SQUARE ENIX

2010

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.
The 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 regulations 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.

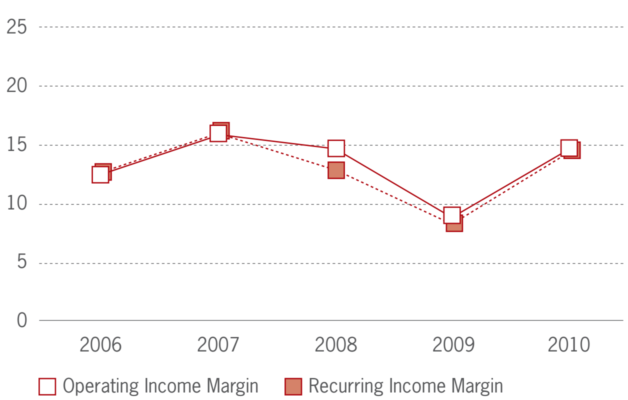
Financial Highlights

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

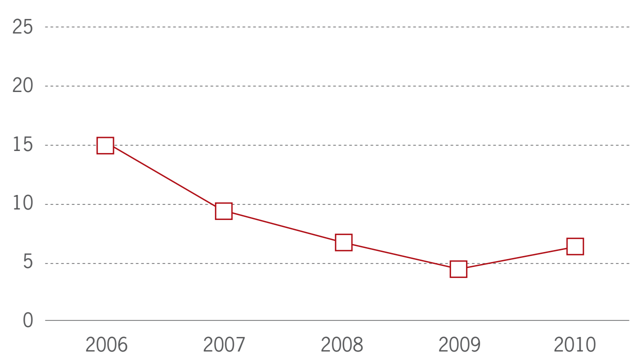
					Millions of Yen	Thousands of U.S. Dollars
	2006	2007	2008	2009	2010	2010
For the Year						
Net sales	¥ 124,473	¥ 163,472	¥ 147,516	¥ 135,693	¥ 192,257	$ 2,066,397
Operating income	15,470	25,916	21,520	12,277	28,235	303,474
Recurring income	15,547	26,241	18,864	11,261	27,822	299,039
Net income	17,076	11,619	9,196	6,333	9,509	102,206
At Year-end						
Total assets	¥ 213,348	¥ 215,679	¥ 212,134	¥ 213,194	¥ 270,529	$ 2,907,669
Total equity	120,993	129,461	147,034	147,318	152,680	1,641,022
					Yen	U.S. Dollars
Per Share of Common Stock						
Net income	¥ 154.65	¥ 105.06	¥ 81.85	¥ 55.11	¥ 82.65	$ 0.89
Total equity	1,094.50	1,168.91	1,280.50	1,280.92	1,326.82	14.26
					%	
Key Ratios						
Operating income margin	12.4%	15.9%	14.6%	9.0%	14.7%	
Recurring income margin	12.5	16.1	12.8	8.3	14.5	
Return on equity	14.9	9.3	6.7	4.3	6.3	
Equity ratio	56.7	60.0	69.3	69.1	56.4	

Notes: 1. For the convenience of readers, amounts in U.S. dollars have been translated using the currency exchange rates at March 31, 2010 of ¥93.04=US$1.
2. Total equity = Common stock + Capital surplus + Retained earnings + Treasury stock + Valuation and translation adjustments

Operating Income Margin/Recurring Income Margin (%)



Return on Equity (%)



Yoichi Wada
President and Representative Director

I am grateful to our shareholders for the opportunity to present the Company's annual report for the fiscal year ended March 31, 2010.

On a consolidated basis, net sales for the fiscal year ended March 31, 2010 totaled ¥192,257 million (an increase of 41.7% from the prior fiscal year), operating income amounted to ¥28,235 million (an increase of 130.0%), recurring income was ¥27,822 million (an increase of 147.1%) and net income reached ¥9,509 million (an increase of 50.1%).

The Company's operating income ratio was 14.7% and return on equity (ROE) was 6.3%.

We set dividends applicable to the fiscal year ended March 31, 2010 at ¥35.00 per share. This amount includes a special dividend of ¥5.00 yen per share to commemorate the achievement of record-high earnings and represents a consolidated payout ratio of 42.3%.

As I have mentioned before, the game industry is in the midst of revolutionary change. This has become even more apparent in the latest earnings reports from game companies (Figure 1).

Despite the often touted shift in game industry leadership from Japan to the U.S. and Europe, actual corporate results are shown in Figure 1. Unfortunately, U.S. and European publishers have seen profits wiped out and the largest Japanese game companies have only narrowly avoided losses. It's worth noting that the difference is only based on business diversification at Japan-based game companies while U.S. and European game companies have focused on home gaming software. In other words, this figure shows that the home gaming business alone is unsustainable as it stands today.

So, what is the next key pillar?

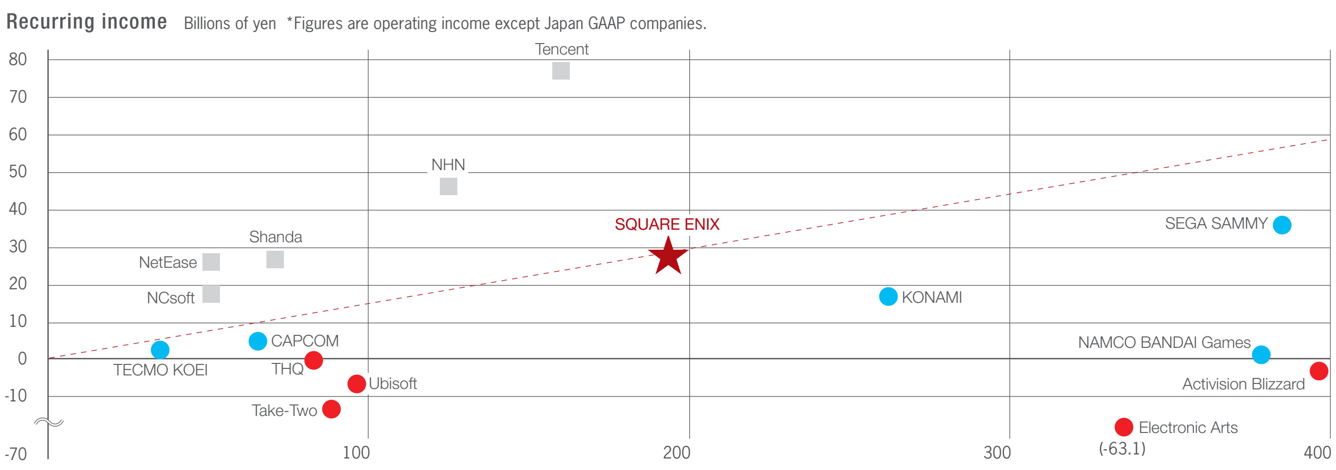
Although we have achieved the highest profit ratio among Japanese, U.S. and European peers, this is surpassed by the profit ratios of certain major Asian game companies.

Naturally, the remarkable local growth rates in their home countries as well as supportive government policies have been positive factors. More importantly, however, I believe this trend shows a shift to business models centered on networks.

We face significant challenges as we must simultaneously work to both maintain profitability in our current businesses and transform our Group by quickly identifying changes in the business ecosystem.

I would like to discuss the fiscal year under review from these two important perspectives.

Figure 1 Net Sales and Recurring Income of Major Game Companies



Notes: (1) The currency exchange rates on May 19, 2010 were ¥92=US$1, ¥113=EUR€1, ¥0.08=KRW, ¥13=RMB.
(2) The data for Japanese companies and for EA, THQ and Ubisoft is as of March 31, 2010; Take-Two is as of October 31, 2009; and for the others is as of December 31, 2009.

Sources: SQUARE ENIX, Bloomberg

The Year's Record Profit: Broad-Based Success

In the year under review, sales and profit reached record levels, while nearly all business segments showed increased profit. Furthermore, sales across all geographic segments of Japan, North America and Europe achieved record levels (Figures 2 - 4).

Key Factors to Enter the Next Growth Stage

As I've mentioned, we have been able to manage our current businesses very effectively under a challenging operating environment.

So, are we prepared to enter the next growth stage? I would like to give the following overview from this perspective.

We have identified three key success factors.

1. Globalization
2. Becoming "Network Centric"
3. Strengthening Own-IPs

Since our creation by merger between ENIX and SQUARE, these fundamental themes have not changed.

Globalization

Entertainment in so many forms is destined to spread around the world.

While digital entertainment has been the most recent to enter the market, computer games and network communications have already pervaded virtually every part of the world. Based on this, the whole world has become game companies' target market. The only choice available to individual companies in the industry is where to set up content development and marketing operations to best serve global markets.

For us, we have chosen the path of complete globalization.

Our substantial first step in this process was the acquisition of U.K.-based Eidos. A year on since the acquisition, progress has been extremely smooth as we not only completed the organizational integration but also have begun to collaborate on certain development projects.

As a result, we've been able to strengthen our development and marketing structures in North America and Europe. And while we are still developing in this area, our composition of human resources is now more balanced across regions, forming a solid foundation for global business development (Figures 5 - 6).

When I say that we've built a foundation, I don't mean that we will then simply expand these operations by functional extensions based on the status quo.

In fact, each location has differences in personnel skills and performance as well as costs and trading conditions. This world-wide location framework will provide the basis for the most efficient resource allocation in the globalization of our businesses.

Figure 7 shows the geographical breakdown of sales of game titles achieving over 3 million units during the fiscal year under review.

Figure 2 Net Sales and Recurring Income

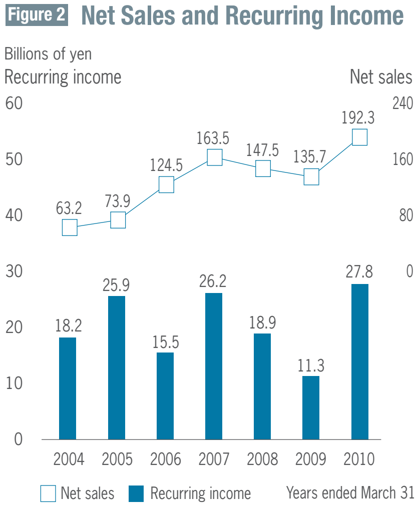


Figure 3 Operating Income by Business Segment

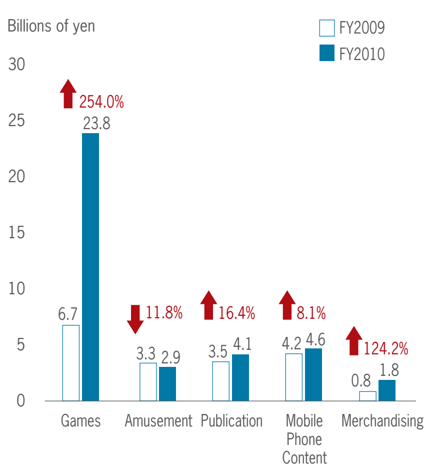
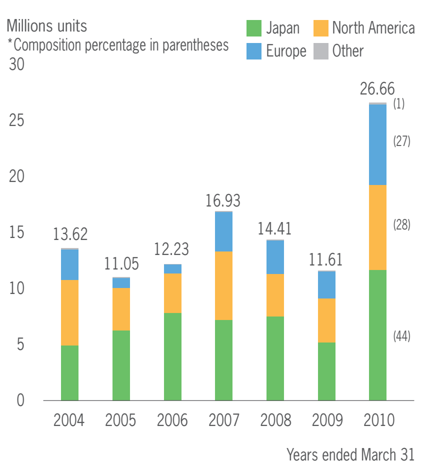


Figure 4 Game Software Sales by Region



In the case of "FINAL FANTASY XIII," cumulative sales reached 5.55 million units as of March 31, 2010, which were evenly distributed across our geographies of Japan, North America and Europe. Only released in Japan, "DRAGON QUEST IX: Sentinels of the Starry Skies" has reached 4.26 million units. On the other hand, "Batman: Arkham Asylum" had very modest sales in Japan but sold 3.24 million units mostly in North America and Europe.

Our global development is not the release of all titles in all regions, nor is it game development in a certain region for meeting any individual, regional taste.

As we maximize the unique strengths of each title, sales performance may vary depending on regional preference. The globalization we pursue achieves an optimal balance of products across the Group through combinations of such strong titles.

The fiscal year under review, which enjoyed several big title releases, serves as a good example of the direction we are pursuing.

As network environments continue to develop around the world, the international flow of content is speeding up. Now, there are no obstacles other than language.

In marketing segmentation, while culture continues to be a factor, user location has little meaning.

As a result, segmentation by "individual customer preference" is the truly vital issue.

In this way, we have first established a globalization "skeleton" for which we will be adding "nerves" and "muscle" going forward.

In the current fiscal year, it is critical that we further strengthen our organization. Our focus is to establish organic connections across the Group and raise the business execution skills of each internal organization.

In the area of geographic expansion, our biggest work ahead is the development of our business in China, on which we shall place a top priority going forward.

Becoming "Network Centric"

While continuing to show strength in the market and serving as a pillar of our online earnings, eight years have passed since the service launch of our "FINAL FANTASY XI." The fiscal year ended March 31, 2010 was an interim year. For large scale MMORPGs, the fiscal year ending March 31, 2011 will include our launch of "FINAL FANTASY XIV."

At the same time, we have started to see our new initiatives bear fruit.

In order to successfully position our "SQUARE ENIX MEMBERS" as a net-based customer contact point for the entire Group, we began the full-fledged strengthening of this operation during the fiscal year under review. With over 1.5 million registered members worldwide, we have now reached a good starting point for business development.

Further, at SMILE-LAB Co., Ltd., a wholly-owned subsidiary established in February 2008, we have created a successful

Figure 5 SQUARE ENIX Group Network

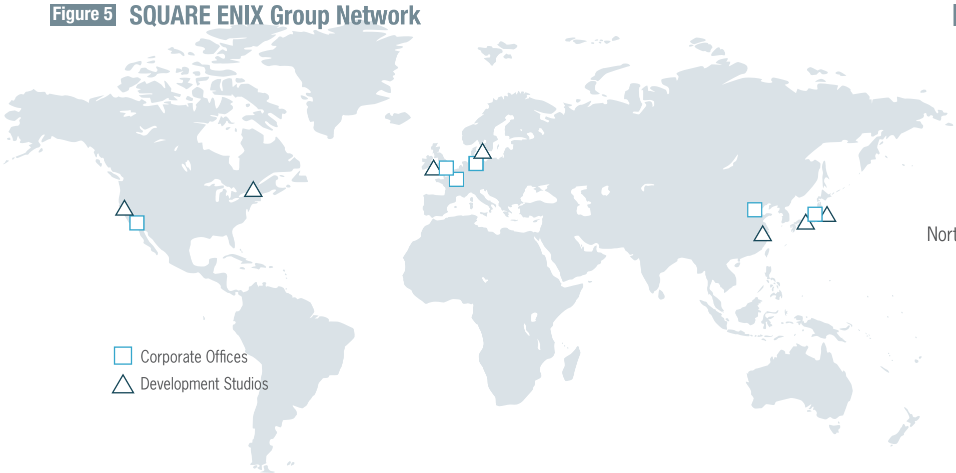
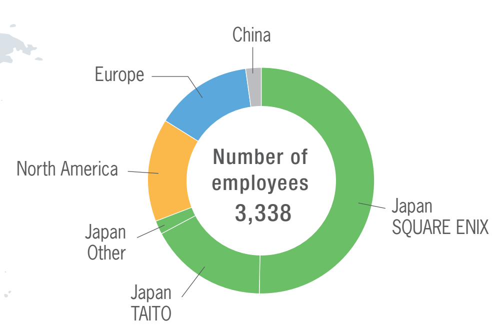


Figure 6 Number of Employees by Region



avatar-based casual portal site called "Nicotto Town." We felt this type of community service is a promising business area and that it would be difficult to generate such ideas from our current employees. Therefore, we created a separate entity independent from the Group in which all company staff came from the outside. Created in September 2008, "Nicotto Town" has successfully issued over 500,000 IDs, allowing SMILE-LAB to already reach profitability in the fiscal year ended March 2010.

