTD. assumes full responsibility for the accompanying consolidated financial statements prepared in conformity with accounting principles generally accepted in Japan, which are the English translation of the consolidated financial statements submitted to the Director of the Kanto Finance Bureau in Japan (*yukashoken hokokusyo*).

The following statements are based on management's view of SQUARE ENIX HOLDINGS CO., LTD. (the "Company") as of June 30, 2009 and have not been audited. The following management discussion and analysis also contains forward-looking statements concerning the future performance of the Company. Please read the disclaimer regarding forward-looking statements at the beginning of this Annual Report.

1. Significant Accounting Policies and Estimates

The consolidated financial statements of the SQUARE ENIX Group (the "Group") are prepared in accordance with generally accepted accounting principles in Japan (JPNGAAP). In preparing the consolidated financial statements, management chooses and applies accounting policies, and makes estimates that affect the disclosure of amounts in assets, liabilities, income and expenses. Management formulated these estimates based on historical performance and certain other factors. However, actual results may differ materially from these estimates due to uncertainties inherent in the estimates.

Important accounting policies used in the preparation of the Group's consolidated financial statements are contained in the section titled "Summary of Significant Accounting Policies Used in the Preparation of Consolidated Financial Statements," of this report. In particular, judgments used in making estimates in the preparation of the consolidated financial statements are affected by accounting policies.

(1) Revenue Recognition

Sales revenue of the Group is recognized when products are ordinarily shipped or services are provided, while royalty revenue is recognized based on receipt of a statement from the licensee. In certain cases, the recognition of sales is determined based on contracts entered into with suppliers and product type.

(2) Provision for Doubtful Accounts

The Group provides a provision for doubtful accounts based on estimated irrecoverable amounts to prepare for bad debt losses on accounts receivable. In the event that the financial condition of a supplier deteriorates and its solvency declines, the Group may provide additional amounts to the provision for doubtful accounts or record bad debt losses.

(3) Content Production Account

When the Group determines that the difference between actual costs and market value of the content production account based on expected future demand and market conditions have reached a certain level, the Group recognizes a write-down of the content production account. If future demand and market conditions are worse than management's forecasts, there is the possibility that further write-downs will become necessary.

(4) Unrealized Losses on Investments

The Group owns shares in certain financial institutions and companies with which it sells or purchases goods. These shareholdings include stock in listed companies subject to price fluctuation risk in the stock market and stock in privately held companies for which share prices are difficult to calculate. In the event that the fair market value of these shares as of the end of the fiscal year declines no less than 50% of their acquisition cost, as a rule, the amount is treated as an impairment loss. In addition, in the event of a 30% to 50% decline, an amount determined as necessary considering the importance and potential for recovery of the shares is treated as an impairment loss. During the fiscal year ended March 31, 2009, the Company recorded a loss on revaluation of investment securities amounting to ¥120 million. Worsening market conditions or unstable performance at the invested companies may require the recording of revaluation losses in the event that losses are not reflected in current book value, or, the book value becomes irrecoverable.

(5) Deferred Tax Assets

The Group records a valuation allowance to provide for amounts of deferred tax assets thought likely to decrease. In evaluating the necessity of a valuation allowance, the Company examines future taxable income and possible tax planning for deferred tax assets with a high likelihood of realization. If the Company determines that all or a portion of net deferred tax assets cannot be realized in the future, the Company writes down such deferred tax assets during the fiscal year in which the determination is made. If the Company determines that deferred tax assets in excess of the recorded amount can be realized in the future, the Company recognizes deferred tax assets to the recoverable amount and increases profits by the same amount during the period in which the determination is made.

2. Analysis of Financial Policy, Capital Resources and Liquidity

The Group internally finances working capital and capital investments, and utilizes the issuance of corporate bonds. The Company has issued yen-denominated zero-coupon bonds with warrants which mature in 2010. As of March 31, 2009, the Group's balance of interest-bearing debt was ¥59 million. The net assets ratio stood at 69.1%. Cash and cash equivalents at end of year totaled ¥111,875 million, an increase of ¥395 million compared with the previous fiscal year end.

Cash flows in the fiscal year ended March 31, 2009, as well as the principal factors behind these cash flows, are described below.

(1) Net cash provided by operating activities

For the year ended March 31, 2009 compared to the year ended March 31, 2008, the largest contributing factors to the decrease in net cash provided by operating activities were lower income before income taxes and minority interests of ¥9,153 million (a decrease of

¥7,527 million compared to the year ended March 31, 2008), lower depreciation expense (a decrease of ¥2,955 million compared to the year ended March 31, 2008) and lower accounts receivable (a decrease of ¥1,371 million compared to the year ended March 31, 2008), while inventories increased by ¥1,907 million and accounts payable increased by ¥4,589 million compared to the year ended March 31, 2008.

(2) Net cash used in investing activities

Net cash used in investing activities totaled ¥10,991 million, an increase of ¥5,186 million compared to the previous fiscal year. The main item within this was payments for acquiring property and equipment of ¥9,983 million.

(3) Net cash used in financing activities

Net cash used in financing activities amounted to ¥3,044 million, an increase of ¥359 million compared with the previous fiscal year. The largest item within this was payments for dividends of ¥3,443 million.

The Group believes that it will be possible to procure the funds required for working capital and capital investments in the future to maintain growth based on its sound financial standing and ability to generate cash through operating activities.

3. Analysis of Business Performance in the Fiscal Year Ended March 31, 2009

Assets

Total Assets

Millions of yen

March 31	2008	2009	Change
	¥212,134	¥213,194	¥1,060

Total assets as of March 31, 2009 amounted to ¥213,194 million, an increase of ¥1,060 million compared with the previous fiscal year-end. The main factors contributing to this change were as follows:

Cash and Deposits

Millions of yen

March 31	2008	2009	Change
	¥111,515	¥111,981	¥466

Notes and Accounts Receivable

Millions of yen

March 31	2008	2009	Change
	¥17,738	¥15,432	¥(2,306)

The year-end balance of notes and accounts receivable varies greatly depending on the timing of new game title releases. Notes and accounts receivable at year-end were ¥15,432 million, a decrease of 2,306 million compared with the previous year end.

Content Production Account

Millions of yen

March 31	2008	2009	Change
	¥14,793	¥18,392	¥3,599

As a rule, content development costs incurred during the period from a title's formal development authorization through to its release are capitalized in the content production account. When the title is released, this amount is then recorded as an expense.

The content production account is reevaluated based on the current business environment.

Costs incurred during the pre-production phase—the phase before development is approved—are posted as selling, general and administrative (SG&A) expenses as they are incurred. As of March 31, 2009, the content production account totaled ¥18,392 million, an increase of ¥3,599 million compared with the end of the prior fiscal year.

As of March 31, 2009, the Company incurred a ¥5,368 million loss on valuation of inventory primarily due to reevaluation of the content production account.

Deferred Tax Assets

Millions of yen

March 31	2008	2009	Change
Current	¥4,158	¥3,882	¥(276)
Non-current	852	952	100

In September 2005, the Company acquired 93.7% of the common shares of TAITO CORPORATION via a takeover bid. Subsequently, TAITO CORPORATION was merged with SQEX, Inc., a wholly-owned subsidiary of the Company, resulting in TAITO CORPORATION becoming part of a wholly-owned subsidiary of the Company. The temporary tax differences associated with the takeover of TAITO CORPORATION were recognized as a tax effect that the Company is expected to recover in the future, and the expected amount to be recovered was recorded as a deferred tax asset. As of March 31, 2009, current deferred tax assets amounted to ¥3,882 million, a decrease of ¥276 million, and non-current tax assets totaled ¥952 million, an increase of ¥100 million. These changes were attributable to a decrease in deferred tax assets owing to the elimination of tax differences associated with the takeover of TAITO CORPORATION and an increase in temporary tax differences due to a loss on inventory valuation and other factors.

Property and Equipment

Millions of yen

March 31	2008	2009	Change
	¥19,939	¥19,082	¥(857)

Net property and equipment decreased by ¥857 million to ¥19,082 million. Although land increased, amusement equipment decreased from ¥5,906 million to ¥2,590 million.

Intangible Assets

Millions of yen

March 31	2008	2009	Change
	¥20,024	¥18,697	¥(1,327)

Total intangible assets decreased by ¥1,327 million to ¥18,697 million, primarily due to amortization of goodwill.

The Company amortizes goodwill relating to its acquisition and subsequent inclusion in the TAITO CORPORATION 's scope of consolidation in September 2005 using the straight-line method over a period of 20 years.

In the fiscal year ended March 31, 2009, the Company recorded ¥1,104 million in goodwill amortization. As of March 31, 2009, the balance of remaining goodwill within intangible assets was ¥18,697 million.

Investments and Other Assets

Millions of yen

March 31	2008	2009	Change
	¥16,440	¥17,027	¥587

Total investments and other assets increased by ¥587 million to ¥17,027 million. Significant items within this included a decrease in rental deposits, and an increase in investment securities from ¥656 million to ¥2,063 million.

The decrease in rental deposits was primarily due to the closure of unprofitable amusement facilities in the Amusement business. The increase in investment securities was attributable to the purchase of shares of Eidos plc through the stock market by means of a scheme of arrangement under the laws of England and Wales. Subsequently, on April 22, 2009, the Company completed its acquisition of Eidos.

Liabilities

Total Liabilities

Millions of yen

March 31	2008	2009	Change
	¥63,940	¥64,469	¥529

As of March 31, 2009, total liabilities amounted to ¥64,469 million, an increase of ¥529 million compared with the previous fiscal year-end. The main factors contributing to this change were as follows.

Current Liabilities

Millions of yen

March 31	2008	2009	Change
	¥23,082	¥23,477	¥395

Total current liabilities increased by ¥395 million to ¥23,477 million. Major changes within this included an increase in accrued corporate taxes from ¥763 million to ¥3,239 million; an increase in allowance for sales returns from ¥1,135 million to ¥1,598 million; a decrease in other accounts payable from ¥3,912 million to ¥2,884 million; a decrease in accrued expenses from ¥1,859 million to ¥1,503 million; a decrease in allowance for bonus from ¥1,802 million to ¥1,413 million; and a decrease in advance payments received from ¥1,145 million to ¥563 million.

Non-Current Liabilities

Millions of yen

March 31	2008	2009	Change
	¥40,858	¥40,992	¥134

Total non-current liabilities increased by ¥134 million to ¥40,992 million due to an increase in allowance for employees' retirement benefits.

Shareholders' Equity/Net Assets

Millions of yen

March 31	2008	2009	Change
Common stock	¥ 14,928	¥ 15,134	¥ 206
Capital surplus	44,169	44,375	206
Retained earnings	90,295	93,220	2,925
Treasury stock	(841)	(852)	(11)
Total shareholders' equity	148,552	151,879	3,327
Unrealized gain on revaluation of other investment securities	(12)	(71)	(59)
Foreign currency translation adjustments	(1,504)	(4,488)	(2,984)
Total valuation and translation adjustments	(1,517)	(4,560)	(3,043)
Stock acquisition rights	81	410	329
Minority interests in consolidated subsidiaries	1,077	995	(82)
Total net assets	¥148,193	¥148,724	¥ 531

As of March 31, 2009, total shareholders' equity amounted to ¥151,879 million, an increase of ¥3,327 million compared with the previous fiscal year-end. Common stock and capital surplus increased owing to the exercise of stock options (stock acquisition rights).

Consolidated Statements of Income

Net Sales and Operating Income

Millions of yen

Years ended March 31	2008	Composition	2009	Composition	Amount change	Percent change
Net sales	¥147,516	100.0%	¥135,693	100.0%	¥(11,823)	(8.0)%
Gross profit	66,314	45.0	56,166	41.4	(10,148)	(15.3)
Reversal of allowance for sales returns	2,271	1.5	1,135	0.8	(1,136)	(50.0)
Provision for allowance for sales returns	1,135	0.8	1,598	1.2	463	40.7
Net gross profit	67,450	45.7	55,703	41.1	(11,747)	(17.4)
Selling, general and administrative expenses	45,929	31.1	43,426	32.0	(2,503)	(5.4)
Operating income	21,520	14.6	12,277	9.0	(9,243)	(43.0)

Comparisons by segment with the preceding fiscal year are provided in the section describing operating performance on pages 8–11.

Non-Operating Income and Expenses

Millions of yen

Years ended March 31	2008	2009	Change
Non-operating income	¥1,367	¥ 909	¥ (458)
Non-operating expenses	4,023	1,925	(2,098)

Non-operating income decreased by ¥458 million to ¥909 million, mainly owing to a decrease in interest income.

Non-operating expenses amounted to ¥1,925 million, primarily owing to a foreign exchange loss of ¥1,715 million.

Extraordinary Gain and Loss

Millions of yen

Years ended March 31	2008	2009	Change
Extraordinary gain	¥1,439	¥ 228	¥(1,211)
Extraordinary loss	3,618	2,350	(1,268)

Extraordinary gain decreased by ¥1,211 million to ¥228 million. In the previous fiscal year, reversal of allowance for closing of game arcades generated a gain of ¥1,098 million.

Extraordinary loss totaled ¥2,350 million. Significant items within this included loss on disposal of property and equipment, and impairment loss. In the previous fiscal year, the Company recorded a loss on disposal and write-downs of assets associated with business restructuring of ¥1,302 million, and loss on disposal of property and equipment of ¥950 million.

Capital Expenditures and Depreciation

Millions of yen

Years ended March 31	2008	2009	Change
Capital expenditures	¥6,952	¥13,131	¥ 6,179
Depreciation and amortization	9,933	6,978	(2,955)

Capital expenditures for the fiscal year ended March 31, 2009 amounted to ¥13,131 million, an increase of ¥6,179 million compared with the previous fiscal year. This was mainly owing to the acquisition of land and purchase of amusement equipment.

Depreciation and amortization decreased by ¥2,955 million to ¥6,978 million due to use of leased assets in part, in time of amusement equipment acquisition from the previous fiscal year.

Overseas Sales

North America

Millions of yen

Years ended March 31	2008	2009	Change
	¥13,358	¥14,285	¥927

The Group primarily is engaged in the Games (Offline) and Games (Online) businesses in North America. In the Games (Offline) business in this region, sales of game content developed by the Company are handled primarily by SQUARE ENIX, INC., a wholly-owned subsidiary of the Company. In the Games (Online) business in this region, the Group provides online game services and sells software discs for online games.

In the fiscal year ended March 31, 2009, sales in North America totaled ¥14,285 million, an increase of ¥927 million.

Europe

Millions of yen

Years ended March 31	2008	2009	Change
	¥7,896	¥6,713	¥(1,183)

The Group primarily is engaged in the Games (Offline) and Games (Online) businesses in Europe. In the Games (Offline) business in this region, sales of game content developed by the Company are handled primarily by SQUARE ENIX LTD., a wholly-owned subsidiary of the Company. In the Games (Online) business in this region, the Group provides online game services and sells software discs for online games.

In the fiscal year ended March 31, 2009, sales in Europe amounted to ¥6,713 million, a decrease of ¥1,183 million.

Asia

Millions of yen

Years ended March 31	2008	2009	Change
	¥1,118	¥1,298	¥180

In Asia, the Group primarily is engaged in the Games (Online) and Amusement businesses. In the Games (Online) business, the Group primarily operates online game services for the PC platform in China. In the Amusement business, the Group operates game arcade facilities in South Korea and China.

Sales in Asia in the fiscal year ended March 31, 2009 increased by ¥180 million to ¥1,298 million.

