SQUARE ENIX

2012
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 as well as 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.

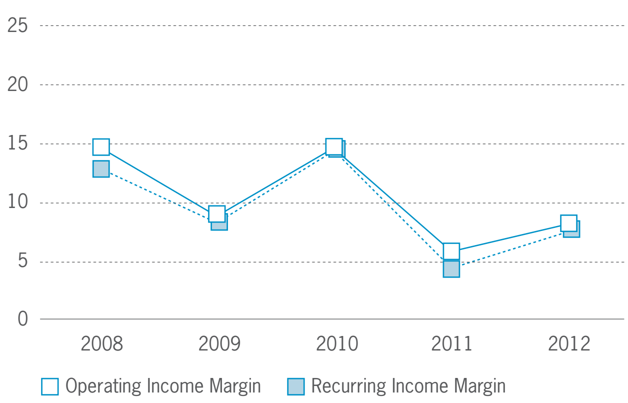
Financial Highlights

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

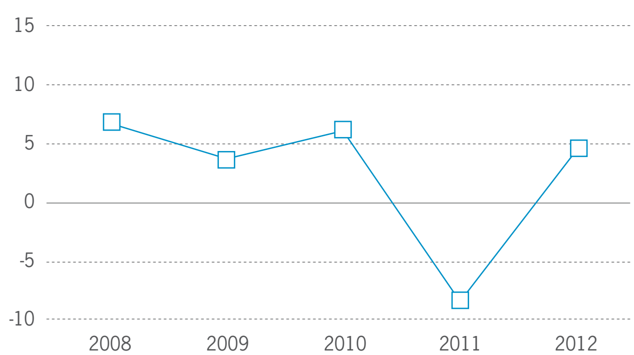
					Millions of Yen	Thousands of U.S. Dollars
	2008	2009	2010	2011	2012	2012
For the Year						
Net sales	¥ 147,516	¥ 135,693	¥ 192,257	¥ 125,271	¥ 127,896	$1,556,105
Operating income	21,520	12,277	28,235	7,325	10,713	130,349
Recurring income	18,864	11,261	27,822	5,390	10,297	125,292
Net income (loss)	9,196	6,333	9,509	(12,043)	6,060	73,733
At Year-end						
Total assets	¥ 212,134	¥ 213,194	¥ 270,529	¥ 206,336	¥ 213,981	$2,603,498
Total equity	147,034	147,318	152,680	133,558	135,536	1,649,062
					Yen	U.S. Dollars
Per Share of Common Stock						
Net income (loss)	¥ 81.85	¥ 55.11	¥ 82.65	¥ (104.66)	¥ 52.66	$ 0.64
Total equity	1,280.50	1,280.92	1,326.82	1,160.66	1,177.87	14.33
					%	
Key Ratios						
Operating income margin	14.6%	9.0%	14.7%	5.8%	8.4%	
Recurring income margin	12.8	8.3	14.5	4.3	8.0	
Return on equity	6.7	4.3	6.3	(8.4)	4.5	
Equity ratio	69.3	69.1	56.4	64.7	63.3	

Notes: 1. For the convenience of readers, amounts in U.S. dollars have been translated using the currency exchange rates at March 31, 2012 of ¥82.19=US$1.
2. Total equity = Common stock + Capital surplus + Retained earnings + Treasury stock + Accumulated other comprehensive loss

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, 2012.

On a consolidated basis, net sales for the fiscal year ended March 31, 2012 totaled ¥127,896 million (an increase of 2.1% from the prior fiscal year), operating income totaled ¥10,713 million (an increase of 46.2%), recurring income totaled ¥10,297 million (an increase of 91.0%) and net income totaled ¥6,060 million (compared to a net loss of ¥12,043 million in the prior fiscal year).

The Company's operating income ratio was 8.4% and return on equity (ROE) stood at 4.5%.

We set dividends applicable to the fiscal year ended March 31, 2012 at ¥30 per share (a consolidated payout ratio of 57.0%).