In the increasingly important area of downloadable content, we are releasing over 50 downloadable titles for game consoles alone during the fiscal year under review.

We are also placing a priority on games for new devices such as smartphones. This has included, for example, game titles for iPhone/iPod touch like "CHAOS RINGS," "SPACE INVADERS INFINITY GENE," and "FINAL FANTASY," which each reached #1 in sales rankings on the App Store.

Additionally, we are making steady progress in the development of social network games.

However, the true impact of networks is not only on the content layer that I've described so far. There will be a structural transformation of business in which the very core of the ecosystem changes.

How will the distribution of the profit generated from the market change under a network centric model?

Put another way, what will happen to profits among the various market participants due to changes in media?

In the prior game media shift from mask ROM to CD, the benefits generated by improvements such as production cost savings and inventory risk reduction were shared by customers and software developers. As a result, profits at platform manufacturers improved and the entire industry grew.

So, what is happening this time? Cost savings resulting from the shift in media from discs to networks are mostly becoming the profits of network operators. Further, the reality is that customers are demanding price reduction in excess of the cost savings.

Without a successful network strategy, software developers will face structural difficulties in making profits.

On the other hand, these challenges are also accompanied by opportunities.

Through the use of a common infrastructure, it is possible for us to become a network operator or even a platform holder.

We plan to transform ourselves into a "community platform operator."

How will market growth change in a network-centric world?

In comparison with physical media, the pricing of network-based content is clearly falling. This will be a negative factor for industry growth.

However, there will be a far greater positive boost from the wider geographic reach and larger potential customer-base offered by the very nature of networks.

Furthermore, we will be able to create a variety of new business models that were not possible in the packaged software business. In-game item sales are just one of the early examples of what is coming in the future.

This, therefore, represents a business chance for companies

Figure 7 Sales of the Main Titles by Region

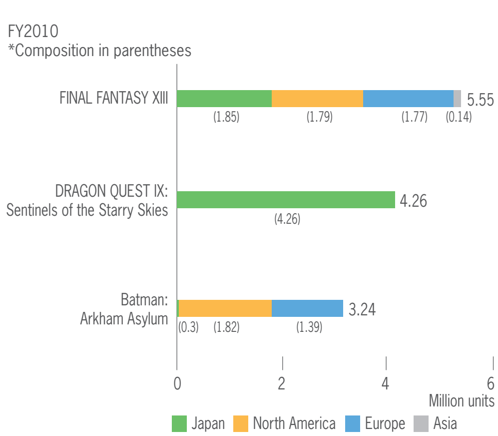
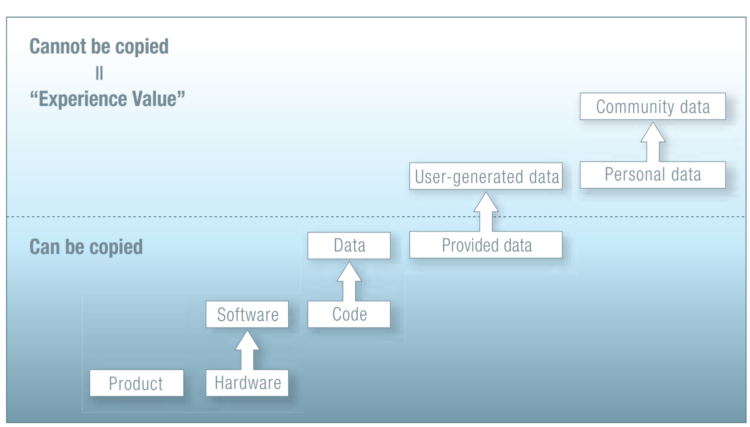


Figure 8 Shifts in Value



that are fast and flexible in business development.

The die is cast. We shall not refuse to face this reality.

By properly reading the trends in networking, we can utilize this torrent of changes to our advantage.

I would next like to discuss the importance of networking from another perspective.

That is, how are customer perceptions of value shifting?

A shift from hardware to software is one theme that has been around for a long time.

However, this represented only the starting point for further shifts in value.

We can learn more about the shift in value by looking at phases of the value shift for software. Within software, value was originally found in code, but later transitioned to data. This value flow can be seen using personal computers as an example. Value first shifted from PCs to application software. However, while application software such as spreadsheets was initially highly valued, commoditization of the application occurred and value shifted to the data used for input to the application.

The value found in data can be broken down further. In games, for example, game-play data (user-generated data) is becoming more important than the enormous amount of data for use in games (provided data). In Asian markets an example of this has been the emergence of games that are often distributed free of charge, creating business models that generate earnings from in-game item sales. Such new business models are examples of the value shift within software. Taking this a step further, the value of individual user data will likely be surpassed by community data.

The latter part of the shift is driven by network infrastructure.

The characteristic of "bit" data that allows perfect copies at no cost has created the destructive power of widespread diffusion.

However, because of this diffusive nature, "bit" data has lost its rarity value. On the other hand, with the emergence of user data and data shared among users, bit data can finally achieve rarity and value.

Earlier, I discussed our Group's transformation into a community platform operator.

By this, I mean that we are shifting from a creator of game data to a manager of individual and community data.

Strengthening Own-IPs

In establishing networks at the core of our business, we shall have a free hand in deploying certain titles into various content and services. While it is impossible to predict what future opportunities might be possible at the time of original title development, the current copyright system gives only IP holders the rights to determine what modifications can be made. As a result, titles based on external IPs face the risk of structural bottlenecks in business development.

This is why we insist on focusing on our own-IPs.

At SQUARE ENIX and TAITO, almost all of our titles are our own-IPs. And with the acquisition of Eidos, we increased our stable of AAA and potential AAA titles including "Tomb Raider," "Hitman" and "Kane & Lynch," to name a few.

We, of course, are also continuing to challenge ourselves in the creation of altogether new titles as well.

These are the three pillars of our growth strategy.

Constant Improvement

It takes strength to support transformation. In preparation, we took reinforcement measures in the fiscal ended March 2010.

These included a slimming of our content production account and an accelerated amortization of goodwill.

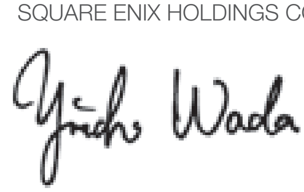
We also conducted a headcount adjustment to strengthen our fundamentals and energize the organization. Our over 350 new graduate and mid-career hires were more than offset by a headcount reduction of over 800, resulting in a net decline of 457 employees.

We achieved record profit in the fiscal year under review.

However, this industry is deep in the middle of a rapidly changing operating environment.

As I have discussed, we are making every effort to become the industry leader in the next evolutionary stage. In these endeavors, I look forward to your continuing loyal support.

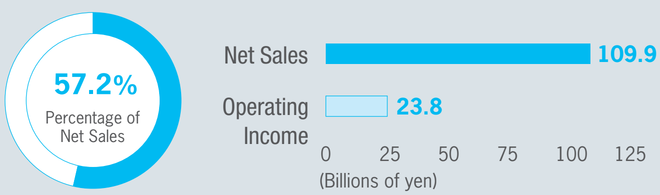
Yoichi Wada
President and Representative Director
SQUARE ENIX HOLDINGS CO., LTD.



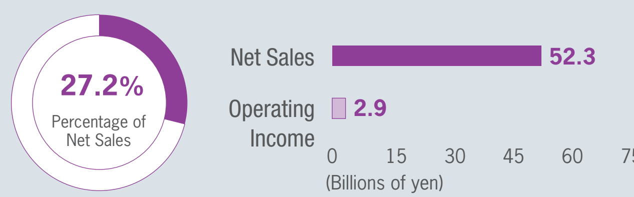
The Square Enix Group (the “Group”) is continuing determined efforts to strengthen the competitiveness and profitability of its business segments of Games, Amusement, Publication, Mobile Phone Content and Merchandising.

Net sales for the fiscal year ended March 31, 2010 totaled ¥192,257 million (an increase of 41.7% from the prior fiscal year), operating income amounted to ¥28,235 million (an increase of 130.0% from the prior fiscal year), recurring income amounted to ¥27,822 million (an increase of 147.1% from the prior fiscal year) and net income amounted to ¥9,509 million (an increase of 50.1% from the prior fiscal year).

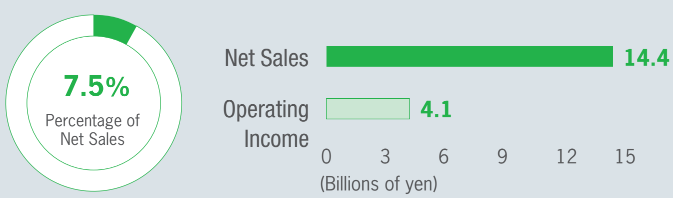
Games



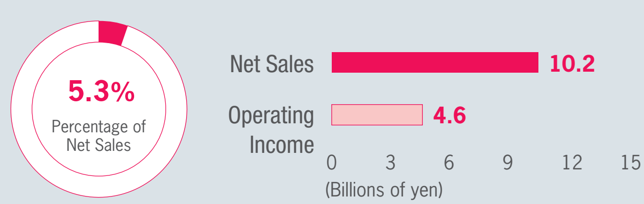
Amusement



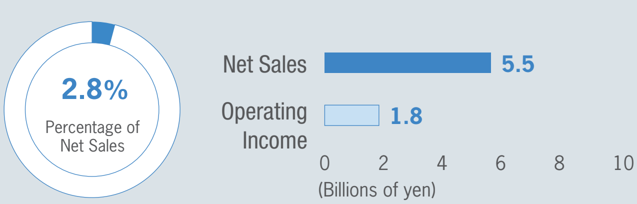
Publication



Mobile Phone Content



Merchandising

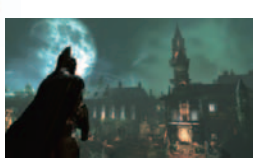


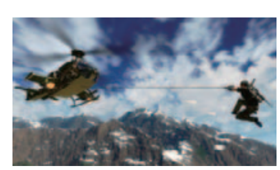
Games

The Games segment plans, develops, distributes, and operates games for game consoles (including handheld game machines) and personal computers as well as online games. This segment includes amortization of goodwill relating to the consolidation of Eidos Ltd. into the Group. Games developed by the Group are marketed in the world's major regions through key subsidiaries including SQUARE ENIX CO., LTD. (Japan), SQUARE ENIX, INC. (North America region) and SQUARE ENIX LTD. (Europe and PAL regions).

During the fiscal year ended March 31, 2010, major game titles such as "FINAL FANTASY XIII," "DRAGON QUEST IX: Sentinels of the Starry Skies," "Batman: Arkham Asylum," "KINGDOM HEARTS 358/2 Days" and "DRAGONQUEST VI" were new million sellers released during the year contributing to the Group's favorable results.

Net sales in the Games segment totaled ¥109,949 million (an increase of 128.4% from the prior fiscal year), and operating income increased 254.0%, to ¥23,814 million.



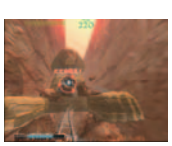


Amusement

The Amusement segment includes TAITO CORPORATION's operation of amusement facilities and planning, development and distribution of arcade game machines for amusement facilities and related products. The planning, development and distribution of arcade game machines by SQUARE ENIX CO. LTD. are also included in this segment. Further, the segment includes amortization of goodwill relating to consolidation of TAITO CORPORATION into the Group.

In arcade game machines, "DRAGON QUEST Monster Battleroad II" performed well during the fiscal year under review, while amusement facility operations remained at low levels under the continued difficult market conditions.

Net sales in this segment totaled ¥52,299 million (a decrease of 12.7% from the same period in the prior fiscal year), and operating income decreased 11.8%, to ¥2,892 million.



Publication

The Publication segment includes comic books, game strategy books and comic magazines. During the fiscal year, the Group had favorable results supported by continued strong comic book sales accelerated by TV broadcasting animation programs of popular titles, as well as favorable sales of strategy guide books based on popular game titles.

Consequently, net sales in this segment totaled ¥14,367 mllion (an increase of 10.6% from the prior fiscal year), and operating income increased 16.4%, to ¥4,120 million.

Mobile Phone Content

The Mobile Phone Content segment provides a range of mobile phone content services including the planning, development and management of portal services, games, ring tones and wallpapers.

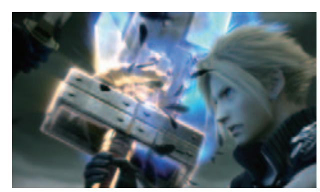
The service lineup including “FINAL FANTASY” and “DRAGON QUEST” portal services has been continuously leveraging the Group’s strength in original content.

Net sales in the Mobile Phone Content segment totaled ¥10,171 million (a decrease of 6.9% from the prior fiscal year), and operating income increased 8.1% to ¥4,593 million.

Merchandising

The Merchandising segment covers planning, production, distribution and licensing of derivative products of titles owned by the Group. The CG-animated film “FINAL FANTASY VII ADVENT CHILDREN COMPLETE,” released in April 2009, contributed to sales and profit of this segment.

Net sales in this segment totaled ¥5,473 million (an increase of 45.6% from the prior fiscal year), and operating income increased 124.2% to ¥1,827 million.




Montréal
London


CRYSTAL DYNAMICS
SQUARE ENIX
Hurley
Eidos
PRIZE

1. Status of Corporate Governance

(1) Overview of corporate governance system and objectives

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.

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.

In principle, the Board of Directors convenes monthly, and each of the directors, including the outside director, engages in vigorous discussion and exchange of opinions aimed at enhancing their mutual oversight functions. With regard to matters concerning basic policy on the system of compensation for directors and corporate auditors, the Company has voluntarily established the Compensation Committee as an advisory body that submits reports to the Board of Directors. This system is designed to ensure management objectivity and transparency.

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.

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.

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.

To ensure the maintenance of a robust risk management system, Companywide risk management measures are integrated laterally across organizational reporting lines. This is achieved through the reinforcement of relevant internal organizational divisions, and the establishment of the Internal Control Committee and an internal compliance reporting (whistleblower) system.

(2) Organization, personnel and procedures for internal audits and audits by the corporate auditors; and coordination between the internal audits, audits by the corporate auditors and the independent audit firm

Internal audits are carried out by the Auditing Division, which currently comprises one person and reports directly to the president. The Auditing Division performs regular monitoring, reviews and evaluations (internal evaluation) of internal control systems, including those of Group companies—taking into account the relative importance of 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.

Audits by the corporate auditors are carried out by four corporate auditors, three of whom are drawn from outside the Company. Nobuhiro Saito, a corporate auditor, has many years' experience working at financial institutions, and possesses extensive expertise in finance and accounting-related matters. The finance and accounting expertise of two other corporate auditors, Norikazu Yahagi and Ryuji Matsuda, is outlined in the section below covering outside directors and corporate auditors.