4. Strategic Outlook, Issues Facing Management and Future Direction

Management's key task is to ensure growth in the Group in the medium- and long-term, maintaining profitability through the creation of advanced, high-quality content and services. As the development and popularization of information technology (IT) and network environments rapidly advance, we anticipate a major transformation in the structure of the digital entertainment industry. We believe that this will be driven by such factors as increased consumer needs in the area of network-compliant entertainment and growing access to a diverse range of content by users of devices that provide multiple functions.

The Group will strive to respond to these changes, and has adopted a medium- to long-term management strategy that focuses on pioneering a new era in digital entertainment.

The Group's operating targets for the fiscal year ending March 31, 2010 are as follows (as of May 19, 2009).

Millions of yen

Years ended/ending March 31	2004 results	2005 results	2006 results	2007 results	2008 results	2009 results	2010 targets
Net sales	¥63,202	¥73,864	¥124,473	¥163,472	¥147,516	¥135,693	¥180,000
Operating income	19,398	26,438	15,470	25,916	21,520	12,277	25,000
Recurring income	18,248	25,901	15,547	26,241	18,864	11,261	25,000
Net income	10,993	14,932	17,076	11,619	9,196	6,333	15,000

5. Dividend Policy

The Group recognizes the return of profits to shareholders as one of its most important management tasks. The Company maintains internal reserves to enable priority to be given to investments that will enhance the value of the Group. Such investments may include capital investments and M&A for the purpose of expanding existing businesses and developing new businesses. The retention of internal reserves is done while also taking into account return to shareholders, operating performance and the optimal balance for stable dividends. Accordingly, the Company strives to maintain stable and continuous dividends. The portion of dividends linked to operating results is determined by setting a consolidated payout ratio target of approximately 30%.

The Company's basic policy is to pay dividends from retained earnings twice a year, through an interim dividend and a year-end dividend.

For the fiscal year ended March 31, 2009, total dividends applicable to the year were ¥30 per share, comprising an interim dividend of ¥10 per share and a year-end dividend of ¥20 per share. The consolidated payout ratio for the fiscal year ended March 31, 2008 was 54.4%.

	Millions of yen	Yen
Date of resolution	Total dividends	Dividends per share
November 7, 2008 Resolution of the Board of Directors	¥1,149	¥10
June 24, 2009 Resolution of the Annual General Meeting of Shareholders	2,300	20

6. Risk Factors

The risks described below are those that could affect the Company's business performance. Forward-looking statements in this management discussion and analysis are in accordance with management's judgments as of June 30, 2009.

(1) Changes in the Economic Environment

In the event of an exceptionally harsh downturn in the economy causing consumer expenditure to fall, demand for the Group's products and services in the entertainment field may decline. Such circumstances may lead to an adverse impact on the Group's business performance.

(2) Changes in Consumer Preferences in the Digital Content Market and the Group's Ability to Respond to the Rapid Progress of Innovative Technology

It is probable that the drastic changes stated in "4. Strategic Outlook, Issues Facing Management and Future Direction" may adversely affect the Group's business performance if the Group is unable to respond adequately and promptly to these changes.

(3) Changes in Game Platforms and the Group's Response

The Group's core business predominantly involves the sale of software for use on home-use video game consoles. Consequently, the Group's business may be subject to the impact of transition to next-generation console platforms and changes in console manufacturers' strategies.

(4) Securing Human Resources to Execute the Group's Growth Strategies Concentrating on the Creation of New Content

The Group has been making rapid progress in expanding its business operations. Delays in securing human resources may adversely affect the Group's business performance.

(5) Expansion in the Group's International Business Operations

In the Games (Offline), Games (Online) and Mobile Phone Content business segments, the Group is pursuing an expansion of its international business operations. A variety of factors present in the countries and regions in which the Group operates may affect the Group's business performance. Such factors include market trends, the political situation, the economic climate, laws and regulations, cultural factors, religious factors, customs and other factors.

(6) Exchange Rate Fluctuations

The Group includes consolidated subsidiaries located in North America, Europe and Asia. The risk of foreign exchange loss has been reduced as foreign currency gained by subsidiaries is expended for settlement or reinvestment in the applicable countries. However, sales, expenses, assets, liabilities and net assets of the overseas subsidiaries are converted into Japanese yen amounts in the consolidated financial statements. Consequently, exchange rates may affect the Group's financial results if they fluctuate beyond management is forecasts.

(7) Entertainment Industry Laws

The operation of game centers is subject to government control under the Law for Proper Control of Entertainment and Amusement Businesses and other related laws and regulations. These laws and regulations include an approval and licensing system for the opening and operation of amusement centers, regulations on business hours (ordinances vary, but operation is generally prohibited from midnight to 10 a.m.), age restrictions (ordinances vary, but the admittance of persons under 16 years of age after 6 p.m. and persons under 18 years of age after 10 p.m. is generally prohibited), area restrictions on outlet opening, and regulations concerning facility structures, interiors, lighting and noise. While complying with the laws and regulations, the Group has actively pursued the establishment of new amusement centers. However, if regulations were to change owing to the establishment of new laws or other reasons, the Group's business performance may be affected.

(8) Management of Personal Information

With regard to the management of personal information, in conjunction with the enactment of the Personal Information Protection Law, the Group has bolstered employee training with the aim of increasing awareness about the handling of personal information. The Group has also improved the timeliness of its personal information management systems and identified all personal information obtained by the Group. The Group has undertaken a full range of measures to strengthen its internal control systems, including ongoing improvements to technology controlling access to its customer database and to its data security systems, restrictions on personnel permitted to access information and establishment of a system to deal with customer inquiries regarding personal information. To date, no leakage of personal information has occurred from the Group. The Group intends to maintain its stringent management systems for personal information by reviewing current systems and enhancing employee training. However, if a leak of personal information were to occur from the Group, the Group's business performance may be affected.

(9) Accidents and Disasters

The Group periodically carries out accident prevention checks, facility checks and emergency drills, and develops a policy on infectious diseases to minimize accidents and the impacts of disasters, including terrorist attacks, infectious diseases, food poisoning, fires, electrical blackouts, computer system or server malfunctions, earthquakes, typhoons and flood damage, and other accidents. However, in the event of accidents or disasters or in the event that infectious diseases affect the Group, it may not be possible to avoid or alleviate all adverse impacts. If a major earthquake or disaster occurs, which could impede the continuation of business, the Group's business performance may be affected.

(10) Litigation

The Group is being managed strictly in compliance with laws and regulations and with full respect for third parties' rights while carrying out its operations. However, in the course of its business activities in Japan and abroad, the risk of the Group becoming a defendant in litigation cannot be discounted. If such litigation were to occur, the Group's business performance may be affected.

Consolidated Balance Sheets (JPNGAAP)

SQUARE ENIX HOLDINGS CO., LTD. and Consolidated Subsidiaries

As of March 31

Millions of yen

	2009	2008
Assets		
Current assets		
Cash and deposits	¥111,981	¥111,515
Notes and accounts receivable	15,432	17,738
Inventories	—	4,268
Merchandise and finished goods	4,917	—
Work in progress	291	—
Raw materials and supplies	581	—
Content production account	18,392	14,793
Deferred tax assets	3,882	4,158
Other	3,179	3,642
Allowance for doubtful accounts	(270)	(385)
Total current assets	158,387	155,730
Non-current assets		
Property and equipment		
Buildings and structures	16,467	17,024
Accumulated depreciation	(11,849)	(11,641)
Buildings and structures (net)	4,618	5,382
Tools and fixtures	11,577	11,357
Accumulated depreciation	(8,274)	(8,124)
Tools and fixtures (net)	3,302	3,233
Amusement equipment	21,344	31,393
Accumulated depreciation	(18,753)	(25,486)
Amusement equipment (net)	2,590	5,906
Other	56	19
Accumulated depreciation	(20)	(15)
Other (net)	36	3
Land	8,515	5,404
Construction in progress	19	8
Net property and equipment	19,082	19,939
Intangible assets		
Goodwill	17,771	18,883
Other	925	1,140
Total intangible assets	18,697	20,024
Investments and other assets		
Investment securities	2,063	656
Long-term loans	360	171
Rental deposits	12,327	13,235
Construction cooperation fund	1,249	1,524
Claims in bankruptcy	376	327
Deferred tax assets	952	852
Other*1	528	621
Allowance for doubtful accounts	(831)	(948)
Total investments and other assets	17,027	16,440
Total non-current assets	54,806	56,404
Total assets	¥213,194	¥212,134

The accompanying notes are an integral part of those statements.

Millions of yen

	2009	2008
Liabilities		
Current liabilities		
Notes and accounts payable	¥ 10,097	¥ 10,704
Short-term loans	26	26
Other accounts payable	2,884	3,912
Accrued expenses	1,503	1,859
Accrued corporate taxes	3,239	763
Accrued consumption taxes	686	699
Advance payments received	563	1,145
Deposits received	517	551
Reserve for bonuses	1,413	1,802
Allowance for sales returns	1,598	1,135
Allowance for closing of game arcades	445	226
Other	499	257
Total current liabilities	23,477	23,082
Non-current liabilities		
Corporate bonds	37,000	37,000
Allowance for employees' retirement benefits	1,644	1,528
Allowance for directors' retirement benefits	236	215
Allowance for closing of game arcades	721	796
Other	1,390	1,318
Total non-current liabilities	40,992	40,858
Total liabilities	64,469	63,940
Net assets		
Shareholders' equity		
Common stock	15,134	14,928
Capital surplus	44,375	44,169
Retained earnings	93,220	90,295
Treasury stock	(852)	(841)
Total shareholders' equity	151,879	148,552
Valuation and translation adjustments		
Unrealized gain on revaluation of other investments	(71)	(12)
Foreign currency translation adjustments	(4,488)	(1,504)
Total valuation and translation adjustments	(4,560)	(1,517)
Stock acquisition rights	410	81
Minority interests in consolidated subsidiaries	995	1,077
Total net assets	148,724	148,193
Total liabilities and net assets	¥213,194	¥212,134

The accompanying notes are an integral part of those statemets.

Consolidated Statements of Income (JPNGAAP)

SQUARE ENIX HOLDINGS CO., LTD. and Consolidated Subsidiaries

Years ended March 31

Millions of yen

	2009	2008
Net sales	¥135,693	¥147,516
Cost of sales*[1]	79,527	81,201
Gross profit	56,166	66,314
Reversal of allowance for sales returns	1,135	2,271
Provision of allowance for sales returns	1,598	1,135
Net gross profit	55,703	67,450
Selling, general and administrative expenses		
Packaging freight charge	2,169	2,421
Advertising expenses	5,546	5,892
Sales promotion expenses	417	642
Provision for doubtful accounts	—	8
Compensation for directors	456	567
Salaries	14,097	15,889
Provision of reserve for bonuses	1,755	1,403
Net periodic pension cost	353	36
Provision to reserve for directors' retirement benefits	20	47
Welfare expenses	1,799	2,024
Rental expenses	2,375	2,483
Commissions paid	3,399	3,209
Depreciation and amortization	1,397	1,463
Other*[2]	9,637	9,839
Total selling, general and administrative expenses	43,426	45,929
Operating income	12,277	21,520
Non-operating income		
Interest income	696	959
Dividends received	12	2
Rental income	43	70
Investment profit on equity method	—	23
Facilities installation assistance fund fees	—	52
Miscellaneous income	157	258
Total non-operating income	909	1,367
Non-operating expenses		
Interest expense	1	0
Foreign exchange loss	1,715	1,858
Loss on disposal of inventories	—	119
Loss on write-offs of content production account	—	1,799
Loss on inventory revaluation	—	170
Investment loss on equity method	18	—
Miscellaneous loss	189	75
Total non-operating expenses	1,925	4,023
Recurring income	11,261	18,864
Extraordinary gain		
Gain on sale of investment securities	0	64
Gain on divestiture of a business	—	47
Reversal of allowance for doubtful accounts	13	204
Reversal of allowance for closing of game arcades	—	1,098
Reversal of allowance for obligation related to legal proceedings	181	—
Other	33	24
Total extraordinary gain	228	1,439
Extraordinary loss		
Loss on sale of property and equipment*[3]	26	145
Loss on disposal of property and equipment*[4]	790	950
Impairment loss*[6]	859	9
Loss on write-offs of bad debts	—	170
Loss on revaluation of investment securities*[5]	120	55
Loss on disposal and write-downs of assets associated with business restructuring*[7]	—	1,302
Severance payments associated with business restructuring	30	45
Accelerated amortization of goodwill	—	136
Provision of allowance for doubtful accounts	—	452
Provision of allowance for closing of game arcades	286	54
Legal settlement payment	15	156
Other	221	140
Total extraordinary loss	2,350	3,618
Income before income taxes and minority interests and distribution of loss in a partnership (*tokumei-kumiai*)	9,139	16,685
Distribution of loss in a partnership (*tokumei-kumiai*)	(14)	4
Income before income taxes and minority interests	9,153	16,681
Corporate, inhabitants' and enterprise taxes	4,502	1,865
Refunded income taxes	(1,841)	(424)
Deferred income taxes	198	6,116
Total income taxes	2,859	7,558
Minority interests in consolidated subsidiaries	(39)	(73)
Net income	¥ 6,333	¥ 9,196

The accompanying notes are an integral part of those statemets.

Consolidated Statements of Changes in Net Assets (JPNGAAP)

SQUARE ENIX HOLDINGS CO., LTD. and Consolidated Subsidiaries

Years ended March 31

Millions of yen

	2009	2008
Shareholders' equity		
Common stock		
Balance at the end of previous period	¥ 14,928	¥ 8,038
Changes during the period		
Issuance of new shares (Exercise of Share Options)	—	6,499
Disposal of treasury stock	206	390
Total changes of items during the period	206	6,890
Balance at the end of current period	15,134	14,928
Capital surplus		
Balance at the end of previous period	44,169	37,279
Changes during the period		
Issuance of new shares (Exercise of Share Options)	—	6,499
Issuance of new shares	206	390
Disposal of treasury stock	(0)	0
Total changes during the period	206	6,890
Balance at the end of current period	44,375	44,169
Retained earnings		
Balance at the end of previous period	90,295	84,315
Changes during the period		
Dividends from retained earnings	(3,446)	(3,884)
Net income	6,333	9,196
Change in scope of consolidation	16	667
Change in scope of equity method	22	—
Total changes during the period	2,925	5,979
Balance at the end of current period	93,220	90,295
Treasury stock		
Balance at the end of previous period	(841)	(540)
Changes during the period		
Purchase of treasury stock	(13)	(301)
Disposal of treasury stock	2	1
Total changes during the period	(11)	(300)
Balance at the end of current period	(852)	(841)
Total shareholders' equity		
Balance at the end of previous period	148,552	129,092
Changes of items during the period		
Issuance of new shares (Exercise of Share Options)	—	12,999
Issuance of new shares	412	780
Dividends from retained earnings	(3,446)	(3,884)
Net income	6,333	9,196
Purchase of treasury stock	(13)	(301)
Disposal of treasury stock	2	1
Change in scope of consolidation	16	667
Change in scope of equity method	22	—
Total changes during the period	3,326	19,459
Balance at the end of current period	151,879	148,552
Valuation and translation adjustments		
Unrealized gain on revaluation of other investment securities		
Balance at the end of previous period	(12)	(8)
Changess during the period		
Net changes in items other than shareholders' equity	(59)	(4)
Total changes during the period	(59)	(4)
Balance at the end of current period	(71)	(12)
Foreign currency translation adjustments		
Balance at the end of previous period	(1,504)	377
Changes during the period		
Net changes in items other than shareholders' equity	(2,984)	(1,881)
Total changes during the period	(2,984)	(1,881)
Balance at the end of current period	(4,488)	(1,504)
Total valuation and translation adjustments		
Balance at the end of previous period	(1,517)	368
Changes during the period		
Net changes in items other than shareholders' equity	(3,043)	(1,886)
Total changes during the period	(3,043)	(1,886)
Balance at the end of current period	(4,560)	(1,517)
Stock acquisition rights		
Balance at the end of previous period	81	—
Changes during the period		
Net changes in items other than shareholders' equity	329	81
Total changes during the period	329	81
Balance at the end of current period	410	81
Minority interests in consolidated subsidiaries		
Balance at the end of previous period	1,077	1,178
Changes during the period		
Net changes in items other than shareholders' equity	(81)	(100)
Total changes during the period	(81)	(100)
Balance at the end of current period	995	1,077
Total net assets		
Balance at the end of previous period	148,193	130,639
Changes during the period		
Issuance of new shares (Exercise of Share Options)	—	12,999
Issuance of new shares	412	780
Dividends from retained earnings	(3,446)	(3,884)
Net income	6,333	9,196
Purchase of treasury stock	(13)	(301)
Disposal of treasury stock	2	1
Change in scope of consolidation	16	667
Change in scope of equity method	22	—
Net changes in items other than shareholders' equity	(2,795)	(1,905)
Total changes during the period	530	17,554
Balance at the end of current period	¥148,724	¥148,193

The accompanying notes are an integral part of those statemets.