In our dividend policy, we are mindful of the balance between being performance-based and providing stable returns. In being performance-based, we aim for a payout ratio of 30%. At the same time, we advocate stable returns. Hence, we paid out dividends of ¥30 per share in the fiscal year ended March 31, 2011, despite a net loss. We will pay dividends this fiscal year as in previous years, and if we back calculate from the actual payout ratio, earnings per share should be higher than ¥100.

We achieved a genuine recovery from the last fiscal year to this fiscal year, but I realize that we have only completed half of our objective.

Summary of Individual Business Segments

I'll now review results by individual business segments.

Please take a look at the change in our operating income by segments (Figure 1).

Compared to the prior fiscal year, the following segments saw an increase: Digital Entertainment (¥1,319 million), Amusement (¥374 million) and Merchandising (¥62 million). Publication had a decrease in profit of ¥629 million. We saw an improvement in Eliminations or Unallocated cost of ¥2,262 million, which is a result of the reassessment of assets from the last fiscal year.

The Digital Entertainment segment increased in profits, but the structure of the business has changed more than the numbers. I will elaborate on this point later.

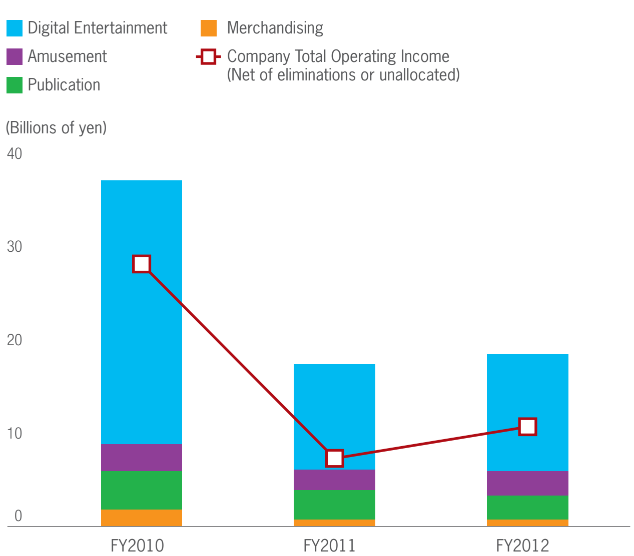
Sales in the Amusement segment are flat but generated more profits. The arcade business is getting out of its slump, and we see the fruit of ongoing efforts to reduce fixed costs. That said, profit contributions by arcade game machines were limited this fiscal year whereas next fiscal year will see the release of major, new arcade titles. While many operators have withdrawn from this segment, we can expect to enjoy the profit of the remaining player since the contraction of the market is limited. Although this could hardly be described as a fast-growing sector, I will ensure that it brings stable profit contributions alongside its primary entertainment objective: producing live experiences that cannot be recreated at home.

The Publication segment peaked in the fiscal year ended March 31, 2010, and profits have steadily decreased since then. We saw huge success with “FULLMETAL ALCHEMIST,” followed by hit titles every year such as “Black Butler” and “SOUL EATER.” In this fiscal year we were able to produce quality, popular titles on a regular basis, such as “Inu Boku Secret Service.” However, an increase in the number of serial publications and a focus on the production of animated series created a rise in fixed costs, which leads to this segment’s downtrend in profit margins. That said, a more fundamental issue of profitability within this segment is not rising expenses, but rather revenue opportunities being limited to the domestic comics market. Once we establish capabilities to produce a string of hits, I am confident we can overcome the status quo by entering overseas markets and online businesses, though this will take some time.