Information on audits by the independent audit firm is provided in the section below covering the statutory audit firm.

Each quarter, the corporate auditors and the statutory audit firm coordinate their activities through mutual reporting and exchange of opinions. An appropriate forum is convened for the exchange of opinions and the matters discussed during these meetings are reflected in the performance of audit operations.

Appropriate reporting to the director responsible for internal control on the aforementioned audit activities is carried out through the Board of Directors and the Internal Control Committee.

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

The Company has one outside director and three outside corporate auditors.

Makoto Naruke was appointed as outside director based on his extensive and broad experience and knowledge as a senior corporate executive. At meetings of the Board of Directors, Naruke offers recommendations and advice to ensure the adequacy and appropriateness of decision-making.

Ryoichi Kobayashi was appointed as an outside auditor based on his abundant experience and extensive knowledge gained through serving as an officer at several companies. Kobayashi offers his opinions at meetings of the Board of Directors and Board of Auditors as appropriate. The Company has notified the Tokyo Stock Exchange regarding the status of Kobayashi as an independent officer pursuant to the rules for listed companies stipulated by the stock exchange.

Norikazu Yahagi has served as an outside corporate auditor at several companies, including IBM Japan, Ltd., where he served as a standing corporate auditor. He was appointed as an outside auditor based on his extensive expertise on internal control, finance and accounting-related matters, and based on his experience in serving as a full-time director of the Japan Corporate Auditors Association. Yahagi offers his opinions at meetings of the Board of Directors and Board of Auditors as appropriate. The Company has notified the Tokyo Stock Exchange regarding the status of Yahagi as an independent officer pursuant to the rules for listed companies stipulated by the stock exchange.

Ryuji Matsuda holds qualifications as an attorney and certified public accountant (CPA). He was appointed as an outside corporate auditor based on his extensive expertise in finance and accounting-related matters. Matsuda offers his opinions at meetings of the Board of Directors and Board of Auditors as appropriate. The Company has notified the Tokyo Stock Exchange regarding the status of Matsuda as an independent officer pursuant to the rules for listed companies stipulated by the stock exchange.

The outside director and outside corporate auditors work closely with the Auditing Division, the corporate auditors and the statutory audit firm, and are subject to appropriate reporting and engage in an exchange of opinions at meetings of the Board of Directors, Board of Auditors, Internal Control Committee and other forums.

There are no conflict-of-interest relationships between the Company and the outside director or between the Company and the outside corporate auditors.

(4) Overview of compensation system for directors and corporate auditors

(i) Total compensation paid to directors and corporate auditors, total compensation for each category of director and corporate auditor, and the total number of directors and corporate auditors

Compensation Paid to Directors

	Number of individuals	Total remuneration (Millions of yen)	Remuneration breakdown (Millions of yen)	
			Monetary compensation	Non-monetary compensation
Directors	4	374	180	194
Outside director	1	10	6	4
Total	5	385	186	198

Notes: 1. Non-monetary compensation applicable to the fiscal year under review was in the form of stock options.
2. The Company has abolished retirement benefits for directors and corporate auditors

Compensation Paid to Corporate Auditors

	Number of individuals	Total remuneration (Millions of yen)	Remuneration breakdown (Millions of yen)	
			Monetary compensation	Non-monetary compensation
Corporate auditor	1	4	4	—
Outside Corporate auditors	3	29	29	—
Total	4	34	34	—

Notes: Compensation for corporate auditors was determined as shown above after taking into account the independence of the corporate auditors vis-à-vis the Company's management.

(ii) Decision-making policies on remuneration, etc., for directors and corporate auditors

The remuneration for directors consists of monetary compensation as a basic consideration and non-monetary compensation such as stock options. The decisions on directors' remuneration, etc., are reviewed every year by taking into account the business performance of the Company for the fiscal year concerned and their contribution to the business performance. To ensure the objectivity and transparency of the annual review of directors' remuneration, the president of the Company determines the amount of remuneration and the distribution among the directors within the scope of the total remuneration amount approved by a General Meeting of Shareholders in accordance with a report by the Compensation Committee, an advisory body. Stock options are determined by the Board of Directors, also in accordance with a report by the Compensation Committee.

The remuneration for corporate auditors is only monetary compensation in light of the independence of corporate auditors from the corporate management of the Company. Corporate auditors' remuneration is also reviewed every year. The amount of remuneration and the distribution among the corporate auditors are determined through consultations among the corporate auditors within the scope of the total remuneration amount approved by a General Meeting of Shareholders.

(5) Matters relating to the Company's holdings of shares

(i) Investments in shares for purposes other than purely investment purposes

There are no applicable items.

(ii) Investments in stock-market-listed shares for purposes other than purely investment purposes

There are no applicable items.

(iii) Investments in shares for purely investment purposes

Millions of yen

	Previous fiscal year	Fiscal year under review			
	Total amount presented on the balance sheets	Total amount presented on the balance sheets	Total dividends received	Total gain on sale of shares	Total loss on revaluation of shares
Unlisted shares	135	48	—	—	(Note)
Shares other than those above	414	429	13	0	(18)

Note: Owing to unlisted shares having no market price and recognizing the extreme difficulty in determining fair value, gain or loss on revaluation of unlisted shares is not presented in the table above.

(iv) Investments in shares for which the purpose of investment has changed

There are no applicable items.

(6) Names of certified public accountants (CPAs) and name of statutory audit firm that conducted audits of the Company

The Company retains Ernst & Young ShinNihon as its statutory audit firm pursuant to the Companies Act and the Financial Instruments and Exchange Law to perform independent third-party accounting audits. The Company cooperates fully with the statutory audit firm to ensure its smooth performance of duties.

The following CPAs conducted audits of the Company during the fiscal year ended March 31, 2010.

- CPAs performing audits:
  Limited-liability partners: Koichiro Watanabe, Kenichi Shibata and Tatsuya Yokouchi
- Personnel providing audit assistance:
  10 CPAs, 14 assistant CPAs and one other person

(7) 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.

(8) Prescribed number of directors

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

(9) 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.

(10) 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.

(11) 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.

(12) 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

Millions of yen

Category	Fiscal year ended March 31, 2009		Fiscal year ended March 31, 2010	
	Compensation for statutory audit operations	Compensation for non-audit operations	Compensation for statutory audit operations	Compensation for non-audit operations
Parent company	52	10	52	51
Consolidated subsidiaries	78	—	78	—
Total	130	10	130	51

(2) Other significant compensation

Fiscal year ended March 31, 2009

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.

Fiscal year ended March 31, 2010

The Company's consolidated subsidiaries SQUARE ENIX OF EUROPE HOLDINGS LTD. and SQUARE ENIX OF AMERICA HOLDINGS, INC., paid compensation to the Ernst & Young Group amounting to ¥126 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

Fiscal year ended March 31, 2009

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

Fiscal year ended March 31, 2010

The non-audit operations provided by the statutory audit firm for which the Company paid compensation comprising such operations as the preparation of correspondences to securities firms relating to the issuance of corporate bonds.

(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 scale of the Company's business operations, the number of days required to conduct audits and the characteristics of the operations performed.

Directors, Auditors and Executive Officers

(As of July 31, 2010)

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

Senior Executive Managing Officers

Koji Taguchi

Shinji Hashimoto

Yoichi Haraguchi

Akihide Miyawaki

Executive Managing Officers

Philip Rogers

Michihiro Sasaki

Managing Officer

Hirokazu Nishikado

Honorary Chairman

Yasuhiro Fukushima

*1: External Director specified in Article 2, Item 15 of the Companies Act
*2: External Auditors specified in Article 2, Item 16 of the Companies Act

Financial Section

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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, 2010 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 the following accounting policies.

(1) Revenue Recognition

Sales revenue of the Group is ordinarily recognized when products are 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 counterparty 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 estimated market value of the content production account—based on expected future demand and market conditions—has fallen below actual costs, 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, the entire 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, 2010, the Company recorded a loss on revaluation of investment securities amounting to ¥166 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 meets its working capital and capital investment requirements principally through internal funding resources and the issuance of corporate bonds. As of March 31, 2010, the Group's balance of interest-bearing debt was ¥2,808 million. The net assets ratio stood at 56.4%. Cash and cash equivalents at end of year totaled ¥109,717 million, a decrease of ¥2,157 million compared with the previous fiscal year end.

Cash flows in the fiscal year ended March 31, 2010, as well as the principal factors behind these cash flows, are described below.

(1) Net Cash Provided by Operating Activities

Net cash provided by operating activities amounted to ¥20,838 million, an increase of 9.8%, compared with the previous fiscal year. Although an increase in accounts receivable of ¥14,157 million somewhat reduced cash provided by operating activities, this reduction was more than offset overall. Principal items bolstering cash provided by operating activities included income before income taxes and minority interests of ¥10,026 million, decrease in inventories of ¥9,019 million, depreciation and amortization of ¥7,962 million and amortization of goodwill of ¥13,906 million.

(2) Net Cash Used in Investing Activities

Net cash used in investing activities totaled ¥53,774 million, an increase of 389.2%, compared with the previous fiscal year. This mainly comprised payments for acquiring shares in subsidiaries and affiliated companies of ¥12,202 million, which principally related to the acquisition of EIDOS LTD., and payments for acquiring short-term securities (certificates of deposit) of ¥35,000 million.

(3) Net Cash Provided by Financing Activities

Net cash provided by financing activities amounted to ¥31,707 million, compared with net cash used in financing activities totaling ¥3,044 million in the previous fiscal year. The principal item was the issuance of euro yen zero coupon convertible bonds due 2015 amounting to ¥35,000 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, 2010

■ Assets

Total Assets

Millions of yen

March 31	2009	2010	Change
	¥213,194	¥270,529	¥57,335

Total assets as of March 31, 2010 amounted to ¥270,529 million, an increase of ¥57,335 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	2009	2010	Change
	¥111,981	¥111,211	¥(769)

Short-Term Investment Securities

Millions of yen

March 31	2009	2010	Change
	—	¥35,000	¥35,000

At March 31, 2010, the Company held certificates of deposit amounting to ¥35,000 million as short-term investment securities.

In preparation for the redemption of yen-denominated zero coupon bonds with warrants, which mature in November 2010 (balance as of March 31, 2010: ¥37,000 million), in January 2010 the Company procured funds (procurement amount: ¥35,000 million) through the issuance of euro yen zero coupon convertible bonds due 2015.

Notes and Accounts Receivable

Millions of yen

March 31	2009	2010	Change
	¥15,432	¥30,682	¥15,249

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 ¥30,682 million, an increase of ¥15,249 million compared with the previous fiscal year-end. The principal factors contributing to this increase were the release of two major game titles in March 2010 in Europe and the United States, "FINAL FANTASY XIII" and "Just Cause 2."

Content Production Account

Millions of yen

March 31	2009	2010	Change
	¥18,392	¥16,025	¥(2,366)

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.

As of March 31, 2010, the content production account totaled ¥16,025 million, a decrease of ¥2,366 million compared with the end of the prior fiscal year.

As of March 31, 2010, the Company incurred a ¥6,435 million loss on valuation of inventory due to reevaluation of the content production account.

Deferred Tax Assets

Millions of yen

March 31	2009	2010	Change
Current	¥3,882	¥6,231	¥2,348
Non-current	952	1,682	730

As of March 31, 2010, current deferred tax assets amounted to ¥6,231 million, an increase of ¥2,348 million, and non-current deferred tax assets amounted to ¥1,682 million, an increase of ¥730 million. These increases reflected such factors as the reversal of a valuation allowance provided for deferred tax assets that had been judged as likely to decrease. This reversal accompanied an internal restructuring of the Group during this fiscal year. A further factor contributing to the increase in deferred tax assets was an increase in temporary tax differences due to a reevaluation of content.

Intangible Assets

Millions of yen

March 31	2009	2010	Change
	¥18,697	¥21,623	¥2,926

Total intangible assets increased by ¥2,926 million, to ¥21,623 million. Two major factors affected the balance of intangible assets during this fiscal year. Firstly, the acquisition of United Kingdom-based EIDOS LTD. in April 2009 led to an increase in intangible assets, while the recording of accelerated amortization of goodwill relating to the consolidation of TAITO CORPORATION led to a decrease in intangible assets.

Within total intangible assets, goodwill amounting to £45,205 (¥6,542 million at the prevailing exchange rate on April 22, 2009) was recorded in relation to the acquisition of EIDOS LTD. This goodwill amount, recorded in British pounds, will be amortized by the straight-line method over 10 years.

Regarding goodwill relating to the Company's acquisition of TAITO CORPORATION in September 2005, a change in business circumstances caused a revision in the estimate of the goodwill's useful life and recoverable value. As a result, the Company recorded an extraordinary loss of ¥12,209 million in this fiscal year.

As a result, goodwill recognized on the Consolidated Balance Sheets at March 31, 2010, amounted to ¥10,233 million, a decrease of ¥7,538 million.

■ Liabilities

Total Liabilities

Millions of yen

March 31	2009	2010	Change
	¥64,469	¥116,271	¥51,801

As of March 31, 2009, total liabilities amounted to ¥116,271 million, an increase of ¥51,801 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	2009	2010	Change
	¥23,477	¥75,257	¥51,779

Total current liabilities increased by ¥51,779 million to ¥75,257 million. Major items contributing to this increase included the reclassification of ¥37,000 million in yen-denominated zero coupon bonds with warrants due November 2010 to the current portion of corporate bonds from non-current liabilities, an increase in allowance for sales returns from ¥1,598 million to ¥4,046 million, an increase in other accounts payable from ¥2,884 million to ¥3,528 million, and an increase in accrued expenses from ¥1,503 million to ¥6,611 million.

Non-Current Liabilities

Millions of yen

March 31	2009	2010	Change
	¥40,992	¥41,013	¥21

Total non-current liabilities increased by ¥21 million to ¥41,013 million.

In preparation for the redemption of yen-denominated zero-coupon bonds with warrants, which mature in November 2010, the Company raised ¥35,000 million in January 2010 through the issuance of euro yen zero coupon convertible bonds due 2015. In addition, the Company recognized deferred tax liabilities amounting to ¥2,354 million mainly owing to tax effects on intangible assets relating to a corporate combination.

Reference: Breakdown of principal assets received and liabilities assumed as of the date of business combination with U.K.-based EIDOS LTD.

Millions of yen

Current assets	¥ 7,786
Non-current assets	19,543
Total assets	27,329
Current liabilities	14,654
Total liabilities	¥14,850

■ Shareholders' Equity/Net Assets

Millions of yen

March 31	2009	2010	Change
Common stock	¥ 15,134	¥ 15,204	¥ 69
Capital surplus	44,375	44,444	69
Retained earnings	93,220	98,848	5,627
Treasury stock	(852)	(856)	(3)
Total shareholders' equity	151,879	157,641	5,762
Unrealized gain on revaluation of other investment securities	(71)	(9)	62
Foreign currency translation adjustments	(4,488)	(4,951)	(462)
Total valuation and translation adjustments	(4,560)	(4,960)	(399)
Stock acquisition rights	410	715	304
Minority interests in consolidated subsidiaries	995	861	(133)
Total net assets	¥148,724	¥154,258	¥5,533

As of March 31, 2010, total shareholders' equity amounted to ¥157,641 million, an increase of ¥5,762 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	2009	Composition	2010	Composition	Amount change	Percent change
Net sales	¥135,693	100.0%	¥192,257	100.0%	¥56,563	41.7%
Gross profit	56,166	41.4%	83,721	43.5%	27,555	49.1%
Reversal of allowance for sales returns	1,135	0.8%	4,863	2.5%	3,727	328.1%
Provision for allowance for sales returns	1,598	1.2%	4,046	2.1%	2,448	153.2%
Net gross profit	55,703	41.1%	84,538	44.0%	28,834	51.8%
Selling, general and administrative expenses	43,426	32.0%	56,303	29.3%	12,877	29.7%
Operating income	12,277	9.0%	28,235	14.7%	15,957	130.0%

Comparisons by segment with the preceding fiscal year are provided on pages 8–11.