Consolidated Statements of Cash Flows (JPNGAAP)

SQUARE ENIX HOLDINGS CO., LTD. and Consolidated Subsidiaries

Years ended March 31

Millions of yen

	2009	2008
Cash flows from operating activities		
Income before income taxes and minority interests	¥ 9,153	¥ 16,681
Depreciation and amortization	6,978	9,933
Impairment loss	859	9
(Decrease) in allowance for doubtful accounts	(221)	(4,949)
Decrease in reserve for bonuses	(388)	(69)
(Decrease) increase in allowance for sales returns	572	(1,136)
Increase (Decrease) in allowance for employees' retirement benefits	117	(640)
(Decrease) increase in allowance for directors' retirement benefits	20	(46)
(Decrease) increase in allowance for closing of game arcades and other allowances	181	(1,795)
Interest and dividends received	(708)	(962)
Interest expense	1	0
Foreign exchange loss	1,255	1,670
Loss (gain) on sale of investment securities	17	(64)
Loss on revaluation of investment securities	120	55
Loss on disposal of property and equipment	790	950
Loss on sale of property and equipment	26	145
Gain on divestiture of business	—	(47)
Amortization of goodwill	1,104	1,230
Accelerated amortization of goodwill	—	136
Losses on disposal and write-down of assets associated with business restructuring	—	789
Decrease in accounts receivable	1,569	2,940
Increase in inventories	(4,273)	(2,365)
(Decrease) increase in accounts payable	1,493	(3,095)
Decrease in accrued consumption taxes	(4)	(249)
(Increase) decrease in other current assets	1,975	(206)
Decrease in other non-current assets	37	4,827
Decrease in other current liabilities	(1,542)	(1,809)
Other	597	1,416
Subtotal	19,736	23,345
Interest and dividends received	713	974
Interest paid	(1)	(0)
Income taxes paid	(1,473)	(663)
Net cash provided by operating activities	¥ 18,974	¥ 23,655

The accompanying notes are an integral part of those statemets.

Millions of yen

	2009	2008
Cash flows from investing activities		
Investments in time deposits	¥ (83)	¥ (62)
Proceeds from time deposits	—	31
Payments for acquiring short-term securities	(36,000)	(4,014)
Proceeds from sale of short-term securities	36,000	4,014
Payments for acquiring investment securities	(1,506)	(347)
Proceeds from sale of investment securities	4	155
Payments for acquiring property and equipment	(9,983)	(6,597)
Proceeds from sale of property and equipment	103	59
Payments for acquiring intangible assets	(146)	(259)
Proceeds from sale of intangible assets	0	0
Payments for acquiring shares in subsidiaries and affiliated companies	(1)	(90)
Proceeds from sale of shares in subsidiaries and an affiliated company	9	113
Proceeds from divestiture of a business	—	47
Proceeds from return of guarantee money deposited	1,199	1,903
Payments for provision of guarantee money	(161)	(591)
Other	(426)	(168)
Net cash used in investing activities	(10,991)	(5,805)
Cash flows from financing activities		
Proceeds from issuances of shares of common stock	412	780
Payments for acquisition of treasury stock	(13)	(301)
Payments for dividends	(3,443)	(3,882)
Payments for dividends for minority interests	(2)	(2)
Other	2	1
Net cash used in financing activities	(3,044)	(3,404)
Effect of exchange rate changes on cash and cash equivalents	(4,475)	(2,756)
Net increase in cash and cash equivalents	462	11,689
Cash and cash equivalents at beginning of the year	111,479	99,847
Increase in cash and cash equivalents due to inclusion of newly consolidated subsidiaries in the scope of consolidation	—	12
Decrease in cash and cash equivalents due to exclusion of subsidiaries from the scope of consolidation	(66)	(70)
Cash and cash equivalents at end of the year*[1]	¥111,875	¥111,479

The accompanying notes are an integral part of those statemets.

Summary of Significant Accounting Policies Used in the Preparation of Consolidated Financial Statements

1. Scope of Consolidation

• Year ended March 31, 2008

(1) Number of consolidated subsidiaries:
17 and one partnership
DIGITAL ENTERTAINMENT ACADEMY CO., LTD.
COMMUNITY ENGINE INC.
TAITO CORPORATION
SQUARE ENIX OF AMERICA HOLDINGS, INC.
SQUARE ENIX, INC.
SQUARE L.L.C.
SQUARE PICTURES, INC.
SQUARE ENIX LTD.
SQUARE ENIX (China) CO., LTD.
SQUARE ENIX WEBSTAR NETWORK TECHNOLOGY (BEIJING) CO., LTD.
FF FILM PARTNERS (partnership)
HUANG LONG CO., LTD.
BEIJING TAIXIN CULTURAL AMUSEMENT CO., LTD.
TAITO KOREA CORPORATION
TAITO ART CORPORATION
EFFORT CO., LTD.
TAITO TECH CO., LTD.
SG Lab Inc.

SG Lab Inc. has been included in the Company's scope of consolidation effective this fiscal year, owing to its increase in materiality.

COMMUNITY ENGINE NETWORK SOFTWARE (BEIJING) CO., LTD. was liquidated in this fiscal year.

UIEVOLUTION, INC. and UIE JAPAN CO., LTD. were excluded from the Company's scope of consolidation in this fiscal year, owing to the transfer of all shares held in these companies to another party.

SQUARE ENIX WEBSTAR NETWORK TECHNOLOGY (BEIJING) CO., LTD. is currently undergoing liquidation procedures.

(2) Non-consolidated subsidiaries:
SOLID CO., LTD.
PlayOnline, Inc.
SQUARE ENIX MOBILE STUDIO CO., LTD.
SMILE-LAB Co., Ltd.

SQUARE ENIX MOBILE STUDIO CO., LTD. and SMILE-LAB Co., Ltd. were established in this fiscal year.

(Rationale for the exclusion of subsidiaries from the scope of consolidation)
Non-consolidated subsidiaries conduct operations that are relatively small in scale. The total amounts of the non-consolidated subsidiaries' assets, sales, equity in net income (loss), and equity in retained earnings (deficit) are deemed to have an immaterial effect on the Company's financial performance and consolidated financial statements.

• Year ended March 31, 2009

(1) Number of consolidated subsidiaries:
16 and one partnership
SQUARE ENIX CO., LTD.
TAITO CORPORATION
DIGITAL ENTERTAINMENT ACADEMY CO., LTD.
COMMUNITY ENGINE INC.
SG Lab INC.
SQUARE ENIX OF AMERICA HOLDINGS, INC.
SQUARE ENIX, INC.
SQUARE L.L.C.
SQUARE PICTURES, INC.
SQUARE ENIX LTD.
SQEX LTD.
SQUARE ENIX (China) Co., LTD.
SQUARE ENIX WEBSTAR NETWORK TECHNOLOGY (BEIJING) CO., LTD.
HUANG LONG CO., LTD.
BEIJING TAIXIN CULTURAL AMUSEMENT CO., LTD.
TAITO KOREA CORPORATION
FF FILM PARTNERS (partnership)

SQUARE ENIX WEBSTAR NETWORK TECHNOLOGY (BEIJING) CO., LTD. is currently undergoing liquidation procedures.

EFFORT CO., LTD., TAITO ART CORPORATION and TAITO TECH CO., LTD. have completed liquidation procedures, and, consequently, were excluded from the Company's scope of consolidation.

On October 1, 2008, the Company shifted to a pure holding-company structure through an incorporation-type company split. As part of this split, a newly established wholly owned subsidiary assumed Company's operations for the following business segments: Games (Offline), Games (Online), Mobile Phone Content, Publication and Others. Accompanying this split, the Company's name was changed to SQUARE ENIX HOLDINGS CO., LTD., and, on the same day, a new company, SQUARE ENIX CO., LTD. was established as a consolidated subsidiary. In addition, SQEX LTD. was newly established and included in the scope of consolidation.

(2) Non-consolidated subsidiaries:
SOLID CO., LTD.
PlayOnline, Inc.
SQUARE ENIX MOBILE STUDIO CO., LTD.
SMILE-LAB Co., Ltd.
Stylewalker, Inc.

(Rationale for the exclusion of subsidiaries from the scope of consolidation)
Same as the year ended March 31, 2008

2. Application of the Equity Method of Accounting

• Year ended March 31, 2008

Number of equity-method affiliates: 3

Kaaku Ltd.
Kaasa Solution GmbH
Brave, Inc.

Baltec Co., Ltd. was excluded from application of the equity method in this fiscal year, owing to the transfer of all shares held in that company to another party.

Non-consolidated subsidiaries that are not accounted for under the equity method (SOLID CO., LTD., PlayOnline, Inc., SQUARE ENIX MOBILE STUDIO CO., LTD. and SMILE-LAB Co., Ltd.) and affiliated companies (BMF CORPORATION, Stylewalker, Inc. and KUSANAGI INC.) were excluded from the scope of application of the equity method because their impact on consolidated net income and retained earnings was small.

• Year ended March 31, 2009

Number of equity-method affiliates: 1

Brave, Inc.

Kaaku Ltd. and Kaasa Solution GmbH were excluded from the scope of application of the equity method in this fiscal year, owing to the sale of all shares held in those companies.

Non-consolidated subsidiaries that are not accounted for under the equity method (SOLID CO., LTD., PlayOnline Inc., SQUARE ENIX MOBILE STUDIO CO., LTD., and SMILE-LAB Co., Ltd., and Stylewalker, Inc.) and affiliated companies (BMF CORPORATION and KUSANAGI INC.) were excluded from the scope of application of the equity method because their impact on consolidated net income and retained earnings was small.

3. Fiscal Year-End of Consolidated Subsidiaries

• Year ended March 31, 2008

Among the Company's consolidated subsidiaries, the fiscal years of SQUARE ENIX (China) CO., LTD., HUANG LONG CO., LTD., BEIJING TAIXIN CULTURAL AMUSEMENT CO., LTD., SQUARE PICTURES, INC. and FF FILM PARTNERS end on December 31.

In the preparation of the accompanying consolidated financial statements, their financial statements which have a December 31 fiscal year-end, have been used. Significant transactions between their fiscal year-end and the consolidated balance sheet date of March 31 are reconciled for consolidation.

For SQUARE ENIX WEBSTAR NETWORK TECHNOLOGY (BEIJING) CO., LTD., a provisional settlement of accounts as of the Company's balance sheet date was used as the basis for the preparation of the consolidated financial statements.

• Year ended March 31, 2009

Same as the year ended March 31, 2008

4. Summary of Significant Accounting Policies

(1) Standards and valuation methods for major assets

• Year ended March 31, 2008

A) Investment securities
Other investment securities
Securities for which fair values are available:
Market value, determined by the quoted market price as of the balance sheet date, with unrealized gains and losses reported as a separate component of net assets at a net-of-tax amount, and cost of sales determined by the moving-average method
Securities for which fair values are unavailable:
Stated at cost determined by the average method

B) Inventories
Manufactured goods, merchandise:
Stated at cost, determined by the monthly average method
Certain consolidated subsidiaries, however, determine cost by the moving-average method
Content production account:
Stated at cost, determined by the identified cost method
Amusement equipment:
Stated at cost, determined by the identified cost method
Unfinished goods:
Some consolidated subsidiaries state unfinished goods at cost, determined by the moving-average method
Supplies:
Stated at the last purchase price

• Year ended March 31, 2009

A) Investment securities
Other investment securities
Securities for which fair values are available:
Same as the year ended March 31, 2008
Securities for which fair values are unavailable:
Same as the year ended March 31, 2008

B) Inventories
Manufactured goods, merchandise:
Stated at cost, determined by the monthly average method (book-entry devaluation method based on the decrease in profitability is used with respect to balance sheet value).

Consolidated subsidiaries, however, principally determine cost by the moving-average method (book-entry devaluation method based on the decrease in profitability is used with respect to balance sheet values).

However, amusement equipment is stated at cost, determined by the identified cost method (book-entry devaluation method based on the decrease in profitability is used with respect to balance sheet values).

Content production account:
Stated at cost, determined by the identified cost method (book-entry devaluation method based on the decrease in profitability is used with respect to balance sheet values).

Raw materials, unfinished goods:
Domestic consolidated subsidiaries state raw materials and unfinished goods at cost determined by the moving-average method (book-entry devaluation method based on the decrease in profitability is used with respect to balance sheet values).
Supplies:
Stated at the last purchase price

(2) Method of depreciation and amortization of major assets:

• Year ended March 31, 2008

A) Property and equipment
Property and equipment of the Company and its domestic consolidated subsidiaries are depreciated using the declining-balance method. However, the straight-line method is applied to buildings (excluding building fixtures) acquired on or after April 1, 1998. The estimated useful lives of major assets are as follows:

Buildings and structures	3–65 years
Tools and fixtures	3–15 years
Amusement equipment	3–8 years

Change in method of depreciation

Pursuant to the revision of the Corporation Tax Law, effective this fiscal year, for tangible fixed assets acquired on or after April 1, 2007, the Company and its domestic consolidated subsidiaries have changed their method of accounting for depreciation to that provided under the revised Corporation Tax Law.

The impact of this change was an ¥828 million decrease in operating income, and an ¥829 million decrease in recurring income and income before income taxes and minority interests from the corresponding amounts which would have been recorded under the previous method.

The impact of this change on segment information is presented in the applicable section of these notes.

Additional information

Pursuant to the revision of the Corporation Tax Law, effective this fiscal year, for assets acquired on or before March 31, 2007, the Company and its domestic consolidated subsidiaries apply the method of accounting for depreciation provided in the Corporation Tax Law prior to the revision and depreciate the difference between 5% of an asset's acquisition cost and its memorandum value using the straight-line method over a period of five years, from the fiscal year following the fiscal year in which the net book value of the asset reaches 5% of its acquisition cost. These differences are recorded in depreciation expense.

The impact of this change was a ¥149 million decrease in operating income and recurring income, and a ¥146 million decrease in income before income taxes and minority interests from the corresponding amounts which would have been recorded under the previous method.