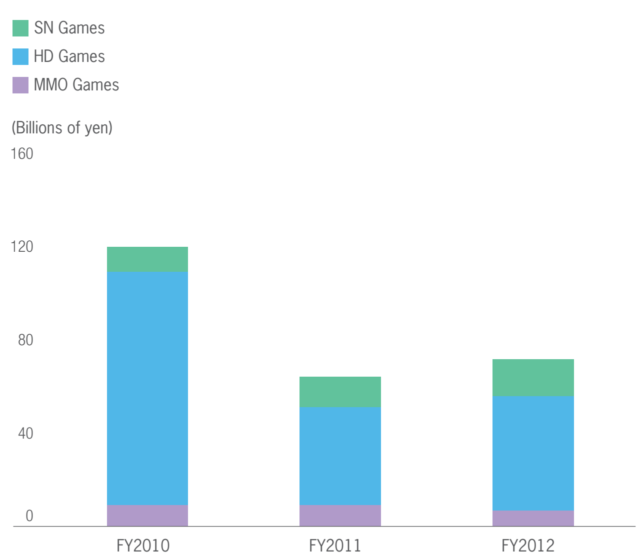
Changes in the Undercurrent of the Digital Entertainment Business

The Digital Entertainment business is a broad segment that covers all types of devices and all genres of games. We group this segment broadly because it is impossible to find appropriate classifications in this time of transition for the industry. In other words, even if we create some classifications for this segment, those classifications may rapidly change, and we cannot guarantee the consistency of a segment within our reporting. However, I would like to show you a breakdown of the segment in more detail to promote understanding of our business performance. Therefore, I will divide this segment into three categories for convenience’s sake (Figure 2): MMO games (Massively Multiplayer Online games), SN games (Social

[Figure 1] **Operating Income by Business Segment**



[Figure 2] **Net Sales of Digital Entertainment Segment**



Networking and mobile games), and HD games (High-Definition games). These categories are how we organize internally rather than classifications about markets or business models.

I have long expected MMO games to provide a stable source of profit.

"FINAL FANTASY XI" has been continuing services for ten years since its launch, and even if we consider all the server, operational staffing, and maintenance costs in addition to the development costs, the accumulated operating profit generated by the title is close to ¥40 billion. As a single title, "FINAL FANTASY XI" has had the highest level of contribution to our profits. If successful, MMO is a genre where we can achieve very high profitability. Also, the MMO game market itself has been growing at a regular pace (Figure 3). At the same time, development of MMOs is challenging, requiring large initial investments and deployment of sizable support teams. MMOs have an extremely high barrier to entry. Thus, our strategy is to win the fierce battle among a small number of competitors, creating a supporting rock for the Company's profit.

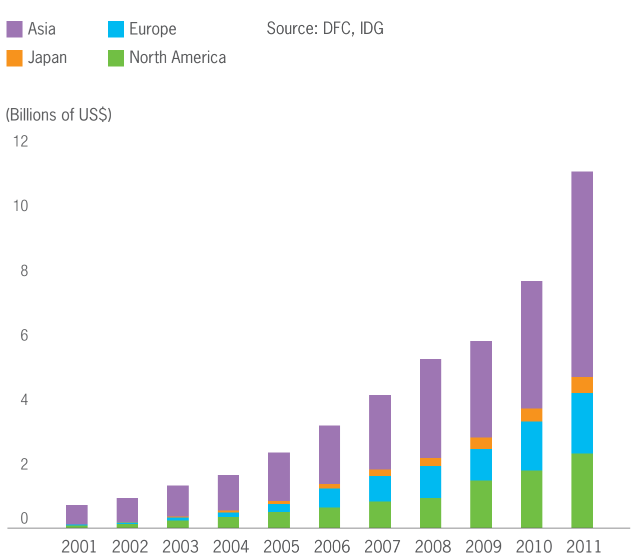
To raise our chances for success, we adopted tactics that concentrated our efforts on our most powerful IPs, FINAL FANTASY and DRAGON QUEST, and we did not pursue other MMO projects before the success of these two titles was ensured. More concretely, "FINAL FANTASY XI" was to be continued for as long as possible; "FINAL FANTASY XIV" was to be launched in 2010 in Japan, North America, and Europe, and then in China from 2011; and "DRAGON QUEST X," a DRAGON QUEST MMO, was planned for launch in 2012 in Japan. However, we stumbled at the launch of "FINAL FANTASY XIV." Not only was the FINAL FANTASY brand damaged, but the Company's profit planning was undermined, and deployment of development staff was also affected. This was a challenging time for the Company, but I stood fast that we should not change our original plan. In order to revive the FINAL FANTASY brand and to regain trust in the MMO market, we chose not to shut down "FINAL FANTASY XIV." We are treading the thorny path of continuously improving the existing service while simultaneously working to renovate the game fundamentally. Due to the initial stumble, most players had left the game during the first six months, but more than a year later, in early 2012, we began charging for the game, and we realized that the game had regained more trust from our players than we had expected. The number of players has increased since we began charging. We have successfully brought the game back on track. "FINAL FANTASY XIV" is eyeing a full comeback with the release of its fundamentally revamped version between 2012 and 2013. I am confident that the title will be one of the main profit generators for us. Furthermore, the development of "DRAGON QUEST X" is proceeding smoothly toward its 2012 launch.