Non-Operating Income and Expenses

Millions of yen

Years ended March 31	2009	2010	Change
Non-operating income	¥ 909	¥ 758	¥(150)
Non-operating expenses	1,925	1,171	(754)

Non-operating income decreased by ¥150 million, to ¥758 million, mainly owing to a decrease in interest income.

Non-operating expenses amounted to ¥1,171 million, primarily owing to a foreign exchange loss of ¥842 million.

In the previous fiscal year, foreign exchange loss amounted to ¥1,715 million.

Extraordinary Gain and Loss

Millions of yen

Years ended March 31	2009	2010	Change
Extraordinary gain	¥ 228	¥ 128	¥ (100)
Extraordinary loss	2,350	17,919	15,569

Extraordinary loss totaled ¥17,919 million, an increase of ¥15,569 million. Significant items within this included accelerated amortization of goodwill amounting to ¥12,209 million, severance payments associated with business restructuring of ¥1,985 million, and loss associated with business restructuring of ¥1,860 million.

■ Capital Expenditures and Depreciation

Millions of yen

Years ended March 31	2009	2010	Change
Capital expenditures	¥13,131	¥6,916	¥(6,215)
Depreciation and amortization	6,978	7,962	984

Capital expenditures for the fiscal year ended March 31, 2010, amounted to ¥6,916 million, a decrease of ¥6,215 million compared with the previous fiscal year. This decrease was mainly owing to the acquisition of land in the previous fiscal year.

Depreciation and amortization increased by ¥984 million, to ¥7,962 million, mainly owing to the use of lease purchases in the previous fiscal year for a portion of amusement equipment acquisitions.

■ Overseas Sales

North America

Millions of yen

Years ended March 31	2009	2010	Change
	¥14,285	¥26,315	¥12,030

In North America, the Group is primarily engaged in the Games business in the United States and Canada. Sales of game content developed by the Group in Japan, the United States and Europe are handled by SQUARE ENIX, INC., a wholly-owned subsidiary of the Company.

In the fiscal year ended March 31, 2010, sales in North America totaled ¥26,315 million, an increase of ¥12,030 million. In particular, sales of "FINAL FANTASY XIII," "BATMAN: ARKHAM ASYLUM" and "Just Cause 2" contributed to this increase in sales for the region.

Europe

Millions of yen

Years ended March 31	2009	2010	Change
	¥6,713	¥23,523	¥16,810

In Europe, the Group is primarily engaged in the Games business in countries using the PAL video standard. Sales of game content developed by the Group in Japan, the United States and Europe are handled by SQUARE ENIX LTD., a wholly-owned subsidiary of the Company.

In the fiscal year ended March 31, 2010, sales in Europe amounted to ¥23,523 million, an increase of ¥16,810 million. In particular, sales of "FINAL FANTASY XIII," "BATMAN: ARKHAM ASYLUM" and "Just Cause 2" contributed to this increase in sales for the region.

Asia

Millions of yen

Years ended March 31	2009	2010	Change
	¥1,298	¥1,260	¥(38)

In Asia, the Group primarily is engaged in the Games and the Amusement businesses in China.

In the Amusement business, consolidated subsidiary SQUARE ENIX (CHINA) CO., LTD., provides online game services based on content developed in Japan for the PC platform. In addition, consolidated subsidiary BEIJING TAIXIN CULTURAL ENTERTAINMENT CO., LTD., is engaged in the Amusement business.

Sales in Asia in the fiscal year ended March 31, 2010 decreased by ¥38 million, to ¥1,260 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, 2011, are as follows (as of June 30, 2010).

Millions of yen

Years ended/ending March 31	2004 results	2005 results	2006 results	2007 results	2008 results	2009 results	2010 results	2011 targets
Net sales	¥63,202	¥73,864	¥124,473	¥163,472	¥147,516	¥135,693	¥192,257	¥160,000
Operating income	19,398	26,438	15,470	25,916	21,520	12,277	28,235	20,000
Recurring income	18,248	25,901	15,547	26,241	18,864	11,261	27,822	20,000
Net income	10,993	14,932	17,076	11,619	9,196	6,333	9,509	12,000

5. Basic Policy for Profit Distribution and Dividends

The Group recognizes the return of profits to shareholders as one of its most important management tasks. The Group 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 Group 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, 2010, the amount of dividends from retained earnings was determined by a resolution of the Annual General Meeting of Shareholders in the case of the year-end dividend, and by a resolution of the Board of Directors in the case of the interim dividend.

For the fiscal year ended March 31, 2010, to commemorate the highest recurring income achieved by the Company since the merger of SQUARE CO., LTD., and ENIX CORPORATION in April 2003, the year-end dividend was increased by 5 yen per share compared with the previous year-end dividend. As a result, total dividends applicable to the fiscal year were ¥35 per share. The consolidated payout ratio for the fiscal year ended March 31, 2010 was 42.3%.

Dividends from retained earnings applicable to the fiscal year ended March 31, 2010, were as follows.

Date of resolution	Total dividends (Millions of yen)	Dividends per share (Yen)
November 5, 2009 Resolution of the Board of Directors	¥1,150	¥10
June 23, 2010 Resolution of the Annual General Meeting of Shareholders	2,876	25

6. Risk Factors

The Group identifies the items listed below as potential risk factors that could affect operating results. Forward-looking statements are in accordance with management's judgment as of June 30, 2010.

(1) Changes in the Economic Environment

In the event of a 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 adverse impact on the Group's business performance.

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

It is possible that the Group's substantial transformation 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 such transformation.

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

The Group's core business predominantly involves the sale of game software for use on home-use video game consoles. Consequently, the Group's business may be affected by change in market shares of console platforms caused by generational transition, and changes in console manufacturers' strategies.

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

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

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

As the Group pursues 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 business performance. Such factors include market trends, the political situation, economic climate, laws and regulations, cultural factors, religious factors and customs.

(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 those subsidiaries is expended for settlement or reinvestment in the applicable countries. However, sales, expenses, assets, liabilities and net assets of the foreign 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 forecasts.

(7) Entertainment Industry Laws

The operation of amusement facilities 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 facilities, 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, fighting and noise. While strictly complying with the laws and regulations, the Group has actively pursued the establishment of new amusement facilities.

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 identified all personal information obtained by the Group, and improved the timeliness of its personal information management systems. 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 monitoring system, and appropriate management of customer inquiries. 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 inspections, emergency drills and administers policies on infectious diseases to minimize accidents and the potential impact of disasters, including terrorist attacks, infectious diseases, food poisoning, fires, electrical blackouts, computer system or server malfunctions, earthquakes, typhoons, flood damage and other accidents. However, in the event of an accident, disaster or infectious disease affects the Group, it may not be possible to avoid or alleviate all adverse impacts.

A major earthquake, accident or disaster including infectious disease could impede the Group's operations and affect business performance.

(10) Litigation and Other Claims

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 the global arena, the risk of the Group becoming a defendant in litigation exists. 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

	2010	2009
Assets		
Current assets		
Cash and deposits	¥111,211	¥111,981
Notes and accounts receivable	30,682	15,432
Short-term investment securities	35,000	—
Merchandise and finished goods	3,237	4,917
Work in progress	54	291
Raw materials and supplies	469	581
Content production account	16,025	18,392
Deferred tax assets	6,231	3,882
Income taxes receivable	5,994	—
Other	4,973	3,179
Allowance for doubtful accounts	(533)	(270)
Total current assets	213,347	158,387
Non-current assets		
Property and equipment		
Buildings and structures	16,809	16,467
Accumulated depreciation	(12,198)	(11,849)
Buildings and structures (net)	4,610	4,618
Tools and fixtures	13,582	11,577
Accumulated depreciation	(11,171)	(8,274)
Tools and fixtures (net)	2,410	3,302
Amusement equipment	23,919	21,344
Accumulated depreciation	(21,086)	(18,753)
Amusement equipment (net)	2,832	2,590
Other	144	56
Accumulated depreciation	(51)	(20)
Other (net)	92	36
Land	8,277	8,515
Construction in progress	626	19
Total property and equipment	18,850	19,082
Intangible assets		
Goodwill	10,233	17,771
Other	11,390	925
Total intangible assets	21,623	18,697
Investments and other assets		
Investment securities	567	2,063
Long-term loans	6	360
Rental deposits	13,530	12,327
Construction support deposits	1,125	1,249
Claims in bankruptcy	202	376
Deferred tax assets	1,682	952
Other	*1 300	*1 528
Allowance for doubtful accounts	(706)	(831)
Total investments and other assets	16,707	17,027
Total non-current assets	57,182	54,806
Total assets	¥270,529	¥213,194

The accompanying notes are an integral part of these statements.

Millions of yen

	2010	2009
Liabilities		
Current liabilities		
Notes and accounts payable	¥ 10,666	¥ 10,097
Short-term loans	2,808	26
Current portion of corporate bonds	37,000	—
Other accounts payable	3,528	2,884
Accrued expenses	6,611	1,503
Accrued income taxes	4,090	3,239
Accrued comsumption taxes	2,839	686
Advance payments	920	563
Deposits received	561	517
Reserve for bonuses	1,571	1,413
Allowance for sales returns	4,046	1,598
Allowance for game arcade closings	321	445
Other	291	499
Total current liabilities	75,257	23,477
Non-current liabilities		
Corporate bonds	35,000	37,000
Allowance for employees' retirement benefits	2,170	1,644
Allowance for directors' retirement benefits	250	236
Allowance for game arcade closings	645	721
Deferred tax liabilities	2,354	—
Other	593	1,390
Total non-current liabilities	41,013	40,992
Total liabilities	116,271	64,469
Net Assets		
Shareholders' equity		
Common stock	15,204	15,134
Capital surplus	44,444	44,375
Retained earnings	98,848	93,220
Treasury stock	(856)	(852)
Total shareholders' equity	157,641	151,879
Valuation and translation adjustments		
Unrealized loss on revaluation of other investment securities	(9)	(71)
Foreign currency translation adjustments	(4,951)	(4,488)
Total valuation and translation adjustments	(4,960)	(4,560)
Stock acquisition rights	715	410
Minority interests in consolidated subsidiaries	861	995
Total net assets	154,258	148,724
Total liabilities and net assets	¥270,529	¥213,194

The accompanying notes are an integral part of these statements.

Consolidated Statements of Income (JPNGAAP)

SQUARE ENIX HOLDINGS CO., LTD. and Consolidated Subsidiaries

Years ended March 31

Millions of yen

	2010	2009
Net sales	¥192,257	¥135,693
Cost of sales	*1 108,536	*1 79,527
Gross profit	83,721	56,166
Reversal of allowance for sales returns	4,863	1,135
Provision for allowance for sales returns	4,046	1,598
Net gross profit	84,538	55,703
Selling, general and administrative expenses		
Packaging freight charge	3,535	2,169
Advertising expense	11,053	5,546
Sales promotion expense	157	417
Compensation for directors	519	456
Salaries	15,145	14,097
Provisions for reserve for bonuses	2,378	1,755
Net periodic pension costs	1,102	353
Provisions for reserve for directors' retirement benefits	13	20
Welfare expense	1,755	1,799
Rental expense	2,367	2,375
Commissions paid	4,105	3,399
Depreciation and amortization	2,281	1,397
Other	*2 11,886	*2 9,637
Total selling, general and administrative expenses	56,303	43,426
Operating income	28,235	12,277
Non-operating income		
Interest income	188	696
Dividends received	343	12
Rental income	30	43
Miscellaneous income	195	157
Total non-operating income	758	909
Non-operating expenses		
Interest expenses	30	1
Bond issuance cost	142	—
Investment loss on equity method	49	18
Foreign exchange loss	842	1,715
Miscellaneous loss	105	189
Total non-operating expenses	1,171	1,925
Recurring income	27,822	11,261
Extraordinary gain		
Gain on sale of property and equipment	*3 33	—
Gain on sale of investment securities	10	0
Reversal of allowance for doubtful accounts	9	13
Reversal of allowance for obligation related to legal proceedings	—	181
Gain on forgiveness of debts	22	—
Gain on reversal of stock acquisition rights	20	—
Other	30	33
Total extraordinary gain	128	228
Extraordinary loss		
Loss on sale of property and equipment	*4 69	*4 26
Loss on disposal of property and equipment	*5 389	*5 790
Loss on liquidation of subsidiaries and affiliates	72	—
Loss on evaluation of investment securities	*6 166	*6 120
Impairment loss	*7 255	*7 859
Accelerated amortization of goodwill	*8 12,209	—
Severance payments associated with business restructuring	1,985	30
Provision for allowance for game arcade closings	25	286
Loss associated with business restructuring	*9 1,860	—
Acquisition costs	770	—
Legal settlement payment	—	15
Other	114	221
Total extraordinary loss	17,919	2,350
Income before income taxes, minority interests and distribution of loss in partnership (*tokumei-kumiai*)	10,031	9,139
Distribution of loss (gain) in partnership (*tokumei-kumiai*)	4	(14)
Income before income taxes and minority interests	10,026	9,153
Current income taxes	1,881	4,502
Income taxes for prior periods	*10 1,745	—
Refunded income taxes	—	(1,841)
Deferred income taxes	(3,158)	198
Total income taxes	469	2,859
Minority interests in consolidated subsidiaries	48	(39)
Net income	¥ 9,509	¥ 6,333

The accompanying notes are an integral part of these statements.