The impact of this change on segment information is presented in the applicable section of these notes.

B) Intangible assets
The Company and certain consolidated subsidiaries amortize software used in-house using the straight-line method, based on an internal estimate of its useful life (five years).

Trademarks are amortized using the straight-line method over a period of 10 years.

• Year ended March 31, 2009

A) Property and equipment (excluding leased assets)
Property and equipment of the Company and its domestic consolidated subsidiaries are depreciated using the declining-balance method. However, for buildings (excluding building fixtures) acquired on or after April 1, 1998, and overseas consolidated subsidiaries, the straight-line method is applied. The estimated useful lives of major assets are as follows:

Buildings and structures	3–65 years
Tools and fixtures	3–15 years
Amusement equipment	3 years
	(auxiliary components : 5 years)

B) Intangible assets (excluding leased assets)
Same as the year ended March 31, 2008

C) Leased assets
Leased assets under finance lease transactions that do not transfer ownership.

Depreciation for leased assets is computed under the straight-line method over the lease term with no residual value. Among finance lease transactions that do not transfer ownership, those lease transactions that commenced on or before March 31, 2008, are accounted for in the same manner as operating lease transactions.

(3) Accounting for allowances and reserves:

• Year ended March 31, 2008

A) Allowance for doubtful accounts
An allowance for doubtful accounts provides for possible losses on defaults of accounts receivable. The allowance is made up of two components: the estimated credit loss on doubtful receivables based on an individual assessment of each account, and a general reserve calculated based on historical default rates.

B) Reserve for bonuses
A reserve for bonuses is provided for payments to employees of the Company and its consolidated subsidiaries at the amount expected to be paid in respect of the calculation period ended on the balance sheet date.

C) Allowance for sales returns
An allowance is provided for losses on the return of published materials, at an amount calculated based on historical experience, prior to this fiscal year. In addition, an allowance is provided for losses on the return of game software and other items, at an estimated amount of future losses assessed by game title.

D) Allowance for closing of game arcades
For closures of game arcades that have been determined, an allowance is provided at an amount in line with reasonable estimates of future losses on such closures.

E) Allowance for employees' retirement benefits
An allowance for employees' retirement benefits is provided at the amount incurred during the fiscal year, which is based on the estimated present value of the projected benefit obligation and pension plan assets. Unrecognized actuarial differences are fully amortized in the year following the year in which they arise. At certain consolidated subsidiaries, amortization for each fiscal year is made over a certain period (five years) using the straight-line method within the average remaining years of service of the eligible employees when the differences are recognized, commencing from the year after the year in which they are incurred. Unrecognized prior service cost is amortized over a certain period (one year or five years) within the average remaining service period of the eligible employees. In addition, at certain of the Company's domestic consolidated subsidiaries, a reserve for employees' retirement benefits is provided at an amount equal to 100% of the benefits the subsidiaries would be required to pay under the lump-sum retirement plan if all eligible employees were to voluntarily terminate their employment at the balance sheet date.

F) Allowance for directors' retirement benefits
An allowance for directors' retirement benefits is provided to adequately cover the costs of directors' retirement benefits, which are accounted for on an accrual basis in accordance with internal policy.

• Year ended March 31, 2009

A) Allowance for doubtful accounts
Same as the year ended March 31, 2008

B) Reserve for bonuses
Same as the year ended March 31, 2008

C) Allowance for sales returns
Same as the year ended March 31, 2008

D) Allowance for closing of game arcades
Same as the year ended March 31, 2008

E) Allowance for employees' retirement benefits
Same as the year ended March 31, 2008

F) Allowance for directors' retirement benefits
Same as the year ended March 31, 2008

(4) Translation of foreign currency transactions and accounts:

• Year ended March 31, 2008

All monetary assets and liabilities of the Company and its domestic consolidated subsidiaries denominated in foreign currencies are translated at the balance sheet date at the year end rates. The resulting translation gains or losses are credited or charged to income. All monetary assets and liabilities of overseas consolidated subsidiaries are translated as of the balance sheet date at the year end rates, and all income and expense accounts are translated at rates for their respective periods. The resulting translation adjustments are recorded in net assets as "Foreign currency translation adjustments" and are included in minority interests in consolidated subsidiaries.

• Year ended March 31, 2009

Same as the year ended March 31, 2008

(5) Accounting for leases:

• Year ended March 31, 2008

Finance leases, other than those for which the ownership of the leased assets is considered to be transferred to the lessees, are accounted for as operating leases.

• Year ended March 31, 2009

Please refer to (2) C) Leased assets.

(6) Additional accounting policies used to prepare consolidated financial statements:

• Year ended March 31, 2008

A) Accounting treatment of consumption taxes
Income statement items are presented exclusive of consumption taxes.

B) Accounting treatment of overseas consolidated subsidiaries
The accounts and records of overseas consolidated subsidiaries are maintained in conformity with accounting principles and practices generally accepted in their respective countries of domicile.

• Year ended March 31, 2009

A) Accounting treatment of consumption taxes
Same as the year ended March 31, 2008

B) Accounting treatment of overseas consolidated subsidiaries
Please refer to New Accounting Standards (Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements).

5. Valuation of Assets and Liabilities of Consolidated Subsidiaries

• Year ended March 31, 2008

All assets and liabilities of consolidated subsidiaries are revalued on acquisition.

• Year ended March 31, 2009

Same as the year ended March 31, 2008

6. Amortization of goodwill

• Year ended March 31, 2008

Goodwill is amortized using the straight-line method over a period of either five years or 20 years. However, goodwill whose value has been extinguished is fully amortized during the fiscal year in which it was incurred.

• **Year ended March 31, 2009**
Goodwill is amortized using the straight-line method over a period of 20 years. However, goodwill whose value has been extinguished is fully amortized during the fiscal year in which it was incurred.

7. Scope of Cash and Cash Equivalents in the Consolidated Statements of Cash Flows

• **Year ended March 31, 2008**
Cash and cash equivalents in the consolidated statements of cash flows are comprised of cash on hand, bank deposits which are able to be withdrawn on demand and highly liquid short-term investments with an original maturity of three months or less and with minor risk of significant fluctuations in value.

• **Year ended March 31, 2009**
Same as the year ended March 31, 2008

New Accounting Standards

• **Year ended March 31, 2008**
Not applicable

• **Year ended March 31, 2009**
(Changes in Standards and Valuation Methods for Major Assets)
Inventories
Previously, ordinary inventories held for sale had principally stated at cost determined by the identified cost method. However, effective from the fiscal year ended March 31, 2009, accompanying the adoption of the "Accounting Standard for Measurement of Inventories" (Accounting Standards Board of Japan (ASBJ) Statement No. 9, issued on July 5, 2006), inventories are primarily stated at cost, based on the identified cost method (for the best value of inventory stated on the balance sheet, by writing inventory down based on its decrease in profitability). As a result, in the fiscal year ended March 31, 2009, on a consolidated basis, operating income decreased ¥685 million. There was no impact on recurring income, or income before income taxes and minority interests. The effects of adopting the new standard to the segment information are noted in the applicable section.

(Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements)
Effective from the fiscal year ended March 31, 2009, the Company has adopted the "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements" (ASBJ Practical Issues Task Force No.18, issued on May 17, 2006) and made revisions required for consolidated accounting. This change had an immaterial impact on operating income, recurring income, and income before income taxes and minority interests.

(Accounting Standard for Lease Transactions)
Finance lease transactions that do not transfer ownership had previously been accounted for in a similar manner to the accounting treatment for ordinary operating lease transactions. However, effective from the fiscal year ended March 31, 2009, the Company adopted the "Accounting Standard for Lease Transactions" (ASBJ Statement No. 13, originally issued by the First Subcommittee of the Business Accounting Council on June 17, 1993, and revised on March 30, 2007) and the "Guidance on Accounting Standard for Lease Transactions" (ASBJ Guidance No. 16, originally issued by the Law and Regulation Committee of the Japanese Institute of Certified Public Accountants (JICPA) on January 18, 1994, and revised on March 30, 2007) to account for such transactions in a manner similar to the accounting treatment for ordinary sale and purchase transactions. Regarding methods for depreciation of leased assets under finance lease that do not transfer of ownership, depreciation is computed under the straight-line method over the lease term with no residual value. There was no impact on operating income, recurring income, or income before income taxes and minority interests as a result of this change. For finance lease transactions that do not transfer ownership, and that commenced before the initial year of the adoption of new accounting standards, the Company continues to account for in the same manner as operating lease transactions.

Reclassifications

• **Year ended March 31, 2008**
Not applicable

• **Year ended March 31, 2009**
(Consolidated Balance Sheets)
Accompanying the application of the "Cabinet Office Ordinance Partially Amending the Regulations on the Terminology, Format and Preparation of Financial Statements" (Cabinet Office Ordinance No. 50, August 7, 2008), the item presented as "inventories" in the fiscal year ended March 31, 2008 has been classified into "merchandise and manufactured goods," "work in progress," and "raw materials and supplies," starting from the fiscal year ended March 31, 2009. In the fiscal year ended March 31, 2008, "merchandise" and "finished goods," "work in progress," and "raw materials and supplies," that were presented as "inventory," were ¥2,629 million, ¥639 million, and ¥999 million, respectively.

(Consolidated Statements of Changes in Net Assets)
Starting from the fiscal year ended March 31, 2009, to conform with the introduction of extensible business reporting language (XBRL) to EDINET (Electronic Disclosure for Investors' NETwork), which aims to improve the comparability of financial statements, "change in scope of consolidation" combines two separate items

presented in the fiscal year ended March 31, 2008. Those two items were "change due to increase in consolidation," which amounted to ¥(63) million, and "increase in retained earnings due to exclusion of subsidiaries from the scope of consolidation," which amounted to ¥731 million, in the fiscal year ended March 31, 2008. In the fiscal year ended March 31, 2009, "increase in retained earnings due to exclusion of subsidiaries from the scope of consolidation" amounted to ¥16 million.

Notes to Consolidated Balance Sheets

• Year ended March 31, 2008

*1 Investments in non-consolidated subsidiaries and affiliates:

Investments and other assets	¥173 million

*2 Contingent liabilities for guarantees:

The Company's consolidated subsidiary, TAITO CORPORATION, has issued a guarantee of ¥1 million covering its lease obligations to Diamond Asset Finance Co., Ltd., one of the Company's sales partners.

• Year ended March 31, 2009

*1 Investments in non-consolidated subsidiaries and affiliates:

Investments and other assets	¥127 million

*2 Contingent liabilities for guarantees:

Not applicable

Notes to Consolidated Statements of Income

• Year ended March 31, 2008

*1 Not applicable

*2 Selling, general and administrative expenses include R&D costs of ¥1,581 million

*3 Breakdown of loss on sale of property and equipment

Tools and fixtures	¥145 million

*4 Breakdown of loss on disposal of property and equipment

Buildings and structures	¥ 62 million
Tools and fixtures	131 million
Amusement equipment	741 million
Other	15 million
Total	¥950 million

*5 Loss on revaluation of investment securities was due to a significant decline in market prices of marketable securities.

*6 Impairment loss

In this fiscal year, the Group posted impairment losses on the following asset group:

Millions of yen

Location	Usage	Category	Impairment amount
Shibuya-ku, Tokyo and other	Idle assets	Telephone subscription rights	¥9
Total			¥9

Cash inflows from business segments of the Group are complementary to one another in terms of similarities in the nature of products, merchandise, services and markets. Consequently, all assets for operational purposes are classified in one asset group, and idle assets which are not used for operational purposes are classified individually. In addition, assets related to the Group's headquarters and welfare facilities are classified as common-use assets. Telephone subscription rights in the above table were idle assets and their market value fell substantially below their respective book value. Since they were not expected to be used in the future, they were marked down to their respective recoverable value, resulting in an impairment loss of ¥9 million, which was posted as an extraordinary loss.

In principle, the recoverable amounts for these assets are determined based on their respective fair value calculated using market prices.

*7 A breakdown of loss on disposal and write-downs of assets associated with business restructuring is as follows:

Inventories	¥ 658 million
Current assets	249 million
Other	394 million
Total	¥1,302 million

• Year ended March 31, 2009

*1 Inventories at fiscal year-end are stated after writing down inventory based on its decrease in profitability. The following amount is included within cost of sales as loss on valuation of inventories ¥5,368 million

*2 Selling, general and administrative expenses include research and development expenses of ¥1,525 million

*3 Breakdown of loss on sale of property and equipment

Tools and fixtures	¥ 7 million
Amusement equipment	19 million
Total	¥26 million

*4 Breakdown of loss on disposal of property and equipment

Buildings and structures	¥102 million
Tools and fixtures	216 million
Amusement equipment	342 million
Software	9 million
Other	118 million
Total	¥790 million

*5 Same as the year ended March 31, 2008

*6 Impairment loss

In this fiscal year, the Group posted impairment losses on the following groups of assets:

Millions of yen

Location	Usage	Category	Impairment amount
Kawasaki-shi, Kanagawa	Idle assets	Buildings and structures	¥ 63
Kawasaki-shi, Kanagawa	Idle assets	Land	28
Sendai-shi, Miyagi	Sales office	Buildings	39
Sendai-shi, Miyagi	Sales office	Land	238
Shibuya-ku, Tokyo and other	Idle assets	Telephone subscription rights	8
Shibuya-ku, Tokyo and other	Amusement facilities	Amusement equipment	481
Total			¥859

Cash inflows from each business segment of the Group are complementary to one another in terms of similarities in the nature of products, merchandise, services and markets. Consequently, all assets for operational purposes are classified in one asset group, and idle assets that are not used for operational purposes are classified individually. In addition, assets related to the Group's headquarters and welfare facilities are classified as common-use assets.

Of the assets listed above, land, buildings, telephone subscription rights and amusement equipment were idle assets and their market value had fallen substantially below their book value. Since they were not expected to be used in the future, they were marked down to their recoverable value, resulting in an impairment loss of ¥859 million, which was posted as an extraordinary loss. In principle, the recoverable amounts for these assets are determined based on their fair value calculated using market prices.

*7 Not applicable

Items Pertaining to the Consolidated Statements of Changes in Net Assets

• Year ended March 31, 2008

1. Type and number of shares issued and outstanding, and type and number of shares of treasury stock

Thousands of shares

	Shares as of March 31, 2007	Share increases during the year	Share decreases during the year	Shares as of March 31, 2008
Shares issued and outstanding				
Common stock*1	110,947	4,170	—	115,117
Total	110,947	4,170	—	115,117
Treasury stock*2				
Common stock	193	98	0	291
Total	193	98	0	291

*1 The increase of 4,170 thousand shares of common stock issued and outstanding was due to the exercise of stock options and warrants attached to bonds.

*2 The increase of 98 thousand shares of treasury stock was due to the acquisition of treasury stock in accordance with a resolution approved by the Board of Directors at a meeting held on January 25, 2008, and the acquisition of fractional shares constituting less than one trading unit.

The decrease of 0 thousand shares of treasury stock was due to the sale of fractional shares constituting less than one trading unit.

2. Stock options and the Company's stock options

Category	Details of stock options	Type of shares issuable for the exercise of stock options	Number of shares allocated for the purpose of stock options: As of March 31, 2007	Increase during the year	Decrease during the year	As of March 31, 2008	Balance as of March 31, 2008 (Millions of yen)
Supplying company (parent company)	Issuance of yen-denominated zero-coupon warrant bonds maturing in 2010, pursuant to a resolution of the Board of Directors on November 9, 2005	Common stock	14,705,882	—	3,949,443	10,756,439	—
	Stock acquisition rights as stock options	—	—	—	—	—	81
	Total	—	14,705,882	—	3,949,443	10,756,439	81

Note: The decrease of 3,949,443 shares during the year was due to the exercise of warrants attached to bonds and conversion price adjustment conditions being applied to warrant bonds in accordance with the debenture indenture.