While taking two years longer than we originally planned, this fiscal year we finally completed the work of correcting the path of our business in the MMO category. I believe that we have been able to demonstrate our strong commitment to the brand, as well as the ability to take action in order to overcome difficulties. By the fiscal year ending March 31, 2013, these MMO games will provide more revenues and in the fiscal year ending March 31, 2014, further contribute to our profit.

SN games refer to those with designs that allow customers to have fun by connecting with each other, in other words, those developed with social elements at their base. At this point, we provide such games for feature phones, smartphones, and browsers. Non-social games provided on these platforms are also included in this category. This is because these games are developed by the same teams. While MMO games are supporting the Company as the rock providing stable source of income, the SN game teams' mission is to increase the upside of our income as much as possible.

This area is a frontier for both the expansion of the user

[Figure 3] **MMO Game Market Size**



base and the evolution of the business model. In order to create solid ground in such an uncertain area we need to accumulate a dense amount of experience in a short period of time. I believe that we should not place big bets in a specific area or consolidate operations merely for the sake of better efficiency. We have intentionally broken up the organization into about ten teams. This method aims to shorten the cycle of "trial and error," while accumulating a variety of experiences at fast-pace across our group companies by having small teams run side by side.

This fiscal year we saw a lot of progress. "SENGOKU IXA," a browser game launched in the prior fiscal year, has achieved over ¥3 billion in profits and has become one of the pillar products of the Company. In addition, "FINAL FANTASY BRIGADE," a feature phone and smartphone game launched earlier this calendar year had one million registered users within one month of launch, and by March had surpassed two million. "FINAL FANTASY BRIGADE" is already one of the pillar titles of the fiscal year ending March 31, 2013. We are planning to expand the service area into Asia, North America, and Europe, where we can expect further growth. Incidentally, the above-mentioned games have F2P (Free To Play) business models. After experiencing several successes, our ability to analyze KPIs (Key Performance Indicators) related to such games has been improving. When a company has several successful cases such as the above, often they look to double down on scale and efficiency by organizational consolidation. However, I feel that there is rich knowledge to be gained, and we should continue to be aggressive in accumulating as much experience as possible. When a project is a success, I urge the team to spin-out and form its own group, rather than merging the teams.

The above examples are projects from Japan, but this fiscal year we were able to kick-off business in this area in the North America and Europe. Both regions have titles that are aiming for launch in the fiscal year ending March 31, 2013. For example, our European subsidiary developed "Gameglobe," an innovative title that lets users create games themselves, share them with their friends and play together. Not only that, but "Gameglobe" is technologically advanced in that it is a console-quality product that works in a browser. The title was highly regarded at the E3 game show in 2012.

In addition, we intend to advance aggressively into Central and South America, Asia, and Eastern Europe markets.

HD games is a coined phrase that mainly refers to console games. This fiscal year we released "DEUS EX: HUMAN REVOLUTION" and "FINAL FANTASY XIII-2" in Japan, North America, and Europe, and saw them perform well. "DEUS EX" in particular was meaningful in that it not only contributed to our income but also made a debut as one of our major IPs.