Consolidated Statements of Changes in Net Assets (JPNGAAP)

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

Millions of yen

	2010	2009
Shareholders' equity		
Common stock		
Balance at the end of previous period	¥ 15,134	¥ 14,928
Changes during the period		
Issuance of new shares	69	206
Total changes of items during the period	69	206
Balance at the end of current period	15,204	15,134
Capital surplus		
Balance at the end of previous period	44,375	44,169
Changes during the period		
Issuance of new shares	69	206
Disposal of treasury stock	(0)	(0)
Total changes during the period	69	206
Balance at the end of current period	44,444	44,375
Retained earnings		
Balance at the end of previous period	93,220	90,295
Changes during the period		
Dividends from retained earnings	(3,450)	(3,446)
Net income	9,509	6,333
Change in scope of consolidation	(431)	16
Change in scope of equity method	—	22
Total changes during the period	5,627	2,925
Balance at the end of current period	98,848	93,220
Treasury stock		
Balance at the end of previous period	(852)	(841)
Changes during the period		
Purchase of treasury stock	(4)	(13)
Disposal of treasury stock	1	2
Total changes during the period	(3)	(11)
Balance at the end of current period	(856)	(852)
Total shareholders' equity		
Balance at the end of previous period	151,879	148,552
Changes during the period		
Issuance of new shares	139	412
Dividends from retained earnings	(3,450)	(3,446)
Net income	9,509	6,333
Purchase of treasury stock	(4)	(13)
Disposal of treasury stock	0	2
Change in scope of consolidation	(431)	16
Change in scope of equity method	—	22
Total changes during the period	5,762	3,326
Balance at the end of current period	¥157,641	¥151,879

Millions of yen

	2010	2009
Valuation and translation adjustments		
Unrealized gain on revaluation of other investment securities		
Balance at the end of previous period	¥ (71)	¥ (12)
Changes during the period		
Net changes in items other than shareholders' equity	62	(59)
Total changes during the period	62	(59)
Balance at the end of current period	(9)	(71)
Foreign currency translation adjustments		
Balance at the end of previous period	(4,488)	(1,504)
Changes during the period		
Net changes in items other than shareholders' equity	(462)	(2,984)
Total changes during the period	(462)	(2,984)
Balance at the end of current period	(4,951)	(4,488)
Total valuation and translation adjustments		
Balance at the end of previous period	(4,560)	(1,517)
Changes during the period		
Net changes in items other than shareholders' equity	(399)	(3,043)
Total changes during the period	(399)	(3,043)
Balance at the end of the current period	(4,960)	(4,560)
Stock acquisition rights		
Balance at the end of previous period	410	81
Changes during the period		
Net changes in items other than shareholders' equity	304	329
Total changes during the period	304	329
Balance at the end of current period	715	410
Minority interests in consolidated subsidiaries		
Balance at the end of previous period	995	1,077
Changes during the period		
Net changes in items other than shareholders' equity	(133)	(81)
Total changes during the period	(133)	(81)
Balance at the end of current period	861	995
Total net assets		
Balance at the end of previous period	148,724	148,193
Changes during the period		
Issuance of new shares	139	412
Dividends from retained earnings	(3,450)	(3,446)
Net income	9,509	6,333
Purchase of treasury stock	(4)	(13)
Disposal of treasury stock	0	2
Change in scope of consolidation	(431)	16
Change in scope of equity method	—	22
Net changes in items other than shareholders' equity	(228)	(2,795)
Total changes during the period	5,533	530
Balance at the end of current period	¥154,258	¥148,724

The accompanying notes are an integral part of these statements.

Consolidated Statements of Cash Flows (JPNGAAP)

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

Millions of yen

	2010	2009
Cash flows from operating activities		
Income before income taxes and minority interests	¥ 10,026	¥ 9,153
Depreciation and amortization	7,962	6,978
Impairment loss	255	859
Increase (decrease) in allowance for doubtful accounts	(190)	(221)
Increase (decrease) in reserve for bonuses	157	(388)
Increase (decrease) in allowance for sales returns	(540)	572
Increase (decrease) in allowance for employees' retirement benefits	525	117
Increase (decrease) in allowance for directors' retirement benefits	14	20
Increase (decrease) in allowance for game arcade closings	(129)	181
Interest and dividends received	(531)	(708)
Interest expense	30	1
Foreign exchange loss (gain)	990	1,255
Loss (gain) on sale of investment securities	(10)	17
Loss (gain) on valuation of investment securities	166	120
Loss on disposal of property and equipment	389	790
Loss on sale of property and equipment	69	26
Amortization of goodwill	13,906	1,104
Decrease (increase) in accounts receivable	(14,157)	1,569
Decrease (increase) in inventories	9,019	(4,273)
Increase (decrease) in accounts payable	(890)	1,493
Increase (decrease) in accrued consumption taxes	2,445	(4)
Decrease (increase) in other current assets	(1,904)	1,975
Decrease (increase) in other non-current assets	223	37
Increase (decrease) in other current liabilities	1,257	(1,542)
Other	436	597
Subtotal	29,523	19,736
Interest and dividends received	163	713
Interest paid	(31)	(1)
Income taxes paid	(5,269)	(1,473)
Prior period income taxes paid	(3,548)	—
Net cash provided by operating activities	¥ 20,838	¥18,974

The accompanying notes are an integral part of these statements.

Millions of yen

	2010	2009
Cash flows from investing activities		
Investments in time deposits	¥ (2,618)	¥ (83)
Proceeds from time deposits	1,229	—
Payments for acquiring short-term securities	(35,000)	(36,000)
Proceeds from sale of short-term securities	—	36,000
Payments for acquiring investment securities	—	(1,506)
Proceeds from sale of investment securities	7	4
Payments for acquiring property and equipment	(6,076)	(9,983)
Proceeds from sale of property and equipment	174	103
Payments for acquiring intangible assets	(387)	(146)
Proceeds from sale of intangible assets	0	0
Payments for acquiring shares in subsidiaries and affiliated companies	—	(1)
Payments for purchase of investments in subsidiaries resulting in change in scope of consolidation	*2 (12,202)	—
Proceeds from sale of shares in subsidiaries and affiliated companies	32	9
Proceeds from liquidation of subsidiaries	391	—
Proceeds from return of rental deposits	1,074	1,199
Payments for provision of rental deposits	(372)	(161)
Other	(26)	(426)
Net cash used in investing activities	(53,774)	(10,991)
Cash flows from financing activities		
Proceeds from short-term loans	2,956	—
Payments for short-term loans	(2,941)	—
Proceeds from issuances of shares	139	412
Proceeds from issuance of corporate bonds	35,000	—
Payments for acquisition of treasury stock	(4)	(13)
Payments for dividends	(3,442)	(3,443)
Payments for dividends for minority interests	—	(2)
Other	0	2
Net cash provided by (used in) financing activities	31,707	(3,044)
Effect of exchange rate changes on cash and cash equivalents	(499)	(4,475)
Net increase (decrease) in cash and cash equivalents	(1,728)	462
Cash and cash equivalents at beginning of the year	111,875	111,479
Increase in cash and cash equivalents due to inclusion of newly consolidated subsidiaries in the scope of consolidation	65	—
Decrease in cash and cash equivalents due to exclusion of subsidiaries from the scope of consolidation	(495)	(66)
Cash and cash equivalents at end of the year	¥109,717	¥111,875

The accompanying notes are an integral part of these statements.

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

1. Scope of Consolidation

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 ENIX 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)
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, 2010

(1) Number of consolidated subsidiaries:
46 and one partnership
Names of principal consolidated subsidiaries:
SQUARE ENIX OF AMERICA HOLDINGS, INC.
SQUARE ENIX OF EUROPE HOLDINGS LTD.
SQUARE ENIX CO., LTD.
TAITO CORPORATION
SMILE-LAB Co., Ltd.
SQUARE ENIX, INC.
SQUARE ENIX LTD.
SQUARE ENIX (China) Co., LTD.
CRYSTAL DYNAMICS INC.
EIDOS INTERACTIVE CORP.
IO INTERACTIVE A/S

Smile-Lab Co., Ltd., has been included in the scope of consolidation of the Company, effective this fiscal year, owing to its increase in materiality.

DIGITAL ENTERTAINMENT ACADEMY CO., LTD., has been excluded from the scope of consolidation of the Company, effective from the first quarter of this fiscal year, owing to its decrease in materiality. In the fourth quarter of this fiscal year, DIGITAL ENTERTAINMENT ACADEMY CO., LTD., completed liquidation procedures.

At the end of the third quarter of this fiscal year, SG Lab INC. completed liquidation procedures, and, consequently, was excluded from the Company's scope of consolidation.

On February 1, 2010, TAITO CORPORATION transferred all its businesses relating to the operation of game arcade facilities; and the planning, development, production, sales and rental of coin-operated game machines (excluding the planning, development and sale of game software for home-use game consoles); to ES1 CORPORATION, a consolidated subsidiary of the Company whose shares were acquired by the Company during this fiscal year. Simultaneously, TAITO CORPORATION changed its corporate name to TAITO SOFT CORPORATION. On March 11, 2010, TAITO SOFT CORPORATION was subject to an absorption-type company merger with SQUARE ENIX CO., LTD.

On February 1, 2010, ES1 CORPORATION changed its corporate name to TAITO CORPORATION.

In this fiscal year, SQEX LTD. changed its corporate name to SQUARE ENIX OF EUROPE HOLDINGS LTD.

(2) Names of principal non-consolidated subsidiaries:
SQUARE ENIX MOBILE STUDIO CO., LTD.

(Rationale for the exclusion of subsidiaries from the scope of consolidation)
Same as the year ended March 31, 2009

2. Application of the Equity Method of Accounting

■ 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.

■ Year ended March 31, 2010

Number of equity-method affiliates: 1

ROCKSTEADY STUDIOS LTD.

Brave, Inc., was excluded from the scope of application of the equity method in this fiscal year owing to the Company's sale of all shares held in that company.

ROCKSTEADY STUDIOS LTD. was included in the scope of application of the equity method owing to its acquisition of shares of EIDOS LTD.

Non-consolidated subsidiaries that were not accounted for under the equity method (SQUARE ENIX MOBILE STUDIO CO., LTD., and others) and an affiliated company (BMF CORPORATION) 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, 2009

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, 2010

Same as the year ended March 31, 2009

4. Summary of Significant Accounting Policies

(1) Standards and valuation methods for major assets:

■ Year ended March 31, 2009

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 moving average method

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

■ Year ended March 31, 2010

A) Investment securities

Other investment securities

Securities for which fair values are available:

Same as the year ended March 31, 2009

Securities for which fair values are unavailable:

Same as the year ended March 31, 2009

B) Inventories

Manufactured goods, merchandise:

Same as the year ended March 31, 2009

Content production account:

Same as the year ended March 31, 2009

Raw materials, unfinished goods:
Same as the year ended March 31, 2009
Supplies:
Same as the year ended March 31, 2009

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

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)
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.

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.

Year ended March 31, 2010

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	2-20 years
Amusement equipment	3 years (auxiliary components: 5 years)

B) Intangible assets (excluding leased assets)
Amortized using the straight-line method. Software used in-house is amortized using the straight-line method based on an internal estimate of its useful life (five years).

C) Leased assets
Same as the year ended March 31, 2009

(3) Method of recognition for significant deferred assets:

Year ended March 31, 2009

Not applicable

Year ended March 31, 2010

Corporate bond issuance costs
Corporate bond issuance costs are expensed as incurred.

(4) Accounting for allowances and reserves:

Year ended March 31, 2009

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 certain 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
At the Company and certain consolidated subsidiaries prior to the fiscal year ended March 31, 2009, allowances are provided for losses on the return of published materials, at an amount calculated based on historical experience, prior to this fiscal year and allowances are 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 at certain consolidated subsidiaries, an allowance is provided at an amount in line with reasonable estimates of future losses on such closures.

E) Allowance for employees' retirement benefits
At the Company and certain consolidated subsidiaries, an allowance for employees' retirement benefits is provided at the amount incurred during the fiscal year, 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
At the Company and certain consolidated subsidiaries 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, 2010**

A) Allowance for doubtful accounts
Same as the year ended March 31, 2009

B) Reserve for bonuses
Same as the year ended March 31, 2009

C) Allowance for sales returns
At certain consolidated subsidiaries prior to the fiscal year ended March 31, 2010, allowances are provided for losses on the return of published materials, at an amount calculated based on historical experience prior to this fiscal year and allowances are provided for losses on the return of game software and other, comprising an estimated amount of future losses assessed for each game title.

D) Allowance for closing of game arcades
Same as the year ended March 31, 2009

E) Allowance for employees' retirement benefits
Same as the year ended March 31, 2009

F) Allowance for directors' retirement benefits
Same as the year ended March 31, 2009

(5) Translation of foreign currency transactions and accounts:

■ **Year ended March 31, 2009**

All monetary assets and liabilities of the Company and its overseas 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, 2010**

Same as the year ended March 31, 2009

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

■ **Year ended March 31, 2009**

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

■ **Year ended March 31, 2010**

Accounting treatment of consumption taxes
Same as the year ended March 31, 2009

5. Valuation of Assets and Liabilities of Consolidated Subsidiaries

■ **Year ended March 31, 2009**

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

■ **Year ended March 31, 2010**

Same as the year ended March 31, 2009

6. Amortization of Goodwill

■ **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.

■ **Year ended March 31, 2010**

Goodwill is amortized using the straight-line method over a period of either 10 years or 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, 2009**

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, 2010**

Same as the year ended March 31, 2009

New Accounting Standards

■ **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 (the value stated on the balance sheet was calculated by writing down the book value based on declining 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.

■ **Year ended March 31, 2010**
(Application of Partial Amendments to Accounting Standard for Retirement Benefits (Part 3))
Effective from this fiscal year, the Company has applied "Partial Amendments to Accounting Standard for Retirement Benefits (Part 3)," (ASBJ Statement No. 19, July 31, 2008).

This change had no material impact on operating income, recurring income or income before income taxes and minority interests.

No retirement benefit obligation difference was recognized as a result of the application of this accounting standard.

Reclassifications

■ **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.

■ **Year ended March 31, 2010**
(Consolidated Balance Sheets)
Until the fiscal year ended March 31, 2009, "income taxes receivable" was presented as part of "other" within current assets. From the fiscal year ended March 31, 2010, "income taxes receivable" is presented as a separate item as a result of an increase in materiality.

In the fiscal year ended March 31, 2009, "income taxes receivable" amounted to ¥1,422 million.

(Consolidated Statements of Income)
Until the fiscal year ended March 31, 2009, "gain on sale of property and equipment" was presented as part of "other" within extraordinary gain. From the fiscal year ended March 31, 2010, "gain on sale of property and equipment" is presented as a separate item due to composition exceeding 10 percent of total extraordinary gain.

In the fiscal year ended March 31, 2009, "gain on sale of property and equipment" amounted to ¥4 million.

Notes to Consolidated Balance Sheets

■ **Year ended March 31, 2009**

*1 Investments in non-consolidated subsidiaries and affiliates:
Investments and other assets ¥127 million

■ Year ended March 31, 2010

*1 Investments in non-consolidated subsidiaries and affiliates:

Investments and other assets	¥69 million

Notes to Consolidated Statements of Income

■ 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 gain on sale of property and equipment
Not applicable

*4 Breakdown of loss on sale of property and equipment

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

*5 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

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

*7 Impairment loss
In the fiscal year ended March 31, 2009, 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 structure	¥ 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.

*8 Amortization of goodwill
Not applicable

*9 Loss associated with business restructuring
Not applicable

*10 Income tax for prior periods
Not applicable

■ Year ended March 31, 2010

*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 ¥6,640 million

*2 Selling, general and administrative expenses include research and development expenses of ¥1,243 million

*3 Breakdown of gain on sale of property and equipment

Buildings and structures	¥ 31 million
Tools and fixtures	0 million
Amusement equipment	1 million
Other	0 million
Total	¥ 33 million

*4 Breakdown of loss on sale of property and equipment

Tools and fixtures	¥ 52 million
Buildings and structures	16 million
Amusement equipment	0 million
Total	¥ 69 million

*5 Breakdown of loss on disposal of property and equipment

Buildings and structures	¥ 78 million
Tools and fixtures	34 million
Amusement equipment	268 million
Software	4 million
Other	3 million
Total	¥389 million

*6 Loss on valuation of investment securities
Same as the year ended March 31, 2009

*7 Impairment loss
In the fiscal year ended March 31, 2010, the Group posted impairment losses on the following groups of assets:

Millions of yen

Location	Usage	Category	Impairment amount
Kawasaki-shi, Kanagawa	Idle assets	Land	¥ 43
Kita-Karuizawa, Nagano	Assets planned for disposal	Land and buildings	9
Tokushima-shi, Tokushima	Assets planned for disposal	Land	119
Shibuya-ku, Tokyo, and others	Idle assets	Telephone subscription rights	9
Shibuya-ku, Tokyo, and others	Assets planned for disposal	Amusement equipment	74
Total			¥255

In the fiscal year ended March 31, 2010, due to the inclusion of Eidos Ltd. and its consolidated subsidiaries within the Company's scope of consolidation, the Group revised its method of grouping assets. In the Amusement business segment, each business location is classified as one asset-grouping unit. In other business segments, classification of asset groups is carried out based on the relationships between businesses. Idle assets that are not used for operational purposes and assets planned for disposal are classified individually, separately from those mentioned above.