3. Dividends

(1) Dividend payments

Date of approval	Type of shares	Total dividends (Millions of yen)	Dividends per share (Yen)	Record date	Effective date
June 23, 2007 (Annual General Meeting of Shareholders)	Common stock	¥2,768	¥25	March 31, 2007	June 25, 2007
November 19, 2007 (Board of Directors' Meeting)	Common stock	1,115	10	September 30, 2007	December 7, 2007

(2) Dividends with a record date during this fiscal year, but whose effective date falls in the following fiscal year

Date of approval	Type of shares	Total dividends (Millions of yen)	Source of dividends	Dividends per share (Yen)	Record date	Effective date
June 21, 2008 (Annual General Meeting of Shareholders)	Common stock	¥2,296	Retained earnings	¥20	March 31, 2008	June 23, 2008

• Year ended March 31, 2009

1. Type and number of shares issued and outstanding, and type and number of shares of treasury stock

Thousands of shares

	Shares as of March 31, 2008	Share increases during the year	Share decreases during the year	Shares as of March 31, 2009
Shares issued and outstanding				
Common stock*1	115,117	118	—	115,305
Total	115,117	118	—	115,305
Treasury stock*2				
Common stock	291	4	0	295
Total	291	4	0	295

*1 The increase of 188 thousand shares of common stock issued and outstanding was due to the exercise of stock options.

*2 The increase of 4 thousand shares of treasury stock was due to the acquisition of fractional shares constituting less than one trading unit.

The decrease of 0 thousand shares of treasury stock was due to the sale of fractional shares constituting less than one trading unit.

2. Stock options and the Company's stock options

Category	Details of stock options	Type of shares issuable for the exercise of stock options	Number of shares allocated for the purpose of stock options: As of March 31, 2008	Increase during the year	Decrease during the year	As of March 31, 2009	Balance as of March 31, 2009 (Millions of yen)
Supplying company (parent company)	Issuance of yen-denominated zero-coupon warrant bonds maturing in 2010, pursuant to a resolution of the Board of Directors on November 9, 2005	Common stock	10,756,439	125,913	—	10,882,352	—
	Stock acquisition rights as stock options	—	—	—	—	—	410
	Total	—	10,756,439	125,913	—	10,882,352	410

Note: The increase of 125,913 shares during the year was due to the conversion price adjustment conditions being applied to warrant bonds in accordance with the debenture indenture.

3. Dividends

(1) Dividend payments

Date of approval	Type of shares	Total dividends (Millions of yen)	Dividends per share (Yen)	Record date	Effective date
June 21, 2008 (Annual General Meeting of Shareholders)	Common stock	¥2,296	¥20	March 31, 2008	June 23, 2008
November 17, 2008 (Board of Directors' Meeting)	Common stock	1,149	10	September 30, 2008	December 5, 2008

(2) Dividends with a record date during this fiscal year, but whose effective date falls in the following fiscal year

Date of approval	Type of shares	Total dividends (Millions of yen)	Source of dividends	Dividends per share (Yen)	Record date	Effective date
June 24, 2009 (Annual General Meeting of Shareholders)	Common stock	¥2,300	Retained earnings	¥20	March 31, 2009	June 25, 2009

Notes to Consolidated Statements of Cash Flows

• Year ended March 31, 2008

*1 A reconciliation of cash and cash equivalents in the consolidated statement of cash flows to the corresponding amount disclosed in the consolidated balance sheet is as follows:

(As of March 31, 2008)

Cash and deposits	¥111,515 million
Time deposits with maturity periods over three months	(36 million)
Cash and cash equivalents	¥111,479 million

*2 Important non-cash transactions

The Company had the following important non-cash transactions:

Increase in common stock due to conversion of convertible bonds	¥ 6,499 million
Increase in capital surplus due to conversion of convertible bonds	6,499 million
Total	¥12,999 million
Decrease in convertible bonds due to their conversion	¥13,000 million

• Year ended March 31, 2009

*1 A reconciliation of cash and cash equivalents in the consolidated statements of cash flows to the corresponding amount disclosed in the consolidated balance sheets is as follows:

(As of March 31, 2009)

Cash and deposits	¥111,981 million
Time deposits with maturity periods over three months	(106 million)
Cash and cash equivalents	¥111,875 million

*2 Not applicable

Lease Transactions

• Year ended March 31, 2008

Information related to finance leases other than those that transfer ownership to the lessee

1. Acquisition cost, accumulated depreciation and net book value of leased assets:

Millions of yen

	Acquisition cost	Accumulated depreciation	Net book value
Buildings and structures	¥1,246	¥ 589	¥ 657
Tools and fixtures	1,037	527	510
Total	¥2,283	¥1,116	¥1,167

Note: The total amount of future lease payments at the end of the year constituted an insignificant portion of net property and equipment at the end of the year. Accordingly, total acquisition cost included the interest portion thereon.

2. Ending balances of future lease payments:

Due within one year	¥ 421 million
Due after one year	746 million
Total	¥1,167 million

Note: The total future lease payments at the end of the year constituted an insignificant portion of total property and equipment at the end of the year. Accordingly, total future lease payments included the interest portion thereon.

3. Lease payments and depreciation expense:

Lease payments	¥455 million
Depreciation expense	¥455 million

4. Method of calculation for depreciation

Depreciation is calculated using the straight-line method over a useful life with no residual value.

Operating lease transactions

Future lease payments:

Due within one year	¥1,729 million
Due after one year	2,477 million
Total	¥4,207 million

(Impairment loss)
No impairment loss was recognized on leased assets.

• Year ended March 31, 2009
Finance lease transactions
Finance lease transactions that do not transfer ownership

(1) Type of leased assets
Amusement facilities in the Amusement business (buildings and structures)
(2) Depreciation method for leased assets
Please see the following sections: "Summary of Significant Accounting Policies Used in the Preparation of Consolidated Financial Statements; 4. Summary of Significant Accounting Policies; (2) Method of depreciation and amortization of major assets."
Finance lease transactions that do not transfer ownership and that commenced on or before March 31, 2008, are accounted for in a similar manner to the accounting treatment for ordinary operating lease transactions. Detailed information for finance lease transactions are as follows:

1. Acquisition cost, accumulated depreciation and net book value of leased assets:

Millions of yen

	Acquisition cost	Accumulated depreciation	Net book value
Buildings and structures	¥1,246	¥ 788	¥457
Tools and fixtures	973	650	323
Total	¥2,219	¥1,438	¥781

Note: Same as the year ended March 31, 2008

2. Ending balances of future lease payments:

Due within one year	¥527 million
Due after one year	253 million
Total	¥781 million

Note: Same as the year ended March 31, 2008

3. Lease payments and depreciation expense:

Lease payments	¥426 million
Depreciation expense	426 million

4. Method of calculation for depreciation
Same as the year ended March 31, 2008

Operating lease transactions
Future lease payments on noncancellable leases:

Due within one year	¥2,045 million
Due after one year	1,115 million
Total	¥3,161 million

(Impairment loss)
Same as the year ended March 31, 2008

Securities

• Year ended March 31, 2008
1. Held-for-sale securities
Not applicable

2. Held-to-maturity securities with market value
Not applicable

3. Other investment securities with market value:

Millions of yen

	Type	Acquisition cost	Book value	Difference
Securities with book value exceeding	(1) Stocks	¥217	¥266	¥ 48
acquisition cost	Subtotal	217	266	48
Securities with acquisition cost	(1) Stocks	263	198	(65)
exceeding book value	Subtotal	263	198	(65)
Total		¥481	¥465	¥(16)

Note: For the fiscal year ended March 31, 2008, the impairment loss associated with the fair market value determination of other investment securities with market value was ¥31 million. Impairment loss on securities is charged to income when the market price at the end of the fiscal year falls less than 50% of the acquisition cost. In addition, impairment loss on securities is charged to income when the market price at the end of the fiscal year falls between 30% and 50% of the acquisition cost after considering factors such as the significance of the amount and the likelihood of recovery.

4. Securities sold during the fiscal year ended March 31, 2008

Millions of yen

Amount of sale	Gain on sale	Loss on sale
¥155	¥64	¥—

5. Investment securities whose fair values are not readily determinable:

Millions of yen

	Book value
(1) Other investment securities	
Unlisted securities (excluding OTC securities)	¥191
Unlisted overseas bonds	0

6. Redemption schedule of other securities with maturities and held-to-maturity securities
   Not applicable

• Year ended March 31, 2009

1. Held-for-sale securities

Not applicable

2. Held-to-maturity securities with market value

Not applicable

3. Other investment securities with market value:

Millions of yen

	Type	Acquisition cost	Book value	Difference
Securities with book value exceeding acquisition cost	(1) Stocks	¥ 0	¥ 0	¥ 0
	Subtotal	0	0	0
Securities with acquisition cost exceeding book value	(1) Stocks	1,997	1,881	(115)
	Subtotal	1,997	1,881	(115)
Total		¥1,998	¥1,882	¥(115)

Note: For the fiscal year ended March 31, 2009, the impairment loss associated with the fair market value determination of other investment securities with market value was ¥15 million. Impairment loss on securities is charged to income when the market price at the end of the fiscal year falls less than 50% of the acquisition cost. In addition, impairment loss on securities is charged to income when the market price at the end of the fiscal year falls between 30% and 50% of the acquisition cost after considering factors such as the significance of the amount and the likelihood of recovery.

4. Securities sold during the fiscal year ended March 31, 2009

Millions of yen

Amount of sale	Gain on sale	Loss on sale
¥4	¥0	¥17

5. Investment securities whose fair values are not readily determinable:

Millions of yen

	Book value
(1) Other investment securities	
Unlisted securities (excluding OTC securities)	¥180
Unlisted overseas bonds	0

6. Redemption schedule of other securities with maturities and held-to-maturity securities

Not applicable

Derivative Transactions

• Year ended March 31, 2008

1. Terms of transactions

(1) Types and purposes of transactions

In principle, the Company does not engage in derivative transactions. However, from time to time, the Company enters into forward foreign exchange contracts for the purpose of reducing the risk of exposure to foreign exchange rate fluctuations.

(2) Transaction policy

The Company enters into forward foreign exchange contracts to cover anticipated transactions denominated in foreign currencies but does not enter into such contracts for speculative purposes.

(3) Risks

Forward foreign exchange contracts are subject to market risk arising from fluctuations in foreign exchange rates. The Company deems the risk of nonperformance by the counterparties to forward foreign exchange contracts to be low because the Company only enters into such contracts with financial institutions that have high credit ratings.

(4) Risk management

Contracts are approved by a representative director and the director with responsibility for this area. The Accounting and Finance Division administers risk management.

2. Market valuation of transactions

Not applicable

• Year ended March 31, 2009

Same as the year ended March 31, 2008

Retirement Benefits

• Year ended March 31, 2008

1. Overview of retirement benefit plan

The Company and its domestic consolidated subsidiaries have a lump-sum retirement payment plan in accordance with their internal bylaws.

The projected benefits are allocated to periods of service on a straight-line basis. The Company's domestic consolidated subsidiaries apply a simplified method in the calculation of the retirement benefit obligations. In addition, certain of the Company's overseas subsidiaries maintain defined contribution retirement pension plans.

2. Retirement benefit obligation:

	Millions of yen
Retirement benefit obligation	¥(11,343)
Fair value of plan assets	8,830
Net unfunded obligation	(2,513)
Unrecognized prior service cost	(805)
Unrecognized actuarial loss	1,790
Allowance for retirement benefits	¥ (1,528)

3. Retirement benefit expenses:

	Millions of yen
Service cost	¥ 509
Interest cost	180
Expected return on plan assets	(158)
Amortization of prior service cost	(333)
Amortization of net actuarial gain	(201)
Retirement benefit expenses	¥ (3)

4. Assumptions used in accounting for the above plans:

Periodic allocation method for projected benefits	Straight-line basis
Discount rates	1.700%–2.026%
Expected rate of return on plan assets	1.700%
Period over which prior service cost is amortized	1–5 years
Period over which net actuarial gain or loss is amortized	1–5 years

• Year ended March 31, 2009

1. Overview of retirement benefit plan

   The Company and its domestic consolidated subsidiaries have a lump-sum retirement payment plan in accordance with their internal bylaws.

   The projected benefits are allocated to periods of service on a straight-line basis. The Company's domestic consolidated subsidiaries apply a simplified method in the calculation of the retirement benefit obligations. In addition, certain of the Company's overseas subsidiaries maintain defined contribution retirement pension plans.

2. Retirement benefit obligation:

	Millions of yen
Retirement benefit obligation	¥(12,003)
Fair value of plan assets	6,858
Net unfunded obligation	(5,145)
Unrecognized prior service cost	(472)
Unrecognized actuarial loss	3,973
Allowance for retirement benefits	¥ (1,644)

3. Retirement benefit expenses:

	Millions of yen
Service cost	¥ 518
Interest cost	197
Expected return on plan assets	(144)
Amortization of prior service cost	(333)
Amortization of net actuarial gain	244
Retirement benefit expenses	¥ 482

4. Assumptions used in accounting for the above plans:

Periodic allocation method for projected benefits	Straight-line basis
Discount rates	1.300–2.099%
Expected rate of return on plan assets	1.300%
Period over which prior service cost is amortized	1–5 years
Period over which net actuarial gain or loss is amortized	1–5 years

Stock Options

• Year ended March 31, 2008

1. Expense items and amounts during the fiscal year related to stock options:

Cost of sales	¥ 6 million
Selling, general and administrative expenses	67 million

2. Details, scale of and changes in stock options

(1) Details of stock options

	2002 stock options	2004 stock options	2005 stock options	2005 stock options	2007 stock options	2007 stock options
Category of grantees	Company directors and employees	Company directors and employees	Company directors and employees	Directors and employees of the Company's subsidiaries	Company directors	Company employees, and directors and employees of the Company's subsidiaries
Number of grantees	696	206	52	3	5	59
Number of stock options	2,550,000 shares of common stock*	600,000 shares of common stock	902,000 shares of common stock	7,000 shares of common stock	450,000 shares of common stock	670,000 shares of common stock
Date granted	June 22, 2002	June 19, 2004	June 18, 2005	June 18, 2005	December 4, 2007	December 4, 2007
Conditions for vesting of interests	No conditions have been set for vesting of interests	No conditions have been set for vesting of interests	No conditions have been set for vesting of interests	No conditions have been set for vesting of interests	No conditions have been set for vesting of interests	No conditions have been set for vesting of interests
Service period	No service period has been established	No service period has been established	No service period has been established	No service period has been established	No service period has been established	No service period has been established
Rights exercise period	July 1, 2004 to June 30, 2009	July 1, 2006 to June 30, 2009	July 1, 2007 to June 30, 2010	July 1, 2007 to June 30, 2010	November 20, 2009 to November 19, 2012	A. One-third of options granted: November 20, 2009 to November 19, 2012 B. One-third of options granted: November 20, 2010 to November 19, 2012 C. One-third of options granted: November 20, 2011 to November 19, 2012

Note: The number of stock options indicated for 2002 has been adjusted for the April 1, 2003 business merger (1 to 0.85) with SQUARE CO., LTD.