This area is reportedly declining, but I question such views. It is true that the business framework is no longer working. However, I believe that high-definition content will continue to evolve.

The following three points summarize the traditional business framework in the high-definition area: 1) Distribution: selling packaged products at retail stores, 2) Major devices: game consoles, and 3) Revenue recognition: one-time only disc sales. Conversely, we can solve the problem with HD games by reforming each of the above components. With regard to distribution, we are already seeing evolution occur, even before the other elements. Not only e-commerce, but download sales have become common, and major game titles are frequently equipped with PDLCs (Premium Downloadable Content). While we'll likely see the ratio between the conventional model and the new one reverse going forward, the inevitable transformation has already taken place. That said, with regard to the devices, there is still a clear line drawn between game consoles and any other device. It is wrong to expect that similar game experiences are achievable on any type of device. We should, however, delineate between which style of gameplay is appropriate for the right device depending on the way in which that device intersects with our lives. If such delineations are drawn accurately, the user base for games will expand further. Lastly, the revenue recognition model has fallen behind the most among these three points. For online services connected to game consoles, the console manufacturers are the publishers. Unless these manufacturers change their policy and implement necessary features, nothing will change. The business model change has begun partially with PDLC, but even the subscription model is rarely accepted, and manufacturers are still not open to the F2P model. I feel that one of the fundamental causes of the declining trend of the game console market is the delay in implementing new business models. This is regretful. However, if we take another perspective, all it takes is for manufacturers to change their ways of thinking, and change could happen overnight. I am eagerly awaiting this change in policy.

Our strategy in this area is: 1) Modifying our game design on the premise of change in business models, 2) Focusing on, and nurturing 10 strong IPs, since keeping a continuous relationship with consumers is important, and 3) Not compromising on quality. In order to achieve 1), we are actively applying our knowledge from MMO and SN games. In addition to regular sessions for sharing information across our organization, we require individual projects to identify issues related to business models. Regarding point 2), I have been long mentioning it as one of the pillars of our strategy. I would like to expound on point 3). The reality is that game development has become so costly and complicated that the whole industry is at a loss. It is understandable why game engines took the industry by storm in the 2000s.

We have two strategic options open to us for game development. One option is to take full advantage of open environments, which allow for indie developers to be able to develop games. However, many resulting products will be casual-style games and it is unclear if we could generate significant profits. Thus, in this scenario, we would seek to minimize fixed costs. In other words, we would downsize to a minimum capacity as a company and devote ourselves to licensing out IPs without having internal development staff. Another option is to exert our efforts to the fullest extent to differentiate ourselves from our competitors. We have chosen the latter path. You may have noticed a similar philosophy expressed earlier in the Amusement and MMO games sections of this message. Given this philosophy, we need to tackle the establishment and evolution of our development environment as a global task. Game engines are of significant relevance. We use both third-party and internally developed engines. We are in the midst of developing the “Luminous Studio” engine, with an eye toward next-generation capabilities. We presented the demo for the first time at the E3 game show in 2012, and the reaction was greater than we had anticipated. We were able to confirm that we are heading in the right direction.

The category I call HD games will eventually cease to be necessary as a classification from both perspectives of business model and devices on which they will run. It is not that the market will shrink. But on the contrary, it means that current console games will transform and further develop. When the above three organizational categories will no longer be necessary and we can propose a new business segment, we will see an end to the industry’s current transition period.

The Transformation to Come

I have repeatedly stated that similar to other media industries, the game business will be enveloped into the upheaval of the ecosystem of the entire content industry. I believe that we are nearing that moment, and I would like to discuss my outlook on the future while touching upon the content industry as a whole.

The content business is composed of three functions: Production, Commercialization, and Marketing. Marketing includes promotion, distribution, and monetization. Taking an example of the music sector, composition and performance is the Production, recording and pressing on CDs is the Commercialization, and selling CDs at retail stores is the Marketing. In the game sector, the assets that we develop are programs, and we cannot sell these programs “as is.” Therefore, after Production, the Commercialization process is required. Game console machines, on which game software can run, are manufactured and sold. Then the program is pressed onto DVDs and packaged. This is the Commercialization process, and the console manufacturers fulfill this function. Marketing is selling the packaged discs at retail stores. In any content industry the basic structure is the same.