With regard to idle assets presented in the table above, market value had fallen substantially below book value and the future use of these assets was deemed uncertain. For these reasons, the book value of these idle assets has been written down to the applicable market value. With regard to assets planned for disposal, their recoverable value was recognized as falling below book value. Consequently, their book value has been written down to the applicable recoverable value.

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

*8 Accelerated amortization of goodwill
Accelerated amortization of goodwill is the amount of goodwill amortized in this fiscal year ended March 31, 2010 relating to TAITO CORPORATION. A change in business circumstances caused a revision in the estimate of the goodwill's useful life and recoverable value.

*9 Loss associated with business restructuring
This item principally comprises business restructuring losses relating to an overhaul of the Group's game development and sales structures in Europe and the United States due to the acquisition of the Eidos Group.

*10 Income taxes for prior periods
With regard to transactions between the Company and its subsidiaries in the United States and the United Kingdom, although the Company had been preparing to file mutual agreement based on the bilateral advance pricing agreement (BAPA) system relating to transfer pricing taxation, during this fiscal year, a mutual agreement became effective between the governments of Japan and the United States. Japan and the United Kingdom plan to reach a mutual agreement in the near future. The amount presented as income taxes for prior periods is the net amount after offsetting taxes paid and estimated taxes payable against tax refunds under the aforementioned mutual agreements.

Items Pertaining to the Consolidated Statements of Changes in Net Assets

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	188	—	115,305
Total	115,117	188	—	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 option information

Category	Details of stock options	Number of shares allocated for the purpose of stock options: Type of shares issuable for the exercise 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	—	—	—	—	—	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

■ **Year ended March 31, 2010**

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, 2009	Share increases during the year	Share decreases during the year	Shares as of March 31, 2010
Shares issued and outstanding				
Common stock*1	115,305	64	—	115,370
Total	115,305	64	—	115,370
Treasury stock*2				
Common stock	295	2	0	297
Total	295	2	0	297

*1 The increase of 64 thousand shares of common stock issued and outstanding was due to the exercise of stock options.

*2 The increase of 2 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

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2. Stock options and the Company's stock options

Category	Details of stock options	Number of shares allocated for the purpose of stock options: Type of shares issuable for the exercise of stock options	As of March 31, 2009	Increase during the year	Decrease during the year	As of March 31, 2010	Balance as of March 31, 2010 (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	10,882,352	—	—	10,882,352	—
	Issuance of euro yen zero-coupon convertible bonds due 2015, pursuant to a resolution of the Board of Directors on January 18, 2010	Common stock	—	14,000,000	—	14,000,000	—
	Stock acquisition rights as stock options (Treasury stock acquisition rights)	—	—	—	—	—	724 (8)
	Total	—	—	—	—	—	724 (8)

Notes: 1. The amounts shown in parentheses indicate the number of treasury stock acquisition rights.
2. The increase of 14,000,000 shares in this fiscal year stems from the relevant issuance of convertible bonds.

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 24, 2009 (Annual General Meeting of Shareholders)	Common stock	¥2,300	¥20	March 31, 2009	June 25, 2009
November 5, 2009 (Board of Directors' Meeting)	Common stock	1,150	10	September 30, 2009	December 4, 2009

(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 23, 2010 (Annual General Meeting of Shareholders)	Common stock	¥2,876	Retained earnings	¥25	March 31, 2010	June 24, 2010

Notes to Consolidated Statements of Cash Flows

■ 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

■ Year ended March 31, 2010

*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, 2010)

Cash and deposits	¥111,211 million
Time deposits with maturity periods over three months	(1,494 million)
Cash and cash equivalents	¥109,717 million

*2 Breakdown of principal assets and liabilities of companies newly included in the Company's scope of consolidation resulting from share acquisition

Due to the inclusion of EIDOS LTD. and one affiliate of EIDOS LTD. in the Company's scope of consolidation through a share acquisition, the following is a breakdown of principal assets and liabilities at the time of the aforementioned commencement of inclusion in the scope of consolidation as well as the share acquisition costs and the relationship to the payment for share acquisition—net.

	Millions of yen
Current assets	¥ 7,849
Non-current assets	14,910
Goodwill	6,637
Current liabilities	(14,654)
Non-current liabilities	(223)
Share acquisition costs	14,519
Amount paid during the fiscal year ended March 31, 2009	(1,503)
Cash and cash equivalents	(814)
Payment for share acquisition—net	¥12,202

Lease Transactions

■ 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:

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

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	¥527 million
Due after one year	253 million
Total	¥781 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	¥426 million
Depreciation expense	426 million

4. Method of calculation for depreciation

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

(Impairment loss)

No impairment loss was recognized on leased assets.

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

■ Year ended March 31, 2010

(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	¥ 593	¥472	¥120
Tools and fixtures	593	453	139
Total	¥1,186	¥926	¥259

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	¥165 million
Due after one year	94 million
Total	¥259 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	¥338 million
Depreciation expense	¥338 million

4. Method of calculation for depreciation
Depreciation is calculated using the straight-line method over a useful life with no residual value.

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

Operating lease transactions
Future lease payments on noncancellable leases:

Due within one year	¥1,070 million
Due after one year	—
Total	¥1,070 million

Notes Regarding Financial Instruments
Fiscal year ended March 31, 2010

1. Matters concerning financial instruments

(1) Policies regarding financial instruments

With regard to the management of funds, the Group only utilizes financial instruments with low market risk, such as deposits. With regard to fund procurement, the Group utilizes the issuance of corporate bonds and borrowings from financial institutions.

Forward-exchange transactions are carried out within the amount of foreign currency-denominated transactions conducted by the Group. It is the Group's policy not to engage in derivative transactions for speculative purposes.

(2) Types of financial instruments held, risks associated with those financial instruments and risk management system

The Group is exposed to customer credit risk through notes and accounts receivable, which are trade receivables. The Group endeavors to reduce this risk by managing the outstanding balance and due date for each transaction in accordance with internal rules at each Group company for sales management. Owing to the Group's global business operations, a portion of its notes and accounts receivable are denominated in foreign currencies, which are exposed to exchange rate fluctuation risk. Although the Group, in principle, does not engage in derivative transactions, for the purpose of hedging against the risk of future fluctuations in foreign-exchange rates, it enters into forward foreign exchange contracts from time to time. Although forward foreign exchange contracts involve exposure to exchange rate fluctuation risk, each counterparty to these transactions is, without exception, a highly creditworthy bank. Hence, the Group judges that credit risk through counterparty breach of contract (counterparty risk) is negligible. With regard to forward foreign exchange transactions, all risk is centrally managed by the accounting division under the approval of a representative director and the director assigned to oversee accounting and finance matters.

Short-term investment securities are held in the form of negotiable certificates of deposit, and the market price fluctuation risk associated with these instruments is extremely low. Investment securities mainly comprise stock market listed shares, and, hence, exposed to market price fluctuation risk. However, fair values are monitored and regularly reported to the Board of Directors.

Rental deposits consist of deposits required to be furnished by the Group when it enters into real estate leases relating to the Group's headquarters, other offices and amusement arcade facilities. Construction support deposits consist of deposits furnished by the Group in relation to amusement arcade leases. Although these deposits involve exposure to counterparty credit risk, for the headquarters and other offices and amusement arcades, the general affairs division and sales division with the Group confirm the creditworthiness of the lessors through regular contact with the respective counterparties. In addition, the accounting division checks with each of these divisions on the situation at the end of each fiscal year.

Notes and accounts payable are defined as those trade payables due within one year. Short-term loans are used to meet short-term working capital requirements. The Group avoids the settlement liquidity risk associated with short-term payables, including notes and accounts payable, other accounts payable, accrued expenses, accrued corporate taxes, accrued consumption taxes, advance payments received, deposits received and short-term loans, through the monthly review of its funding plan and other methods. Although foreign currency-denominated trade payables involve exposure to exchange-rate fluctuations, the Group reduces this risk through similar methods to those used to manage the risk associated with foreign currency-denominated trade receivables. Although the Group is exposed to interest-rate risk through short-term loans, since the borrowing periods are short, the Group is able to respond flexibly to interest rate fluctuations.

Current portion of corporate bonds comprise yen zero-coupon convertible bonds due 2010, which are redeemable in November 2010. Corporate bonds comprise euro yen zero-coupon convertible bonds due 2015, which the Group issued in the fiscal year under review to refinance the aforementioned corporate bonds redeemable within one year. Since each of these bonds are issued as zero-coupon bonds, they do not involve exposure to interest rate fluctuation risk.

(3) Supplementary information regarding the fair value, etc., of financial instruments

The fair value of financial instruments includes amounts based on market prices as well as those calculated using an appropriate formula when there is no applicable market price. Since variable factors are included in the calculation of such fair values, the adoption of different assumptions may lead to changes in these fair value amounts.

2. Fair value of financial instruments

With regard to financial instruments held by the Company and its consolidated subsidiaries, the values presented on the consolidated balance sheet as of March 31, 2010, the estimated fair value and the difference between these amounts are as follows. Items for which fair value is difficult to estimate are not included in the following table (Note 2).

Millions of yen

Assets:	Book value	Fair value	Difference
(1) Cash and deposits	¥111,211	¥111,211	¥ —
(2) Notes and accounts receivable	30,682		
Allowance for doubtful accounts	(530)		
Notes and accounts receivable, net	30,152	30,152	—
(3) Short-term investment securities	35,000	35,000	—
(4) Investment securities	480	480	—
(5) Rental deposits	13,530		
Allowance for doubtful deposits paid	(526)		
Rental deposits, net	13,004	11,973	(1,030)
(6) Construction support deposits	1,125	1,087	(37)
(7) Claims in bankruptcy	202		
Allowance for doubtful accounts	(180)		
Claims in bankruptcy, net	21	21	—
Total	190,995	189,927	(1,068)
Liabilities:			
(1) Notes and accounts payable	10,666	10,666	—
(2) Short-term loans	2,808	2,808	—
(3) Current portion of corporate bonds	37,000	37,000	—
(4) Other accounts payable	3,528	3,528	—
(5) Accrued expenses	6,611	6,611	—
(6) Accrued income taxes	4,090	4,090	—
(7) Accrued consumption taxes	2,839	2,839	—
(8) Deposits received	561	561	—
(9) Corporate bonds	35,000	39,287	4,287
Total	¥103,106	¥107,393	¥ 4,287
Derivative transactions	—	—	—

Notes: 1. Matters concerning the methods for estimating fair value and short-term investment securities

Assets

(1) Cash and deposits, and (2) Notes and accounts receivable

Since these items are settled on a short-term basis, book value is used on the assumption that fair value is principally equivalent to book value.

(3) Short-term investment securities

Short-term investment securities comprise negotiable certificates of deposit. Owing to their short-term maturity, fair value is recognized as equivalent to book value. Book value is therefore recorded as fair value.

(4) Investment securities

Investment securities comprise stock market listed shares and fair value is the stock-market trading price. For information relating to each of the holding purposes of securities, please refer to the note titled "Securities."

(5) Rental deposits, and (6) Construction support deposits

The fair values of these items are the net present value, which has been discounted at a rate that appropriately reflects the length of time the deposits are expected to be held for and the credit risk of the deposit holder.

(7) Claims in bankruptcy and claims under reorganization

For claims in bankruptcy and claims under reorganization, the Company calculates a provision for doubtful claims based on the expected recovery amount. Consequently, the fair values of these claims are recognized as equivalent to the book value as of the balance sheet date less provision for doubtful claims, and recorded as this amount.

Liabilities

(1) Notes and accounts payable, (2) Short-term loans, (3) Current portion of corporate bonds, (4) Other accounts payable, (5) Accrued expenses, (6) Accrued corporate taxes, (7) Accrued consumption taxes, and (8) Deposits received

Since these items are settled on a short-term basis, book value is used on the assumption that fair value is principally equivalent to book value.

(9) Corporate bonds

The fair value of corporate bonds issued by the Company is the price quoted by the correspondent financial institutions.

2. Financial instruments for which it is extremely difficult to estimate fair value

Millions of yen

Item	Book value
Unlisted shares	¥87

These items are not included in "(4) Investment securities" above owing to the recognition of their lack of market prices and the extreme difficulty in estimating fair value based on such methods as estimated future cash flows.

3. Planned redemption amounts subsequent to the consolidated balance sheet date for monetary claims and investment securities that have a maturity date.

Millions of yen

	Within 1 year	Over 1 year but within 5 years	Over 5 years but within 10 years	Over 10 years
Deposits	¥109,494	¥ —	¥ —	¥ —
Notes and accounts receivable	30,682	—	—	—
Short-term investment Securities				
Available-for-sale securities with maturities (Negotiable certificates of deposit)	35,000	—	—	—
Rental deposits	3,410	2,021	7,359	740
Construction support deposits	603	64	457	—
Claims in bankruptcy	202	—	—	—
Total	¥179,392	¥2,085	¥7,816	¥740

4. Planned repayment amounts subsequent to the consolidated balance sheet date for corporate bonds.

Please refer to the "Corporate Bonds Issued" tables within the Supplementary Schedule section of the Notes to Consolidated Financial Statements.

(Additional information)

From the fiscal year ended March 31, 2010, the Company has applied "Accounting Standard for Financial Instruments" (ASBJ Statement No. 10, March 10, 2008) and "Guidance on Disclosures about Fair Value of Financial Instruments" (ASBJ Guidance No. 19) (March 10, 2008).

Securities

■ 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
	(2) Bonds			
	a. Government bonds and municipal bonds	—	—	—
	b. Corporate bonds	—	—	—
	c. Other	—	—	—
	(3) Other	—	—	—
	Subtotal	0	0	0
Securities with acquisition cost exceeding book value	(1) Stocks	1,997	1,881	(115)
	(2) Bonds			
	a. Government bonds and municipal bonds	—	—	—
	b. Corporate bonds	—	—	—
	c. Other	—	—	—
	(3) Other	—	—	—
	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
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

■ Year ended March 31, 2010

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	Book value	Acquisition cost	Difference
Securities with book value exceeding acquisition cost	(1) Stocks	¥ 86	¥ 54	¥ 32
	(2) Bonds			
	a. Government bonds and municipal bonds	—	—	—
	b. Corporate bonds	—	—	—
	c. Other	—	—	—
	(3) Other	—	—	—
	Subtotal	86	54	32
Securities with acquisition cost exceeding book value	(1) Stocks	393	441	(47)
	(2) Bonds			
	a. Government bonds and municipal bonds	—	—	—
	b. Corporate bonds	—	—	—
	c. Other	—	—	—
	(3) Other	35,000	35,000	—
	Subtotal	35,393	35,441	(47)
Total		¥35,480	¥35,495	¥(15)

Note: Unlisted shares (Amount shown on the consolidated balance sheets: ¥87 million) are not included in the above table "Other Investment Securities" owing to the recognition of their lack of market prices and the extreme difficulty in estimating fair value.