(2) Scale of and changes in stock options

With respect to stock options outstanding at this fiscal year-end, the number of stock options and the status of their exercise to shares of common stock are indicated below:

1) Number of stock options

	2002 stock options	2004 stock options	2005 stock options	2005 stock options	2007 stock options	2007 stock options
Before vesting (shares)						
March 31, 2007	—	—	879,000	7,000	—	—
Granted	—	—	—	—	450,000	670,000
Forfeited	—	—	—	—	—	—
Vested	—	—	879,000	7,000	—	—
Unvested balance	—	—	—	—	450,000	670,000
After vesting (shares)						
March 31, 2007	1,372,750	540,000	—	—	—	—
Vested	—	—	879,000	7,000	—	—
Exercised	305,150	41,400	—	—	—	—
Forfeited	10,200	33,000	51,000	1,000	—	—
Balance unexercised	1,057,400	465,600	828,000	6,000	—	—

2) Price information

Yen

	2002 stock options	2004 stock options	2005 stock options	2005 stock options	2007 stock options	2007 stock options
Exercise price	¥2,152	¥2,981	¥3,365	¥3,360	¥3,706	¥3,706
Average share price at exercise	3,572	3,582	—	—	—	—
Fair market value on grant date	—	—	—	—	526	A. 526 B. 594 C. 715

Note: A, B and C indicated above refer to the three rights exercise periods A, B and C indicated in Table 2 (1).

3. Estimate of fair value of stock options

(1) Method of valuation employed—Black–Scholes Model

(2) Main basic values and methods of estimation

	2007 stock options	2007 stock options
Stock price volatility*2	24.0%	A. 24.0% B. 25.0% C. 27.9%
Expected remaining period*3	3.5 years	A. 3.5 years B. 4.0 years C. 4.5 years
Expected dividend*4	Dividend yield 0.99%	Dividend yield 0.99%
Risk-free interest rate*5	0.87%	A. 0.87% B. 0.92% C. 0.97%

Notes: 1. A, B and C indicated above refer to the three rights exercise periods A, B and C indicated in Table 2 (1).
2. Stock price volatility is calculated based on the actual stock price from the stock option grant date extending back the length of the expected remaining period.
3. Owing to a lack of sufficient historical data, it is difficult to determine the expected remaining period in a reasonable manner. Consequently, the expected remaining period is determined to be the period from the option grant date to the mid-point of the exercisable period.
4. The expected dividend is calculated based on the actual dividend applicable to the fiscal year ended March 31, 2007.
5. The risk-free interest rate represents the interest rate of Japanese government bonds whose remaining periods correspond to the expected remaining periods of the stock options.

4. Method of estimating the number of vested stock options

Owing to the difficulty of estimating the number of stock options that will be forfeited in future periods, estimation of the vested number is based upon actual forfeitures in prior periods.

• Year ended March 31, 2009

1. Expense items and amounts during the fiscal year related to stock options:

Cost of sales	¥ 16 million
Selling, general and administrative expenses	312 million

2. Details, scale of and changes in stock options

(1) Details of stock options

	2002 stock options	2004 stock options	2005 stock options	2005 stock options	2007 stock options	2007 stock options	2008 stock options
Category of grantees	Company directors and employees	Company directors and employees	Company directors and employees	Directors and employees of the Company's subsidiaries	Company directors	Company employees, and directors and employees of the Company's subsidiaries	Company directors
Number of grantees	696	206	52	3	5	59	5
Number of stock options	2,550,000 shares of common stock*	600,000 shares of common stock	902,000 shares of common stock	7,000 shares of common stock	450,000 shares of common stock	670,000 shares of common stock	19,800 shares of common stock
Date granted	June 22, 2002	June 19, 2004	June 18, 2005	June 18, 2005	December 4, 2007	December 4, 2007	August 21, 2008
Conditions for vesting of interests	No conditions have been set for vesting of interests	No conditions have been set for vesting of interests	No conditions have been set for vesting of interests	No conditions have been set for vesting of interests	No conditions have been set for vesting of interests	No conditions have been set for vesting of interests	No conditions have been set for vesting of interests
Service period	No service period has been established	No service period has been established	No service period has been established	No service period has been established	No service period has been established	No service period has been established	No service period has been established
Rights exercise period	July 1, 2004 to June 30, 2009	July 1, 2006 to June 30, 2009	July 1, 2007 to June 30, 2010	July 1, 2007 to June 30, 2010	November 20, 2009 to November 19, 2012	A. One-third of options granted: November 20, 2009 to November 19, 2012 B. One-third of options granted: November 20, 2010 to November 19, 2012 C. One-third of options granted: November 20, 2011 to November 19, 2012	August 22, 2008 to August 21, 2028

Note: The number of stock options indicated for 2002 has been adjusted for the April 1, 2003 business merger (1 to 0.85) with SQUARE CO., LTD.

(2) Scale of and changes in stock options

With respect to stock options outstanding at this fiscal year-end, the number of stock options and the status of their exercise to shares of common stock are indicated below:

1) Number of stock options

	2002 stock options	2004 stock options	2005 stock options	2005 stock options	2007 stock options	2007 stock options	2008 stock options
Before vesting (shares)							
March 31, 2008	—	—	—	—	450,000	670,000	—
Granted	—	—	—	—	—	—	19,800
Forfeited	—	—	—	—	—	—	—
Vested	—	—	—	—	—	—	19,800
Unvested balance	—	—	—	—	450,000	670,000	—
After vesting (shares)							
March 31, 2008	1,057,400	465,600	828,000	6,000	—	—	—
Vested	—	—	—	—	—	—	19,800
Exercised	178,500	9,600	—	—	—	—	—
Forfeited	10,200	10,000	3,000	5,000	—	—	—
Balance unexercised	868,700	446,000	825,000	1,000	—	—	19,800

2) Price information

Yen

	2002 stock options	2004 stock options	2005 stock options	2005 stock options	2007 stock options	2007 stock options	2008 stock options
Exercise price	¥2,152	¥2,981	¥3,365	¥3,360	¥3,706	¥3,706	¥ 1
Average share price at exercise	3,292	3,489	—	—	—	—	—
Fair market value on grant date	—	—	—	—	526	A. 526 B. 594 C. 715	3,171

3. Estimate of fair value of stock options
(1) Method of valuation employed—Black–Scholes Model
(2) Main basic values and methods of estimation

	2007 stock options	2007 stock options	2008 stock options
Stock price volatility*2	24.0%	A. 24.0% B. 25.0% C. 27.9%	43.9%
Expected remaining period*3	3.5 years	A. 3.5 years B. 4.0 years C. 4.5 years	10 years
Expected dividend*4	Dividend yield 0.99%	Dividend yield 0.99%	Dividend yield 0.87%
Risk-free interest rate*5	0.87%	A. 0.87% B. 0.92% C. 0.97%	1.49%

Notes: 1. A, B and C indicated above refer to the three rights exercise periods A, B and C indicated in Table 2 (1).
2. Stock price volatility is calculated based on the actual stock price from the stock option grant date extending back the length of the expected remaining period.
3. Owing to a lack of sufficient historical data, it is difficult to determine the expected remaining period in a reasonable manner. Consequently, the expected remaining period is determined to be the period from the option grant date to the mid-point of the exercisable period.
4. For 2007 stock options, the expected dividend is calculated based on the actual dividend applicable to the fiscal year ended March 31, 2007. For 2008 stock options, the expected dividend is calculated based on the actual dividend applicable to the fiscal year ended March 31, 2008.
5. The risk-free interest rate represents the interest rate of Japanese government bonds whose remaining periods correspond to the expected remaining periods of the stock options.

Tax Effect Accounting

• Year ended March 31, 2008

1. Significant components of deferred tax assets and liabilities are summarized as follows:

	Millions of yen
Deferred tax assets	
1) Current assets	
Enterprise taxes payable	¥ 79
Business office tax payable	55
Reserve for bonuses	731
Advances paid	36
Accrued expenses	361
Allowance for sales returns	199
Non-deductible portion of allowance for doubtful accounts	239
Tax credit	294
Loss on write-offs of content production account	1,884
Loss carried forward	1,639
Loss on inventory revaluation	123
Loss on disposal of assets associated with business restructuring	347
Other	130
Valuation allowance	(1,485)
Offset to deferred tax liabilities (current)	(480)
Total	4,158
2) Non-current assets	
Non-deductible portion of allowance for employees' retirement benefits	1,086
Allowance for directors' retirement benefits	77
Non-deductible depreciation expense of property and equipment	537
Loss on investments in securities	379
Non-deductible portion of allowance for doubtful accounts	780
Tax effect from sale of stock of affiliated companies	1,965
Allowance for closing of game arcades	413
Loss carried forward	4,816
Other	179
Valuation allowance	(9,382)
Total	852
Net deferred tax assets	5,010
Deferred tax liabilities	
Current liabilities	
Accrued expenses and other cost calculation details	480
Offset to deferred tax assets (non-current assets)	(480)
Total	—
Total deferred tax liabilities	—
Balance: Net deferred tax assets	¥5,010

2. A reconciliation of the statutory tax rate and the effective tax rate is as follows:

Statutory tax rate	40.70%
Permanent differences relating to entertainment expenses, etc., excluded from non-taxable expenses	0.47
Permanent differences relating to dividends received, etc., excluded from non-taxable expenses	(0.01)
Taxation on a per capita basis for inhabitants' taxes	0.38
Deduction for foreign taxes paid	1.82
Amortization of goodwill	3.33
Valuation allowance	(5.87)
Tax effect from sale of stock of affiliated companies	5.03
Adjustments for unrecognized losses	(0.03)
Differences in tax rates from the parent company's statutory tax rate	(1.35)
Other	0.84
Effective tax rate	45.31%

• Year ended March 31, 2009

1. Significant components of deferred tax assets and liabilities are summarized as follows:

	Millions of yen
Deferred tax assets	
1) Current assets	
Enterprise tax payable	¥ 305
Business office tax payable	51
Reserve for bonuses	601
Accrued expenses	263
Allowance for sales returns	366
Non-deductible portion of allowance for doubtful accounts	86
Tax credit	23
Loss on write-offs of content production account	2,660
Loss on inventory revaluation	256
Allowance for closing of game arcades	181
Other	141
Valuation allowance	(839)
Offset to deferred tax liabilities (current)	(216)
Total	3,882

2) Non-current assets	
Non-deductible portion of allowance for employees's retirement benefits	924
Allowance for directors' retirement benefits	85
Expense for stock-based compensation	166
Non-deductible depreciation expense of property and equipment	707
Loss on investments in securities	410
Non-deductible portion of allowance for doubtful accounts	124
Research and development expense	294
Allowance for closing of game arcades	293
Loss carried forward	8,557
Other	194
Valuation allowance	(10,807)
Total	952
Net deferred tax assets	4,834
Deferred tax liabilities	
Current liabilities	
Accrued expenses and other cost calculation details	216
Offset to deferred tax assets (non-current assets)	(216)
Total	—
Total deferred tax liabilities	—
Balance: Net deferred tax assets	¥ 4,834

2. A reconciliation of the statutory tax rate and the effective tax rate is as follows:

Statutory tax rate	40.70%
Permanent differences relating to entertainment expense, etc., excluded from non-taxable expenses	1.02
Permanent differences relating to dividends received, etc., excluded from non-taxable expenses	(0.05)
Taxation on a per capita basis for inhabitants' tax	1.69
Deduction for foreign taxes paid	(0.50)
Amortization of goodwill	4.91
Valuation allowance	14.05
Special deduction for experiment and research expenses	(5.90)
Tax refund	(20.11)
Differences in tax rate from the parent company's statutory tax rate	(3.00)
Other	(1.57)
Effective tax rate	31.24%

Segment Information

[Consolidated Business Segment Information]

• Year ended March 31, 2008

Millions of yen

	Games (Offline)	Games (Online)	Mobile Phone Content	Publication	Amusement	Others	Total	Eliminations or unallocated	Consolidated total
I Sales and operating income									
Net sales									
(1) Sales to external customers	¥41,588	¥12,098	¥6,474	¥11,158	¥67,632	¥ 8,564	¥147,516	¥ —	¥147,516
(2) Intersegment sales	—	—	104	—	1,471	440	2,017	(2,017)	—
Total	41,588	12,098	6,579	11,158	69,104	9,005	149,533	(2,017)	147,516
Operating expenses	32,705	6,218	4,820	7,532	65,974	5,681	122,931	3,064	125,996
Operating income (loss)	¥ 8,882	¥ 5,880	¥1,758	¥ 3,626	¥ 3,129	¥ 3,324	¥ 26,602	¥ (5,082)	¥ 21,520
II Total assets, depreciation and amortization, impairment loss and capital expenditures									
Total assets	¥64,345	¥18,118	¥7,697	¥10,588	¥68,380	¥13,266	¥182,397	¥29,736	¥212,134
Depreciation and amortization	375	428	43	5	7,544	730	9,127	805	9,933
Impairment loss	—	—	—	—	9	—	9	—	9
Capital expenditures	426	234	10	1	4,768	1,142	6,584	368	6,952

Notes: 1. The classification of business segments is made based on the types of products and services.

2. Major products offered by business segment are summarized as follows:

Segment	Major Products
Games (Offline)	Games
Games (Online)	Online games
Mobile Phone Content	Content for mobile phones
Publication	Magazine comics, serial comics, game-related books
Amusement	All businesses of the Taito Group including Amusement Operations and Rental, Sales of Goods and Merchandise and Content Services
Others	Derivative products such as character merchandise, school for game designers

3. Unallocated operating expenses included in “Eliminations or unallocated” totaled ¥5,082 million. These expenses were related to administrative departments of the Company which provide services and operational support that cannot be allocated to specific business segments.

4. Unallocated assets included in “Eliminations or unallocated” totaled ¥30,558 million. These assets mainly consisted of cash and deposits, deferred tax assets and buildings and structures of administrative departments of the Company.

5. Change in accounting policy

As noted in “Summary of Significant Accounting Policies Used in the Preparation of Consolidated Financial Statements,” Section 4. (2) (A), pursuant to the revision of the Corporation Tax Law, effective this fiscal year, for tangible fixed assets acquired on or after April 1, 2007, the Company and its domestic consolidated subsidiaries have changed their method of accounting for depreciation to that provided under the revised Corporation Tax Law.

As a result of this change, operating expenses increased for “Games (Offline)” by ¥33 million, for “Games (Online)” by ¥13 million, for “Amusement” by ¥537 million, for “Others” by ¥224 million and for “Eliminations or unallocated” by ¥19 million over the corresponding amounts which would have been recorded under the previous method. At the same time, operating income (loss) for each segment decreased (increased) by the same amount as that of the corresponding increase in operating expenses as a result of this change from the amount which would have been recorded under the previous method. The impact of this change on the remaining segments were immaterial.

6. Additional information

As noted in “Summary of Significant Accounting Policies Used in the Preparation of Consolidated Financial Statements,” Section 4. (2) (A), pursuant to the revision of the Corporation Tax Law, effective this fiscal year, for assets acquired on or before March 31, 2007, the Company and its domestic consolidated subsidiaries apply the method of accounting for depreciation provided for in the Corporation Tax Law prior to the revision and depreciate the difference between 5% of an asset’s acquisition cost and its memorandum value using the straight-line method over a period of five years, from the fiscal year following the fiscal year in which the net book value of the asset reaches 5% of its acquisition cost. Such depreciation is recorded in depreciation expense.