Since content is intangible, in order to do business, the Commercialization, in other words reproducing the content onto media, is an inevitable process. Marketing methods were determined by the type of media. The content industry has been segmented in accordance with the method of Commercialization, which adds the highest value.

Networking and digitization triggered the first transition of this structure.

The network became the media of content, and without requiring a specialized device for media playback, users could enjoy content, which led to a decline in the Commercialization's value. Moreover, because it is so easy to make copies in the digital environment, content overflowed on the internet. Huge amount of user-generated content such as blogs created a situation where information and content were supplied more than demand could absorb. Now the function that could organize all this information and content grew to be valuable. This new function belonged to the category of the Marketing. The words that symbolize this era's culture are "free" and "share." On the internet, the value of information and content declined dramatically, and it became difficult for those doing business on the Production and the Commercialization to survive. Also, internet service providers, who had been engaged in the Marketing, now had limited opportunities to generate revenue due to self-invited free content issues and at the same time engaged in fierce competitions to keep their customers. As a result, the functions of the content industry became imbalanced, and the industry faced a crisis of its ecosystem. We entered an era of "search engine" this century where a "winner-takes-all" situation was created. Interestingly, the content businesses that survived during this time were those with vertical integration models such as games and Japanese mobile phone services.

However, as Apple emerged, we saw change for the second time.

Every choice they made was opposite of the one from the prior era. Vertical integration models rather than horizontal integration, native applications rather than browser application, premium rather than free. Perhaps the internet users were feeling that while the then-existing environment was convenient and free, it was disordered and unsafe, and they flocked to the iPhone. Apple succeeded in complete customer lock-in. IT companies that were struggling to find a solution saw this success, and they switched over to the vertical integration model, one company after another. The archetype of this vertical integration model was the combination of iPhone, a physical device, and iTunes, an online marketing platform. Google, Amazon, and Microsoft announced their intention to manufacture their own devices, and it seems that even Facebook may join the party. At this moment the main battlefield is tablet PCs. In order to become the ruler of the internet, IT companies are now competing over physical devices, which is a paradox.

For a company like ours that is specialized in the Production function, it is good news since content is now shifting from being free to paid. At the same time, it becomes necessary to support many devices and development work becomes inefficient.

Then, what is to come next?

I believe that two significant innovations, HTML5 and cloud computing, will dramatically transform the ecosystem once again. These two innovations will make it difficult to differentiate devices, and the IT companies that are competing for customers will lose their present weaponry. Apple's vertical integration model will no longer work.

Since games are interactive content that are enjoyed by having consumers get involved in the virtual world, they are not replicable. Unlike other content, the value is placed in the consumer experience rather than code or data itself. Moreover, online elements are now implemented into games, and our relationship with customers has become continuous, rather than one-time upon purchase. Currently the only people standing between the customer and us are those that handle the Marketing functions. The above-mentioned innovations will be what will dissolve those that dominate the Marketing functions. For the first time since the Company was founded, we will be able to connect directly with our consumers.

The strategy that we are now executing is not only to secure the profit for today, but also to prepare for a new era. We wish to run after two hares; expanding the current business and leaping for the next era.

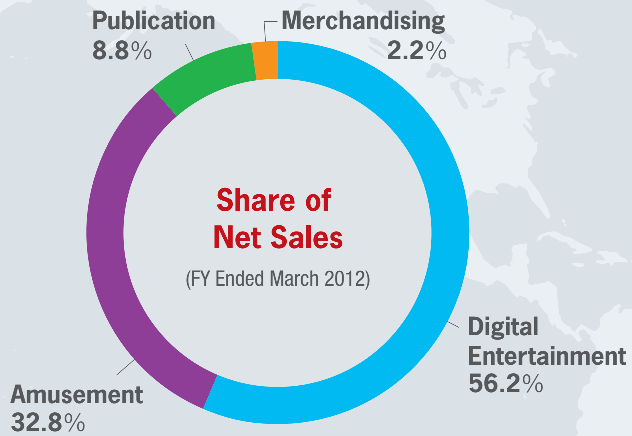
Lastly, I would like to thank our shareholders for your ongoing support.