4. Securities sold during the fiscal year ended March 31, 2010

Millions of yen

Item	Proceeds	Aggregate gain on sale	Aggregate loss on sale
(1) Stocks	7	2	0
(2) Bonds			
a. Government bonds and municipal bonds	—	—	—
b. Corporate bonds	—	—	—
c. Other	0	0	—
(3) Other	—	—	—
Total	7	2	0

5. Investment securities subject to impairment
In the fiscal year under review, other investment securities (shares) were subject to impairment amounting to ¥166 million. With regard to the impairment of shares, shares whose fair value has fallen to below 50% of the acquisition price are fully impaired, and shares whose fair value has fallen to between 30% and 50% of the acquisition price are impaired by an appropriate amount after taking into consideration the materiality of the amount involved and the likelihood of recovery.

Derivative Transactions

Year ended March 31, 2009

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, 2010

1. Derivative transactions for which hedge accounting has not been applied
Not applicable

2. Derivative transactions for which hedge accounting has been applied
Not applicable

Retirement Benefits

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

■ **Year ended March 31, 2010**

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	¥(10,742)
Fair value of plan assets	6,431
Net unfunded obligation	(4,311)
Unrecognized prior service cost	(138)
Unrecognized actuarial loss	2,280
Allowance for retirement benefits	¥ (2,170)

3. Retirement benefit expenses:

	Millions of yen
Service cost	¥ 533
Interest cost	168
Expected return on plan assets	(86)
Amortization of prior service cost	(333)
Amortization of net actuarial gain	804
Retirement benefit expenses	¥1,086

Note: In addition to the retirement benefit expenses shown above, the Company recorded severance payments related to business restructuring amounting to ¥1,985 million in the fiscal year under review.

4. Assumptions used in accounting for the above plans:

Periodic allocation method for projected benefits	Straight-line basis
Discount rates	1.329-2.035%
Expected rate of return on plan assets	1.329%
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, 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.

4. Method of estimating the number of vested stock options
In principle, owing to the difficulty of appropriately estimating the forfeited number of stock options for future periods, estimation of the vested number is based on actual forfeitures in prior periods.

Year ended March 31, 2010

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

Cost of sales	¥ 13 million
Selling, general and administrative expenses	311 million

2. Amounts that are posted as profits via vested stock options unexercised by employees:
Gain on reversal of stock acquisition rights ¥20 million

3. 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	2009 stock options	2009 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	Company directors	Company employees
Number of grantees	696	206	52	3	5	59	5	5	7
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	57,000 shares of common stock	140,000 shares of common stock
Date granted	June 22, 2002	June 19, 2004	June 18, 2005	June 18, 2005	December 4, 2007	December 4, 2007	August 21, 2008	October 21, 2009	January 15, 2010
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	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	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	October 22, 2009 to October 21, 2029	December 26, 2011 to December 25, 2014

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	2009 stock options	2009 stock options
Before vesting (shares)									
March 31, 2008	—	—	—	—	450,000	670,000	—	—	—
Granted	—	—	—	—	—	—	—	57,000	140,000
Forfeited	—	—	—	—	—	28,700	—	—	—
Vested	—	—	—	—	450,000	214,600	—	57,000	—
Unvested balance	—	—	—	—	—	426,700	—	—	140,000
After vesting (shares)									
March 31, 2009	868,700	446,000	825,000	1,000	—	—	19,800	—	—
Vested	—	—	—	—	450,000	214,600	—	57,000	—
Exercised	64,600	—	—	—	—	—	—	—	—
Forfeited	804,100	446,000	33,000	—	—	4,300	—	—	—
Balance unexercised	—	—	792,000	1,000	450,000	210,300	19,800	57,000	—

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	2009 stock options	2009 stock options
Exercise price	¥2,152	¥2,981	¥3,365	¥3,360	¥3,706	¥3,706	¥ 1	¥ 1	¥2,293
Average share price at exercise	2,260	—	—	—	—	—	—	—	—
Fair market value on grant date	—	—	—	—	526	A. 526 B. 594 C. 715	3,171	2,107	385

4. Method of estimating the fair value of stock options

The fair value of the 2009 Stock Options granted during the fiscal year under review was estimated using following method.

(1) Method of valuation used: Black–Scholes option pricing model

(2) Main assumptions used and method of valuation

	2009 Stock Options	2009 Stock Options
Expected share price volatility (Note 1)	33.3%	36.4%
Expected life (Note 2)	10 years	3.45 years
Expected dividend (Note 3)	Dividend yield 1.26%	Dividend yield 1.50%
Risk-free interest rate (Note 4)	1.40%	0.31%

Notes: 1. Calculated based on historical share price data prior to the grant date over a period equivalent to the expected life.

2. Owing to insufficient accumulated data, an appropriate estimate is problematic. Consequently, the midpoint of the available exercise period has been used as the estimated life.

3. For the 2009 Stock Options, this was calculated based on the actual dividend applicable to the fiscal year ended March 31, 2009.

4. Yield of government bonds corresponding to the expected life of the options.

5. Method of estimating the number of vested stock options

In principle, owing to the difficulty of appropriately estimating the forfeited number of stock options for future periods, estimation of the vested number is based on actual forfeitures in prior periods.

Tax Effect Accounting

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' 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%

Year ended March 31, 2010

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	¥ 270
Business office tax payable	31
Reserve for bonuses	644
Accrued expenses	281
Allowance for sales returns	460
Non-deductible portion of allowance for doubtful accounts	337
Loss on write-offs of content production account	3,815
Loss on inventory revaluation	407
Allowance for closing of game arcades	135
Other	67
Valuation allowance	(10)
Offset to deferred tax liabilities (current)	(209)
Total	6,231
2) Non-current assets	
Non-deductible portion of allowance for employees' retirement benefits	959
Allowance for directors' retirement benefits	90
Expense for stock-based compensation	296
Non-deductible depreciation expense of property and equipment	214
Impairment loss	508
Loss on investments in securities	482
Non-deductible portion of allowance for doubtful accounts	57
Loss carried forward, etc., at overseas subsidiaries	527
Research and development expense	112
Allowance for closing of game arcades	272
Loss carried forward	756
Other	311
Valuation allowance	(2,376)
Offset to deferred tax liabilities (non-current)	(530)
Total	1,682
Net deferred tax assets	7,913

Deferred tax liabilities	
(1) Current liabilities	
Accrued expenses and other cost calculation details	162
Enterprise taxes receivable	46
Offset to deferred tax assets (non-current assets)	(209)
Total	—
(2) Non-current liabilities	
Non-current assets	190
Tax effects from intangible non-current assets relating to corporate combination	2,487
Other	206
Offset to deferred tax assets (non-current)	(530)
Total	2,354
Total deferred tax liabilities	2,354
Balance: Net deferred tax assets	¥5,559

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	3.81
Permanent differences relating to dividends received, etc., excluded from non-taxable expenses	(1.39)
Valuation allowance	5.41
Taxation on a per capita basis for inhabitants' tax	0.39
Amortization of goodwill	55.79
Use of tax loss carried forward	(116.93)
Taxes for prior fiscal years, etc.	14.12
Differences in tax rate from the parent company's statutory tax rate	1.44
Other	1.34
Effective tax rate	4.68%

Segment Information

[Consolidated Business Segment Information]

■ 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 (loss)									
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 according to 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.

■ **Year ended March 31, 2010**

Millions of yen

	Games	Amusement	Publication	Mobile phone content	Merchandising	Total	Eliminations or unallocated	Consolidated total
I Sales and operating income (loss)								
Net sales								
(1) Sales to external customers	¥109,948	¥52,299	¥14,367	¥10,171	¥5,470	¥192,257	¥ —	¥192,257
(2) Intersegment sales	1	—	—	0	2	3	(3)	—
Total	109,949	52,299	14,367	10,171	5,473	192,261	(3)	192,257
Operating expenses	86,135	49,406	10,247	5,578	3,645	155,013	9,008	164,022
Operating income (loss)	¥ 23,814	¥ 2,892	¥ 4,120	¥ 4,593	¥1,827	¥ 37,248	¥ (9,012)	¥ 28,235
II Total assets, depreciation and amortization, impairment loss and capital expenditures								
Total assets	¥ 92,502	¥36,266	¥10,033	¥ 3,826	¥4,025	¥146,654	¥123,874	¥270,529
Depreciation and amortization	2,341	4,828	14	41	15	7,241	721	7,962
Impairment loss	—	74	—	—	—	74	181	255
Capital expenditures	¥ 935	¥ 5,476	¥ 6	¥ 23	¥ 1	¥ 6,443	¥ 473	¥ 6,916

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

2. Principal products and services provided by each business segment are summarized as follows:

Segment	Principal products and services
Games	Games, online games
Amusement	Amusement facility operation and rental, sales of amusement game machines
Publication	Magazine comics, serial comics, game-related books
Mobile Phone Content	Content for mobile phones
Merchandising	Derivative products such as character merchandise

3. Unallocated operating expenses included in “Eliminations or unallocated” totaled ¥9,078 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 ¥123,946 million. These assets mainly comprised cash and deposits, deferred tax assets and buildings and structures of administrative departments of the Company.
5. As described in the notes to Consolidated Statements of Income *8, the Company recorded accelerated amortization of goodwill.
6. Previously, the Group classified its businesses into the following segments: Games (offline), Games (online), Mobile Phone Content, Publication, Amusement and Others. Under the holding company structure established in October 2008, each business segment has undertaken efforts to strengthen its underlying business base and bolster profit-generating capabilities. Driven by changes in its corporate structure as well as measures aimed at building and reinforcing its business base, the Group decided to change its business segment classifications, effective this fiscal year, to the following: Games, Amusement, Publication, Mobile Phone Content and Merchandising. Consolidated business segment information for the previous fiscal year based on the business segment classifications used for this fiscal year is as follows:

■ Year ended March 31, 2009

Millions of yen

	Games	Amusement	Publication	Mobile phone content	Merchandising	Total	Eliminations or unallocated	Consolidated total
I Sales and operating income (loss)								
Net sales								
(1) Sales to external customers	¥48,132	¥59,915	¥12,984	¥10,903	¥3,757	¥135,693	¥ —	¥135,693
(2) Intersegment sales	4	0	0	23	—	28	(28)	—
Total	48,136	59,915	12,985	10,926	3,757	135,721	(28)	135,693
Operating expenses	41,408	56,634	9,447	6,678	2,942	117,108	6,307	123,415
Operating income (loss)	¥ 6,727	¥ 3,281	¥ 3,540	¥ 4,248	¥ 815	¥ 18,613	¥ (6,335)	¥ 12,277
II Total assets, depreciation and amortization, impairment loss and capital expenditures								
Total assets	¥48,929	¥23,503	¥ 9,074	¥ 4,089	¥6,908	¥ 92,505	¥120,689	¥213,194
Depreciation and amortization	874	4,421	13	58	656	6,024	953	6,978
Impairment loss	—	758	—	—	—	758	100	859
Capital expenditures	¥ 482	¥11,899	¥ 2	¥ 35	¥ 27	¥ 12,447	¥ 684	¥ 13,131

7. Changes in allocation of operating expenses:
While all of the expenses for the administration department of TAITO CORPORATION was included in the Amusement in the past, these expenses have been included in "Eliminations or unallocated" since the first quarter ended in June 30, 2009. The changes to allocation was made to deliver a clearer view of administrate expenses in each segment. The operating expenses for the administration department of TAITO CORPORATION are as follows:
Fiscal year ended Mar. 31, 2010 ¥2,220 million
Fiscal year ended Mar. 31, 2009 ¥1,810 million
8. Due to the acquisition of Edios Ltd. in the first quarter of this fiscal year, the amount of total assets for the Game segment increased by ¥35,864 million.

[Consolidated Geographic Segment Information]

■ Year ended March 31, 2009

Millions of yen

	Japan	North America	Europe	Asia	Total	Eliminations or unallocated	Consolidated total
I Sales and operating income (loss)							
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........................... United States of America, Canada
(2) Europe..................................... United Kingdom, France, Germany, others
(3) Asia... China, South Korea, Taiwan, others
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.

Year ended March 31, 2010

Millions of yen

	Japan	North America	Europe	Asia	Total	Eliminations or unallocated	Consolidated total
I Sales and operating income (loss)							
Net sales							
(1) Sales to external customers	¥143,293	¥25,389	¥23,271	¥ 302	¥192,257	¥ —	¥192,257
(2) Intersegment sales	7,774	3,162	4,958	91	15,985	(15,985)	—
Total	151,067	28,551	28,229	394	208,243	(15,985)	192,257
Operating expenses	124,703	25,334	29,599	375	180,014	(15,991)	164,022
Operating income (loss)	26,363	3,216	(1,369)	18	28,229	6	28,235
II Total assets	¥239,705	¥33,599	¥36,804	¥1,703	¥311,812	¥(41,283)	¥270,529

Notes: 1. The classification of geographic segments is made based on geographical distance.
2. Main countries included in each segment:
(1) North America.......................... United States of America, Canada
(2) Europe.................................... United Kingdom, France, Germany, others
(3) Asia.. China, South Korea, Taiwan, others
3. There were no unallocated operating expenses included in “Eliminations or unallocated.”
4. There were no unallocated assets included in “Eliminations or unallocated.”
5. In this fiscal year, due to the acquisition of the shares of EIDOS LTD., Canada has been added to the North America segment and France, Germany and others have been added to the Europe segment.

[Consolidated Overseas Sales]

Year ended March 31, 2009

Millions of yen

	North America	Europe	Asia	Total
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.......................... United States of America, Canada
(2) Europe.................................... United Kingdom, France, Germany, others
(3) Asia.. China, South Korea, Taiwan, others
3. Overseas sales represent sales of the Company and its consolidated subsidiaries to countries and areas outside Japan.

Year ended March 31, 2010

Millions of yen

	North America	Europe	Asia	Total
I Overseas sales	¥26,315	¥23,523	¥1,260	¥ 51,099
II Consolidated sales	—	—	—	192,257
III Overseas sales as a percentage of consolidated sales	13.7%	12.2%	0.7%	26.6%

Notes: 1. The classification of geographic segments is made based on geographical distance.
2. Main countries included in each segment:
(1) North America.......................... United States of America, Canada
(2) Europe.................................... United Kingdom, France, Germany, others
(3) Asia.. China, South Korea, Taiwan, 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, 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).

■ Year ended March 31, 2010

Application of the purchase method

1. Name of the company acquired and business operations subject to the business combination, main purpose of the business combination, date of business combination, legal form of business combination, and name of the company and percentage of voting rights held subsequent to business combination

(1) Name of the company acquired and its principal business operations
Name of company: Eidos plc (hereinafter "Eidos")
Type of business: Games (interactive entertainment products)

(2) Purpose of the business combination
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) Date of business combination
April 22, 2009

(4) Legal form of the business combination and name of the post-combination company
Legal form of the business combination: Share acquisition
Post-combination name of the acquired company: Eidos Ltd.

(5) Percentage of voting rights acquired: 100%

2. Period for which the acquired company's operating results have been included in the Company's consolidated financial statements
April 22, 2009 to March 31, 2010

3. Acquisition cost of the company subject to business combination and breakdown thereof

Acquisition price	Eidos shares	GBP84,418,536.85 (¥12,217 million)
Acquisition cost		GBP84,418,536.85 (¥12,217 million)

The yen amount shown above was calculated using the exchange rate prevailing on April 22, 2009.