As a result of this change, operating expenses increased for “Amusement” by ¥139 million and for “Eliminations or unallocated” by ¥9 million over the corresponding amounts which would have been recorded under the previous method. At the same time, operating income (loss) for each segment decreased (increased) by the same amount as that of the corresponding increase in operating expenses as a result of this change from the amount which would have been recorded under the previous method. The impact of this change on the remaining segments were immaterial.

• **Year ended March 31, 2009**

Millions of yen

	Games (Offline)	Games (Online)	Mobile Phone Content	Publication	Amusement	Others	Total	Eliminations or unallocated	Consolidated total
I Sales and operating income									
Net sales									
(1) Sales to external customers	¥36,340	¥10,580	¥7,078	¥12,984	¥56,620	¥12,088	¥135,693	¥ —	¥135,693
(2) Intersegment sales	2	48	13	0	1,648	281	1,996	(1,996)	—
Total	36,343	10,629	7,092	12,985	58,269	12,370	137,690	(1,996)	135,963
Operating expenses	32,180	7,541	3,403	9,444	59,214	9,104	120,888	2,527	123,415
Operating income (loss)	¥ 4,162	¥ 3,087	¥3,689	¥ 3,540	¥ (944)	¥ 3,266	¥ 16,801	¥ (4,523)	¥ 12,277
II Total assets, depreciation and amortization, impairment loss and capital expenditures									
Total assets	¥38,320	¥10,325	¥3,452	¥ 9,074	¥57,927	¥12,699	¥131,799	¥81,394	¥213,194
Depreciation and amortization	485	375	20	13	4,741	666	6,301	676	6,978
Impairment loss	—	—	—	—	766	—	766	92	859
Capital expenditures	297	177	1	2	10,663	1,417	12,559	572	13,131

Notes: 1. The classification of business segments is made based on the types of products and services.

2. Major products offered by business segment are summarized as follows:

Segment	Major Products
Games (Offline)	Games
Games (Online)	Online games
Mobile Phone Content	Content for mobile phones
Publication	Magazine comics, serial comics, game-related books
Amusement	All businesses of the Taito Group including Amusement Operations and Rental, Sales of Goods and Merchandise and Content Services
Others	Derivative products such as character merchandise, school for game designers

3. Unallocated operating expenses included in “Eliminations or unallocated” totaled ¥5,336 million. These expenses were related to administrative departments of the Company which provide services and operational support that cannot be allocated to specific business segments.

4. Unallocated assets included in “Eliminations or unallocated” totaled ¥82,368 million. These assets mainly consisted of cash and deposits, deferred tax assets and buildings and structures of administrative departments of the Company.

5. As noted in New Accounting Standard (Inventories), effective from the fiscal year ended March 31, 2009, the Company has applied “Accounting Standard for Measurement of Inventories” (ASBJ Statement No. 9, issued on July 5, 2006). As a result of this change, operating income decreased for “Games (Offline)” by ¥42 million, for “Games (Online)” by ¥24 million and for “Amusement” by ¥618 million compared with the previous method.

[Consolidated Geographic Segment Information]

• **Year ended March 31, 2008**

Millions of yen

	Japan	North America	Europe	Asia	Total	Eliminations or unallocated	Consolidated total
I Sales and operating income							
Net sales							
(1) Sales to external customers	¥127,643	¥12,035	¥7,217	¥ 620	¥147,516	¥ —	¥147,516
(2) Intersegment sales	5,738	552	457	7	6,756	(6,756)	—
Total	133,381	12,588	7,674	628	154,273	(6,756)	147,516
Operating expenses	115,069	9,836	6,592	1,222	132,721	(6,725)	125,996
Operating income (loss)	18,312	2,751	1,081	(594)	21,551	(31)	21,520
II Total assets	¥202,922	¥12,387	¥4,804	¥1,825	¥221,939	¥(9,804)	¥212,134

Notes: 1. The classification of geographic segments is made based on geographical distance.

2. Main countries included in each segment:

(1) North America .... the United States of America

(2) Europe .... the United Kingdom

(3) Asia .... the People’s Republic of China, Republic of Korea

3. There were no unallocated operating expenses included in "Eliminations or unallocated."
4. There were no unallocated assets included in "Eliminations or unallocated."
5. Change in accounting policy
As noted in "Summary of Significant Accounting Policies Used in the Preparation of Consolidated Financial Statements," Section 4. (2) (A), pursuant to the revision of the Corporation Tax Law, effective the fiscal year ended March 31, 2008, for tangible fixed assets acquired on or after April 1, 2007, the Company and its domestic consolidated subsidiaries have changed their method of accounting for depreciation to that provided under the revised Corporation Tax Law.
The impact of this change was an ¥828 million increase in operating expenses and a decrease in operating income of the same amount in Japan as compared to the corresponding amounts which would have been recorded under the previous method.
6. Additional information
As noted in "Summary of Significant Accounting Policies Used in the Preparation of Consolidated Financial Statements," Section 4. (2) (A), pursuant to the revision of the Corporation Tax Law, effective the fiscal year ended March 31, 2008, for assets acquired on or before March 31, 2007, the Company and its domestic consolidated subsidiaries apply the method of accounting for depreciation provided for in the Corporation Tax Law prior to the revision and depreciate the difference between 5% of an asset's acquisition cost and its memorandum value using the straight-line method over a period of five years, from the fiscal year following the fiscal year in which the net book value of the asset reaches 5% of its acquisition cost. Such depreciation is recorded in depreciation expense.
The impact of this change was a ¥149 million increase in operating expenses and a decrease in operating income of the same amount in Japan as compared to the corresponding amounts which would have been recorded under the previous method.

• Year ended March 31, 2009

Millions of yen

	Japan	North America	Europe	Asia	Total	Eliminations or unallocated	Consolidated total
I Sales and operating income							
Net sales							
(1) Sales to external customers	¥115,681	¥13,247	¥ 6,417	¥ 346	¥135,693	¥ —	¥135,693
(2) Intersegment sales	5,908	175	302	21	6,407	(6,407)	—
Total	121,590	13,423	6,720	367	142,101	(6,407)	135,693
Operating expenses	112,949	10,694	5,733	444	129,821	(6,405)	123,415
Operating income (loss)	8,640	2,728	987	(77)	12,279	(1)	12,277
II Total assets	¥202,370	¥15,785	¥18,108	¥1,639	¥237,904	¥(24,710)	¥213,194

Notes: 1. The classification of geographic segments is made based on geographical distance.
2. Main countries included in each segment:
(1) North America.......................... the United States of America
(2) Europe.................................... the United Kingdom
(3) Asia....................................... the People's Republic of China, Republic of Korea
3. There were no unallocated operating expenses included in "Eliminations or unallocated."
4. There were no unallocated assets included in "Eliminations or unallocated."
5. Change in accounting policy
As noted in New Accounting Standard (Inventories), effective from the fiscal year ended March 31, 2009, the Company has applied "Accounting Standard for Measurement of Inventories" (ASBJ Statement No. 9, issued on July 5, 2006). As a result of this change, operating income decreased by ¥645 million in Japan and by ¥39 million in Asia compared with the previous method.

[Consolidated Overseas Sales]
• Year ended March 31, 2008

Millions of yen

	North America	Europe	Asia	Total
I Overseas sales	¥13,358	¥7,896	¥1,118	¥ 22,373
II Consolidated sales	—	—	—	147,516
III Overseas sales as a percentage of consolidated sales	9.1%	5.4%	0.8%	15.2%

Notes: 1. The classification of geographic segments is made based on geographical distance.
2. Main countries included in each segment:
(1) North America .... the United States of America, Canada
(2) Europe .... the United Kingdom, France, Germany, others
(3) Asia .... the People's Republic of China, Republic of Korea, others
3. Overseas sales represent sales of the Company and its consolidated subsidiaries to countries and areas outside Japan.

• **Year ended March 31, 2009**

	North America	Europe	Asia	Total
				Millions of yen
I Overseas sales	¥14,285	¥6,713	¥1,298	¥ 22,297
II Consolidated sales	—	—	—	135,693
III Overseas sales as a percentage of consolidated sales	10.5%	5.0%	1.0%	16.5%

Notes: 1. The classification of geographic segments is made based on geographical distance.
2. Main countries included in each segment:
(1) North America .... the United States of America, Canada
(2) Europe .... the United Kingdom, France, Germany, others
(3) Asia .... the People's Republic of China, Republic of Korea, others
3. Overseas sales represent sales of the Company and its consolidated subsidiaries to countries and areas outside Japan.

Business combinations

• **Year ended March 31, 2008**

In this fiscal year, there were no material items relating to business combinations.

• **Year ended March 31, 2009**

Common control transactions

1. Outline of the business combination

(1) Name of the company acquired and business operations subject to the business combination
The Games (Offline), Games (Online), Mobile Phone Content, Publication and Other businesses operated by SQUARE ENIX HOLDINGS CO., LTD. (formerly SQUARE ENIX CO., LTD.)

(2) Legal form of the business combination
An incorporation-type company split that the Company was a split company and a newly established wholly owned subsidiary assumed Company's Games (Offline) business operation, etc.

(3) Name of the post-combination company
Newly established company through an incorporation-type company split: SQUARE ENIX CO., LTD.

(4) Outline of the transaction including purpose of the transaction
The Company believes that it is crucial to maintain profitability and achieve medium- and long-term growth through the provision of high-quality, sophisticated contents and services. However, in recent years, as information technology (IT) and telecommunications technology and infrastructure have rapidly developed and seen widespread adoption, customer preferences have become greatly diversified and the speed of technical innovation has accelerated. In such a business environment, the Company decided to shift to a pure holding-company structure. As well as aiming to clarify the profitability of each business and the accountability structure, this shift was determined to be essential for facilitating Group management that can flexibly engage in strategic business alliances, including capital alliances with other companies.

2. Outline of the accounting treatment

The transaction was treated as a common control transaction pursuant to "Accounting Standard for Business Combinations" (Business Accounting Council, issued on October 31, 2003) and "Implementation Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (Accounting Standards Board of Japan Guidance No. 10, revised on November 15, 2007).

[Related Party Transactions]

• **Year ended March 31, 2008**

Not applicable

• **Year ended March 31, 2009**

Not applicable

Per Share Information

• **Year ended March 31, 2008**

Net assets per share (yen)	¥1,280.50
Net income per share (yen)	81.85
Diluted net income per share (yen)	81.41

Note: The basis for calculating net income per share and diluted net income per share is provided below:

• **Year ended March 31, 2009**

Net assets per share (yen)	¥1,280.92
Net income per share (yen)	55.11
Diluted net income per share (yen)	54.99

Note: The basis for calculating net income per share and diluted net income per share is provided below:

• Year ended March 31, 2008

Net income per share:	
Net income (millions of yen)	¥9,196
Income not available to common shareholders (millions of yen)	—
Income available to common shareholders (millions of yen)	9,196
Average number of shares of common stock outstanding during the fiscal year (thousands of shares)	112,357
Adjustments to net income used to calculate diluted net income per share:	
Adjustments to net income (millions of yen)	—
Increase in the number of shares of common stock (thousands of shares)	605
(number of shares reserved for the purpose of new share issuances for exercise of share subscription rights)	(605)

Summary of residual securities that do not dilute the Company's earnings per share:

The issuance of stock options was approved by the Board of Directors on November 19, 2007, and bonds with warrants were issued based on a resolution approved by the Board of Directors on November 9, 2005.

An overview of the stock option plan is provided in "4. Status of Parent Company, 1. Status of Shares, etc., (2) Status of stock options, etc."

• Year ended March 31, 2009

Net income per share:	
Net income (millions of yen)	¥6,333
Income not available to common shareholders (millions of yen)	—
Income available to common shareholders (millions of yen)	6,333
Average number of shares of common stock outstanding during the fiscal year (thousands of shares)	114,936
Adjustments to net income used to calculate diluted net income per share:	
Adjustments to net income (millions of yen)	—
Increase in the number of shares of common stock (thousands of shares)	250
(number of shares reserved for the purpose of new share issuances for exercise of share subscription rights)	(250)

Summary of residual securities that do not dilute the Company's earnings per share:

The issuance of stock options was approved by the Board of Directors on November 19, 2007, and on July 31, 2008. The issuance of bonds with warrants were issued based on a resolution approved by Board of Directors on November 9, 2005.

An overview of the stock option plan is provided in "4. Status of Parent Company, 1. Status of Shares, etc., (2) Status of stock options, etc."

Significant Subsequent Events

• Year ended March 31, 2008

Implementation of a Pure Holding Company Structure by Means of a Company Split

On May 23, 2008, a meeting of the Board of Directors approved a resolution under which the Company will move to a pure holding company structure by means of an incorporation-type company split effective October 1, 2008. Under this plan, a newly established wholly owned subsidiary will assume the operations of the Company's business effective October 1, 2008. Accompanying this move to a holding company structure, effective October 1, 2008, the Company's Articles of Incorporation will be partially revised and the company's name is planned to be changed to SQUARE ENIX HOLDINGS CO., LTD. The Board of Directors' resolution referred to above also determined that the Company's purpose will be changed to that of a pure holding company. The Company plans to maintain the listing of its stock on the First Section of the Tokyo Stock Exchange as a holding company.

(1) Purpose of the company split

The Company believes that it is crucial to maintain profitability and achieve medium- to long-term growth through the provision of high-quality, sophisticated content and services. However, in recent years, as information technology (IT) and telecommunications technology and infrastructure have rapidly developed and seen widespread adoption, customer preferences have become greatly diversified and the speed of technical innovation has accelerated. In such a business environment, the Company has determined to pursue a strategy of moving to a pure holding company structure. As well as aiming to clarify the profitability of each business and the accountability structure, this move is seen as crucial to facilitating Group management that can flexibly engage in strategic business alliances, including capital alliances with other companies.

(2) Outline of the company split

1. Schedule for the split

Record date for the Ordinary General Meeting of Shareholders
March 31, 2008

Meeting of the Board of Directors to pass a resolution for the move to a pure holding company structure
April 25, 2008

Meeting of the Board of Directors to pass a resolution for implementation of the company split
May 23, 2008

Annual General Meeting of Shareholders in which a resolution for the company split is to be approved
June 21, 2008

Effective date of the company split
October 1, 2008 (scheduled)

2. Method of the split
The Company, as the transferor, will newly establish SQUARE ENIX CO., LTD. as the succeeding company through a single-incorporation split.

3. Reduction of capital through the split
Not applicable

4. Stock options and bonds with warrants
The terms of certain stock options, which had been issued by the Company and subscribed to by employees of the Company, were amended by approval of the Annual General Meeting of Shareholders held on June 21, 2008. Based on this amendment, employees to be transferred to the succeeding company will be able to exercise the relevant stock options after such transfer. Other stock options and bonds with warrants issued by the Company remain unchanged.

5. Rights and obligations of the succeeding company
In accordance with the terms of the company split plan, the succeeding company will, as of the effective date of the company split, acquire all assets, and assume all liabilities, employment contracts and all other rights and obligations relating to the businesses being transferred. With regard to all liabilities assumed by the succeeding company, the Company will retain joint liability.

6. Fulfillment of obligations
With regard to all liabilities assumed by the transferor and the succeeding company as of the effective date of the split, assets are expected to exceed liabilities for both companies, and the Company anticipates that no problems will arise with respect to the fulfillment of these obligations.