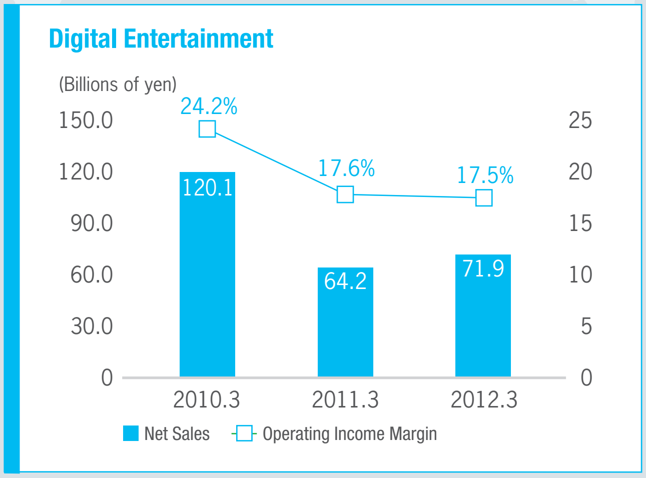
Yoichi Wada

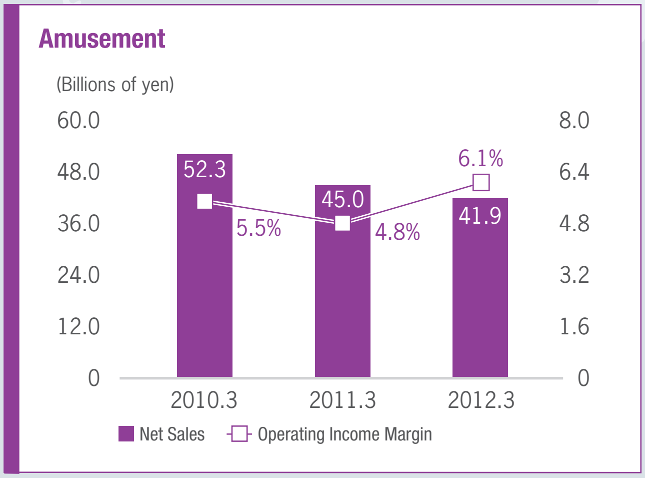
Yoichi Wada
President and Representative Director
SQUARE ENIX HOLDINGS CO., LTD.

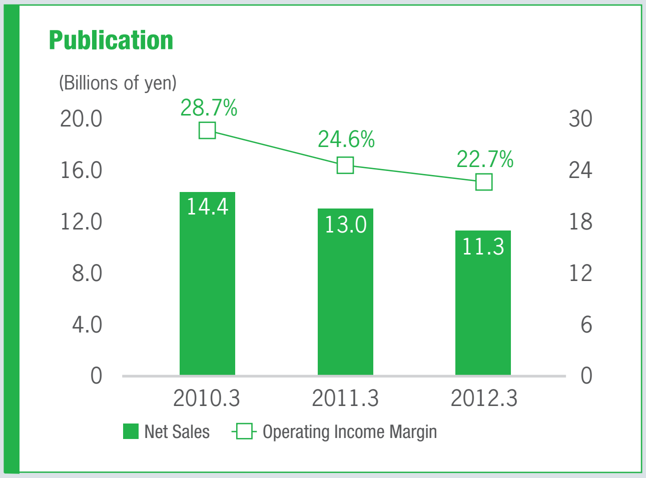
The Square Enix Group (the "Group") is continuing determined efforts to strengthen the competitiveness and profitability of its business segments of Digital Entertainment, Amusement, Publication and Merchandising.