4. Amount of goodwill recognized, reasons for recognition, and method and period of amortization

(1) Amount of goodwill recognized: GBP45,205,785.17 (¥6,542 million)
The yen amount shown above was calculated using the exchange rate prevailing on April 22, 2009.

(2) Reasons for recognition of goodwill
Principally, in the regions where Eidos conducts its games business, a portion of the excess earnings power its major game titles are expected to generate could not be identified with specific assets, and this amount was recognized as goodwill.

(3) Method and period of amortization of goodwill
Amortized by the straight-line method over 10 years

5. Breakdown of principal assets received and liabilities assumed as of the date of business combination

	Millions of yen
Current assets	¥ 7,786
Non-current assets	19,543
Total assets	27,329
Current liabilities	14,654
Total liabilities	14,850

6. Estimated impact on the Consolidated Statements of Income in this fiscal year calculated based on the assumption that the business combination was completed on the first day of the fiscal year

	Millions of yen
Net sales	¥ 0
Recurring loss	447
Net loss	447

These estimates were not subject to audit certification.

Common control transactions

1. Outline of the business combination

(1) Name of the company acquired and business operations subject to the business combination

In February 2010, the Company's wholly owned subsidiary TAITO CORPORATION (hereinafter "the splitting company") transferred all its rights and obligations relating to the amusement business to ES1 CORPORATION (hereinafter "the succeeding company"), also a wholly owned subsidiary of the Company, in an absorption-type company split. Simultaneously, the corporate name of the splitting company was changed to TAITO SOFT CORPORATION and the corporate name of the succeeding company was changed to TAITO CORPORATION.

Prior to the aforementioned absorption-type company split, SPC-NO. 1 CO., LTD. ("SPC1"), the succeeding company's 100% parent company and a wholly owned subsidiary of the Company, and the succeeding company were merged by way of an absorption-type merger, with SPC1 being the absorbed entity and the succeeding company being the surviving entity.

Subsequently, in March 2010, TAITO SOFT CORPORATION was subject to an absorption-type company merger. The Company's wholly owned subsidiary SQUARE ENIX CO., LTD., is the surviving entity.

(2) Legal form of the business combination

An absorption-type company split in which TAITO CORPORATION is the splitting company and ES1 CORPORATION is the succeeding company. In addition, an absorption-type company merger in which TAITO SOFT CORPORATION is the extinguished entity and SQUARE ENIX CO., LTD., is the surviving entity.

(3) Name of the post-combination company

Absorption-type company split: TAITO CORPORATION

The corporate name of the splitting company was changed to TAITO SOFT CORPORATION and the corporate name of the surviving company was changed to TAITO CORPORATION.

Absorption-type company merger: SQUARE ENIX CO., LTD.

(4) Outline of the transaction including purpose of the transaction

The purpose of the transaction is to aggregate the Group's business units responsible for operating its amusement-related businesses, and hence improve efficiency and profitability by transferring the amusement business from TAITO SOFT CORPORATION as the splitting company to ES1 as the succeeding company, which has operated arcade facilities prior to the transaction.

In addition, by integrating the business operated by TAITO SOFT CORPORATION related to game software for home game consoles into the games business operated by SQUARE ENIX CO., LTD., the Group aims to enhance the efficiency and profitability of these businesses.

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). These transactions, namely the aforementioned absorption-type company split and absorption-type company merger, have no impact on the Consolidated Financial Statements.

(Matters relating to real estate leases, etc.)
Year ended March 31, 2010
Not applicable

[Related Party Transactions]

■ Year ended March 31, 2009

Not applicable

■ Year ended March 31, 2010

Not applicable

Per Share Information

■ 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:

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."

■ Year ended March 31, 2010

Net assets per share (yen)	¥1,326.82
Net income per share (yen)	82.65
Diluted net income per share (yen)	82.59

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

Net income per share:	
Net income (millions of yen)	¥9,509
Income not available to common shareholders (millions of yen)	—
Income available to common shareholders (millions of yen)	9,509
Average number of shares of common stock outstanding during the fiscal year (thousands of shares)	115,057
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)	76
(number of shares reserved for the purpose of new share issuances for exercise of share subscription rights)	(76)

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

Third issuance (first allotment) of stock acquisition rights pursuant to a resolution by the General Meeting of Shareholders held on June 18, 2005; Third issuance (second allotment) of stock acquisition rights pursuant to a resolution by the General Meeting of Shareholders held on June 18, 2005; issuance of yen-denominated zero-coupon bonds maturing in 2010, pursuant to a resolution of the Board of Directors on November 9, 2005; fourth issuance of stock acquisition rights pursuant to a resolution by the Board of Directors on November 19, 2007; fifth issuance of stock acquisition rights pursuant to a resolution by the Board of Directors on November 19, 2007; issuance of January 2010 stock acquisition rights pursuant to a resolution by the Board of Directors on December 25, 2009; issuance of euro yen zero-coupon convertible bonds due 2015, pursuant to a resolution of the Board of Directors on January 18, 2010

Significant Subsequent Events

■ 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

■ Year ended March 31, 2010

Not applicable

Supplementary Schedule

[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 (37,000)	—	None	November 25, 2010 (UK time)
SQUARE ENIX HOLDINGS CO., LTD.	euro yen zero coupon convertible bonds due 2015*4	February 4, 2010 (UK time)	—	¥35,000	—	None	February 4, 2015 (UK time)
Total			¥37,000	¥72,000 (37,000)			

Notes: 1. The amounts shown in parentheses in the column for "Outstanding balance as of March 31, 2010" indicate the amount of corporate bonds maturing within one year.
2. Information relating to yen-denominated zero-coupon warrant bonds maturing in 2010 is as follows.

(As of March 31, 2010)

Issuance price	100% of face value
Aggregate amount of issuance	¥50.0 billion
Warrants applicable to	Common shares
Exercise price (yen)	¥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

3. Information relating to euro yen zero-coupon convertible bonds due 2015 is as follows.

(As of March 31, 2010)

Issuance price	100% of face value
Aggregate amount of issuance	¥35.0 billion
Warrants applicable to	Common shares
Exercise price (yen)	¥2,500
Period for exercise of warrants	February 19, 2010 to January 20, 2015 (local time where funds are deposited)
Issuance price of shares upon exercise of warrants and amount capitalized (yen)	
Issuance price	¥2,500
Amount capitalized	¥1,250
Conditions for exercise of warrants	Warrants cannot be exercised partially

4. 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	¥—	¥—	¥—	¥35,000

[Borrowings]

	Balance as of March 31, 2009 (Millions of yen)	Balance as of March 31, 2010 (Millions of yen)	Average interest rate (%)	Repayment date
Short-term borrowings	¥26	¥2,808	1.1	—
Long-term borrowings due for repayment within one year	—	—	—	—
Lease obligations due for repayment within one year	10	31	—	—
Long-term borrowings (excluding the amount due for repayment within one year)	—	—	—	—
Lease obligations (excluding the amount due for repayment within one year)	22	64	—	January 2012 to November 2015
Other interest-bearing liabilities	—	—	—	—
Total	¥59	¥2,903	—	—

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, 2010.

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.

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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	¥26	¥19	¥11	¥5

[Other]

Quarterly Financial Information

Millions of yen

	1Q April 1, 2009 to June 30, 2009	2Q July 1, 2009 to September 30, 2009	3Q October 1, 2009 to December 31, 2009	4Q January 1, 2010 to March 31, 2010
Net sales	¥29,399	¥61,161	¥44,870	¥56,826
Income (loss) before income taxes and minority interests	594	7,399	8,265	(6,232)
Net income (loss)	(1,672)	4,355	5,113	1,712
Net income (loss) per share (yen)	(14.54)	37.85	44.44	14.88

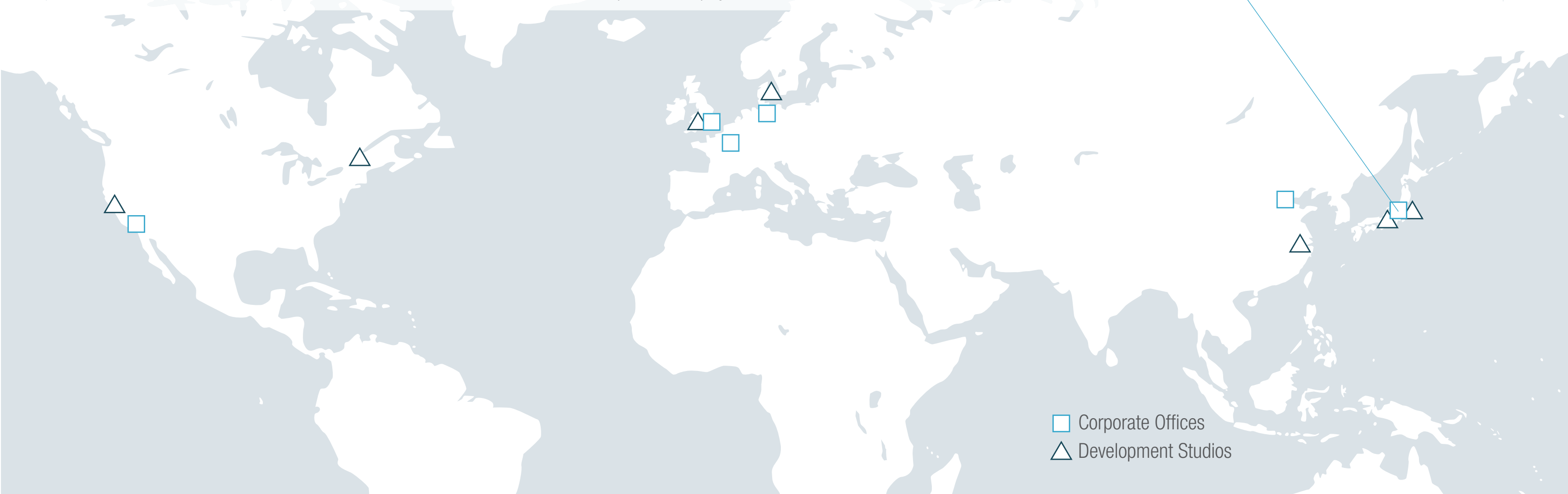
Corporate Data

(As of March 31, 2010)

Company Profile

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: ¥15,204,474,100
Number of employees: 3,338 (Consolidated)
Note: Number of part-time employees is not included in the number of employees



SQUARE ENIX HOLDINGS Group

Company Name	Established	Fiscal Year-End	Common Stock	Percent of Voting Rights	Principal Lines of Business
Major Consolidated Subsidiaries					
Japan					
SQUARE ENIX CO., LTD.	October 2008	March	¥1,500 million	100.0%	Games, amusement, publication, mobile phone content, merchandising
TAITO CORPORATION	June 2009	March	¥1,500 million	100.0%	Amusement, mobile phone content, merchandising
SMILE-LAB Co., Ltd.	February 2008	March	¥10 million	100.0%	Provision of online entertainment servise
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%)	Games, publication, mobile phone content, merchandising in North America
CRYSTAL DYNAMICS INC.	July 1992	March	US$40 million	100.0% (100.0%)	Development of games
EIDOS INTERACTIVE CORP.	March 2007	March	C$600 million	100.0% (100.0%)	Development of games
Europe					
SQUARE ENIX OF EUROPE HOLDINGS LTD.	December 2008	March	GB£1	100.0%	Holding of shares in and business management of Square Enix Group companies located in Europe
SQUARE ENIX LTD.	December 1998	March	GB£111million	100.0% (100.0%)	Games, publication, mobile phone content, merchandising in Europe
IO INTERACTIVE A/S	November 1990	March	DKK15million	100.0% (100.0%)	Development of games
Asia					
SQUARE ENIX (China) CO., LTD.	January 2005	December	US$12 million	100.0% (100.0%)	Games, mobile phone content in China, Asia
HUANG LONG CO., LTD.	August 2005	December	10 million yuan RMB	— [100.0%]	Sale and management 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

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. Taito Corporation was originally founded in August 1953. Common stock of Taito Corporation as of June 30, 2010.

Investor Information

(As of March 31, 2010)

Share Information

Number of shares issued: 115,370,596

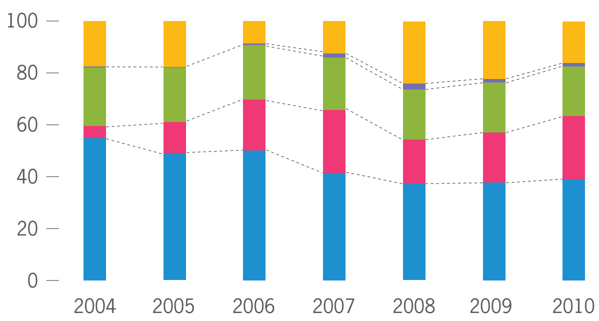
Number of shareholders: 36,211

Principal Shareholders

Rank	Shareholder	Investment in SQUARE ENIX (Thousands of Shares)	(%)
1	Yasuhiro Fukushima	23,626	20.47
2	Fukushima Planning Co., Ltd.	9,763	8.46
3	Sony Computer Entertainment Inc.	9,520	8.25
4	Japan Trustee Services Bank, Ltd. (Trust Account)	7,982	6.91
5	Masashi Miyamoto	7,077	6.13
6	The Master Trust Bank of Japan, Ltd. (Trust Account)	5,622	4.87
7	State Street Bank and Trust Company 505223	5,508	4.77
8	MELLON BANK, N.A. TREATY CLIENT OMNIBUS	3,255	2.82
9	State Street Bank and Trust Company	2,367	2.05
10	S System Co., Ltd.	2,045	1.77

Note: Japan Trustee Services Bank, Ltd. (Trust Account) includes 3,642 shares held in the name of Japan Trustee Services Bank, Ltd. (Trust Account 1-9), 6,000 shares held in the name of Japan Trustee Services Bank, Ltd. (Resona Trust & Banking Co., Ltd., Re-trust Account 1).

Share Ownership (Thousands of shares)



	2004		2005		2006		2007		2008		2009		2010	
Financial Institutions	19,225	(17.5%)	19,475	(17.7%)	9,456	(8.5%)	13,756	(12.4%)	27,760	(24.1%)	25,770	(22.4%)	18,643	(16.2%)
Financial Instruments Company	486	(0.4%)	374	(0.3%)	822	(0.8%)	1,843	(1.7%)	2,678	(2.3%)	1,558	(1.4%)	1,479	(1.3%)
Other Companies	25,023	(22.7%)	23,117	(20.9%)	23,178	(20.9%)	22,553	(20.3%)	22,148	(19.2%)	22,190	(19.2%)	22,161	(19.2%)
Foreign Companies and Individuals	4,914	(4.5%)	13,252	(12.0%)	21,761	(19.7%)	26,801	(24.1%)	19,620	(17.1%)	22,271	(19.3%)	28,029	(24.3%)
Individuals and Other	60,481	(54.9%)	54,164	(49.1%)	55,510	(50.1%)	45,992	(41.5%)	42,909	(37.3%)	43,514	(37.7%)	45,055	(39.0%)
Total	110,130	(100.0%)	110,385	(100.0%)	110,729	(100.0%)	110,947	(100.0%)	115,117	(100.0%)	115,305	(100.0%)	115,370	(100.0%)

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 137-8082 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.)

SQUARE ENIX HOLDINGS CO., LTD.
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