(3) Outline of the parties to the split

		Transferor (as of March 31, 2008)	Succeeding company (new company established through the split) planned post-split status
(1)	Company name	SQUARE ENIX CO., LTD. (SQUARE ENIX CO., LTD. is to be changed to SQUARE ENIX HOLDINGS CO., LTD. as of October 1, 2008)	SQUARE ENIX CO., LTD.
(2)	Principle businesses	Planning, development and marketing of games and other content and services	Planning, development and marketing of games and other content and services
(3)	Date of incorporation	September 22, 1975	October 1, 2008
(4)	Address of head office	3-22-7, Yoyogi, Shibuya-ku, Tokyo	3-22-7, Yoyogi, Shibuya-ku, Tokyo
(5)	Name and title of representative	Yoichi Wada, President and Representative Director	Yoichi Wada, President and Representative Director
(6)	Common stock	¥14,928 million	¥1,500 million
(7)	Outstanding shares	115,117,896 shares	30,000 shares
(8)	Net assets	¥149,407 million	¥37,388 million
(9)	Total assets	¥195,534 million	¥46,140 million
(10)	Fiscal year end	March 31	March 31
(11)	Major shareholders and percentage of shares held	Yasuhiro Fukushima 20.57% The Master Trust Bank of Japan, Ltd. (Trust Account) 8.83% Fukushima Planning Co., Ltd. 8.50% Sony Computer Entertainment Inc. 8.29% Masashi Miyamoto 6.86%	The Company 100%

Note: Treasury stock is not included in the percentage of shares held.

(4) Outline of the business divisions to be split
1. Business activities of the divisions to be split
Games (Offline), Games (Online), Mobile Phone Content, Publication, Others

2. Operating results of the divisions to be split

Millions of yen

	Business divisions to be split (a)	Actual results in the fiscal year ended March 31, 2008 (b)	(a) as a percentage of (b) (%)
Sales	¥65,719	¥65,719	100.0

3. Assets and liabilities to be split

Millions of yen

Item	Book value	Item	Book value
Current assets	¥35,498	Current liabilities	¥6,177
Non-current assets	10,642	Non-current liabilities	2,575
Total	¥46,140	Total	¥8,752

Note: Since the figures shown in the table above are calculated based on the balance sheet as of March 31, 2008, the actual amounts of assets and liabilities to be split will differ from those shown above.

(5) Post-split status of the Company as a listed company

1.	Company name	SQUARE ENIX HOLDINGS CO., LTD. (scheduled)
2.	Principle business	Management of corporate group as a pure holding company
3.	Address of head office	3-22-7, Yoyogi, Shibuya-ku, Tokyo
4.	Name and title of representative	Yoichi Wada, President and Representative Director
5.	Common stock	¥14,928 million
6.	Fiscal year end	March 31
7.	Forecast	The Company plans to remain as a listed company subsequent to the move to a pure holding company structure. In addition, the Company plans to undertake a range of functions, including unified and flexible Group strategic planning, optimal allocation of business resources among Group companies, and monitoring of the execution of business operations by subsidiaries. The Company plans to develop a strategically sound and transparent management structure to maximize the Group's corporate value.

• Year ended March 31, 2009

Acquisition of a company through stock purchase

(1) Outline of acquisition of a company through stock purchase
The Company's wholly owned subsidiary, SQEX LTD. (SQEX), received sanction from the English High Court for its scheme of arrangement under United Kingdom (UK) law to acquire all outstanding shares in Eidos plc (currently Eidos Interactive Ltd., hereinafter "Eidos") effective on April 22, 2009. Accordingly, Eidos became a wholly owned subsidiary of the Company on the same day.

(2) Reason for the acquisition
This acquisition was carried out based on the judgment that, by combining the hit products of Eidos with the products of SQUARE ENIX Group, it would further strengthen the position of the SQUARE ENIX Group as one of the global leaders in the interactive entertainment industry.

(3) Name of acquisition target, type and size of business acquired
Name of company: Eidos Interactive Ltd.
Type of business: Development, production and sale of interactive entertainment products
Capital: £13,179,336.50 (GBP)

(4) Number of shares acquired, acquisition price and percentage of voting rights held after acquisition
Number of shares: 263,586,730
Acquisition price: £84.3 million (GBP) (approximately ¥12,207 million)
The yen amount is based on the exchange rate on April 22, 2009.
Percentage of voting rights held after acquisition: 100%

(5) Source of funds use for the acquisition
SQUARE ENIX Group's internal funding sources

Additional Information

[Corporate Bonds Issued]

Company	Bond type	Issuance date	Outstanding balance as of March 31, 2008 (Millions of yen)	Outstanding balance as of March 31, 2009 (Millions of yen)	Coupon (%)	Security	Maturity date
SQUARE ENIX HOLDINGS CO., LTD.	Five-year yen-denominated bonds with warrants*1	November 25, 2005 (UK time)	¥37,000	¥37,000	—	None	November 25, 2010 (UK time)
Total			¥37,000	¥37,000			

*1 [Bonds with Warrants Issued]
(As of March 31, 2009)

Issuance price	100% of face value
Aggregate amount of issuance	¥50.0 billion
Warrants applicable to	Common shares
Exercise price (yen)*2	¥3,400
Period for exercise of warrants	November 28, 2005 to November 11, 2010 (local time where funds are deposited)
Issuance price of shares upon exercise of warrants and amount capitalized (yen)	
Issuance price	¥3,400
Amount capitalized	¥1,700
Conditions for exercise of warrants	Warrants cannot be exercised partially

*2 The related convertible debenture indenture stipulates provisions for the adjustment of the exercise price, and the exercise price was updated on November 16, 2007. The exercise price prior to the adjustment was ¥3,439.8.

3 Amount scheduled to be repaid within five years from March 31, 2008 are summarized as follows.

Millions of yen

Within one year	Over one year but within two years	Over two years but within three years	Over three years but within four years	Over four years but within five years
¥—	¥37,000	¥—	¥—	¥—

[Borrowings]

	Balance as of March 31, 2008 (Millions of yen)	Balance as of March 31, 2009 (Millions of yen)	Average interest rate (%)	Repayment date
Short-term borrowings	¥26	¥26	1.5	—
Long-term borrowings due for repayment within one year	—	—	—	—
Lease obligations due for repayment within one year	—	10	—	—
Long-term borrowings (excluding the amount due for repayment within one year)	—	—	—	—
Lease obligations (excluding the amount due for repayment within one year)	—	22	—	March 2011 to February 2015
Other interest-bearing liabilities	—	—	—	—
Total	¥26	¥59	—	—

Notes:
1. The average interest rate shown is the weighted average interest rate on the balance of borrowings at the fiscal year ended March 31, 2009.
2. Average interest rates for lease obligations are omitted because lease obligations include assumed interest amounts.
3. Lease obligations (due for repayment within one year) are included in accrued expenses, and lease obligations (long term) are included in "Other" of "Non-current liabilities."
4. Scheduled repayment amounts during five years after the consolidated settlement date for lease obligations (excluding the amount due for repayment within one year) are as follows.

Millions of yen

	More than one year but within two years	More than two years but within three years	More than three years but within four years	More than four years but within five years
Lease obligations	¥10	¥6	¥3	¥1

[Other]

Quarterly Financial Information

Millions of yen

	1Q April 1, 2008 to June 30, 2008	2Q July 1, 2008 to September 30, 2008	3Q October 1, 2008 to December 31, 2008	4Q January 1, 2009 to March 31, 2009
Net sales	¥29,770	¥38,203	¥35,514	¥32,205
Income (loss) before income taxes and minority interests	4,636	4,931	589	(1,005)
Net income (loss)	2,883	3,171	(794)	1,074
Per share data of common stock				
Net income (loss) (yen)	25.10	27.60	(6.91)	9.34

SQUARE ENIX HOLDINGS Group

(As of March 31, 2009)

Company Name Major Consolidated Subsidiaries	Established	Fiscal Year-End	Common Stock	Percent of Voting Rights	Principal Lines of Business
Japan					
SQUARE ENIX HOLDINGS CO., LTD.	October 2008	March	¥1,500 million	100.0%	Games (offline), games (online), mobile phone content, publication, and others
TAITO CORPORATION	August 1953	March	¥4,524 million	100.0%	Management and operation of arcade facilities; planning, development, production, sale and rental of coin-operated game machines; planning, development and sale of game software; planning, development and provision of mobile phone content
Community Engine Inc.	May 2000	March	¥25 million	58.8%	Network application, development, sale of middleware
North America					
SQUARE ENIX OF AMERICA HOLDINGS, INC.	November 2006	March	US$1	100.0%	Holding of shares in and business management of Square Enix Group companies located in North America
SQUARE ENIX, INC.	March 1989	March	US$10 million	100.0% (100.0%)	Sale of games, sale and management of online games in North America
SQUARE PICTURES, INC.	November 1997	December	US$0.1 million	100.0% (100.0%)	Management of overseas film revenues
Europe					
SQEX LTD.	December 2008	March	GB£1	100.0%	Others
SQUARE ENIX LTD.	December 1998	March	GB£3 million	100.0%	Sale of games, sale and management of online games in Europe
Asia					
SQUARE ENIX (China) CO., LTD.	January 2005	December	US$12 million	100.0%	Development, sale, and management of online games in Asia
HUANG LONG CO., LTD.	August 2005	December	10 million yuan RMB	— [100.0%]	Sale and operation of online games in Asia
BEIJING TAIXIN CULTURAL ENTERTAINMENT CO., LTD.	July 1996	December	16,617 thousand yuan RMB	80.0% (80.0%)	Management of arcade facilities and rental of game machines
TAITO KOREA CORPORATION	May 2004	March	3,300 million won	100.0% (100.0%)	Management and operation of arcade facilities
Partnership					
FF·FILM·PARTNERS	March 1998	December	—	93.6%	Licensing and management of movies and derivative products

Notes: 1. In the Percentage of Voting Rights column, numbers in parentheses ( ) represent the percentage of indirect holdings and are including in the total percentage of voting rights held by the Company. Numbers in brackets [ ] represent the percentage of holdings of closely related parties of parties of the same interest and are excluded from the total percentage of voting rights held by the Company.

2. On March 31, 2006, TAITO CORPORATION (the former SQEX, Inc., name changed on March 31, 2006) absorbed the former TAITO CORPORATION. To make the de facto surviving company of this merger—the former TAITO CORPORATION—a wholly-owned subsidiary of the Company, the former TAITO CORPORATION was absorbed by TAITO CORPORATION (the former SQEX, Inc.) on a pro forma basis. Consequently, the date of establishment is recorded as that of the de facto surviving company, the former TAITO CORPORATION.

Network

Company Profile (As of March 31, 2009)

Headquarters:	Shinjuku Bunka Quint Bldg. 3-22-7 Yoyogi, Shibuya-ku Tokyo 151-8544, Japan. TEL.+81-3-5333-1144
Established:	September 22, 1975
Common stock:	¥15,113,014,100
Number of employees:	2,952 (Consolidated) Note: Number of part-time employees is not included in the number of employees

Investor Information

(As of March 31, 2009)

Share Information

Number of shares issued: 115,305,996

Number of shareholders: 33,074

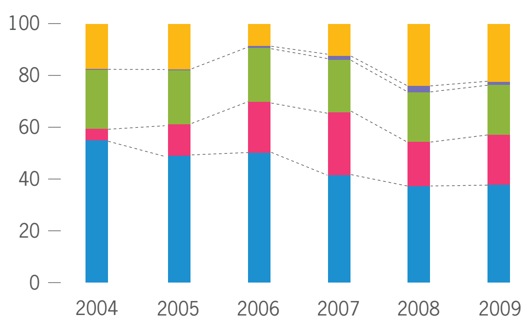
Principal Shareholders

Rank	Shareholder	Investment in SQUARE ENIX (Thousands of Shares)	(%)
1	Yasuhiro Fukushima	23,626	20.48
2	Japan Trustee Services Bank, Ltd. (Trust Account)	12,356	10.71
3	Fukushima Planning Co., Ltd.	9,763	8.46
4	Sony Computer Entertainment Inc.	9,520	8.25
5	The Master Trust Bank of Japan, Ltd. (Trust Account)	7,438	6.45
6	Masashi Miyamoto	7,077	6.13
7	Trust & Custody Services Bank, Ltd. (Trust Account)	2,666	2.31
8	S System Co., Ltd.	2,045	1.77
9	The Chase Manhattan Bank, NA, London SL Omnibus Account	1,845	1.60
10	Morgan Stanley & Co. Inc (Standing Proxy Agent: Morgan Stanley Japan Securities Co., Ltd.)	1,665	1.44

Note: 1. The above investment of Japan Trustee Services Bank, Ltd. (Trust Account), includes 7,456,000 shares held in the name of Japan Trustee Services Bank, Ltd. (Trust Account), 4,442,000 shares held in the name of Japan Trustee Services Bank, Ltd. (Trust Account 4G), 439,000 shares held in the name of Japan Trustee Services Bank, Ltd. (Trust Account 4), and 16,000 shares held in the name of Japan Trustee Services Bank, Ltd. (Resona Trust & Banking Co., Ltd., Re-trust Account 1).

2. The breakdown of shares held by Trust & Custody Services Bank, Ltd. (trust accounts), is as follows.
Trust & Custody Services Bank, Ltd. (Pension Specified Money Trust Account): 1,075,000 shares; Trust & Custody Services Bank, Ltd. (Securities Investment Trust Account): 741,000 shares; Trust & Custody Services Bank, Ltd. (Pension Trust Account): 354,000 shares; Trust & Custody Services Bank, Ltd. (Trust Account B): 227,000 shares; Trust & Custody Services Bank, Ltd. (Money Trust Account: subject to tax): 148,000 shares; Trust & Custody Services Bank, Ltd. (Trust Account A): 119,000 shares.

Number of Shares Owned (Thousands of shares)



	2004	2005	2006	2007	2008	2009
Financial Institutions	19,225 (17.46%)	19,475 (17.64%)	9,456 (8.54%)	13,756 (12.40%)	27,760 (24.12%)	25,770 (22.35%)
Financial Instruments Company	486 (0.44%)	374 (0.34%)	822 (0.74%)	1,843 (1.66%)	2,678 (2.33%)	1,558 (1.35%)
Other Companies	25,023 (22.72%)	23,117 (20.94%)	23,178 (20.94%)	22,553 (20.33%)	22,148 (19.24%)	22,190 (19.24%)
Foreign Companies and Individuals	4,914 (4.46%)	13,252 (12.01%)	21,761 (19.65%)	26,801 (24.16%)	19,620 (17.04%)	22,271 (19.32%)
Individuals and Other	60,481 (54.92%)	54,164 (49.07%)	55,510 (50.13%)	45,992 (41.45%)	42,909 (37.27%)	43,514 (37.74%)
Total	110,130 (100.00%)	110,385 (100.00%)	110,729 (100.00%)	110,947 (100.00%)	115,117 (100.00%)	115,305 (100.00%)

Shareholders' Memo

- Fiscal year:
April 1 to March 31

- Record dates for dividends from retained earnings:
September 30 (Record date for interim dividend)
March 31 (Record date for year-end dividend)

- Annual general meeting of shareholders:
June

- Administrator of the Register of Shareholders:
Mitsubishi UFJ Trust and Banking Corporation

- Shareholder registration agent:
Securities Agency Department Mitsubishi UFJ Trust and Banking Corporation 7-10-11 Higashi-suna, Koto-ku, Tokyo 137-8081 TEL: +81-120-232-711

- Listed on:
The First Section of the Tokyo Stock Exchange

- Securities code:
9684

- Trading unit:
100 shares

- Public notices:
URL:http://www.aspir.co.jp/koukoku/9684/9684.html (Japanese)

(Public notices will be announced in the Nikkei, a Japanese-language newspaper, in case an electronic notice is not possible due to an accident or any other unavoidable reasons.)

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