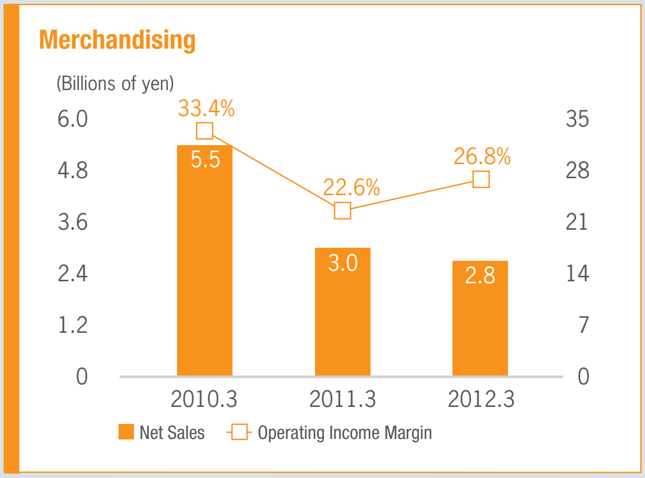
Net sales for the fiscal year ended March 31, 2012 totaled ¥127,896 million (an increase of 2.1% from the prior fiscal year), operating income amounted to ¥10,713 million (an increase of 46.2% from the prior fiscal year), recurring income amounted to ¥10,297 million (an increase of 91.0% from the prior fiscal year) and net income amounted to ¥6,060 million.









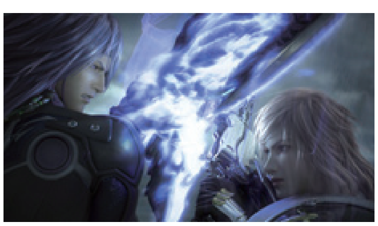


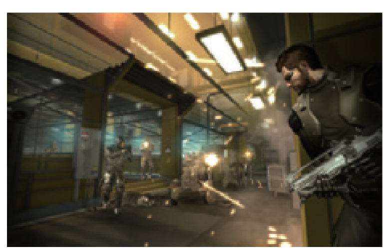
Digital Entertainment

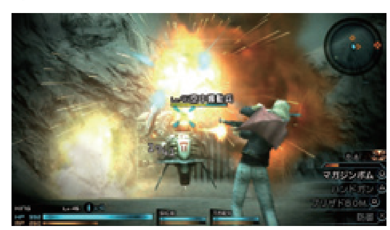
The Digital Entertainment segment plans, develops, distributes and operates digital entertainment content primarily in the form of games. Digital entertainment content is offered to meet customer lifestyles across a variety of usage environments such as consumer game consoles (including handheld game machines), personal computers and mobile phones (including smartphones).

During the fiscal year ended March 31, 2012, the Group released major titles on consumer game consoles (“FINAL FANTASY XIII-2” [Japan, North America, Europe]; “DEUS EX: HUMAN REVOLUTION” [North America, Europe, Japan]), which favorably grew sales of packaged software. Regarding content on platforms such as browser and smartphone, an online simulation game called “SENGOKU IXA” in partnership with Yahoo! Japan, launched in August 2010 continues to post favorable results. Further, starting January 2012, services for a Mobage-based social game called “FINAL FANTASY BRIGADE” whose total registered users exceeded 2 million in March 2012 enjoys robust growth.

Net sales and operating income in the Digital Entertainment segment totaled ¥71,871 million (an increase of 11.9% from the prior fiscal year) and ¥12,602 million (an increase of 11.7% from the prior fiscal year), respectively.







Amusement

The Amusement segment consists of the operation of amusement facilities and the planning, development and distribution of arcade game machines and related products for amusement facilities.

During the fiscal year ended March 31, 2012, due to the softening market conditions, amusement facilities operations stagnated on sales during the second half of the fiscal year. However, the Group showed steady increase on operating income compared to the prior fiscal year from the efficiency in operations of amusement facilities and investment in machinery.

Net sales and operating income in the Amusement segment totaled ¥41,921 million (a decrease of 6.9% from the prior fiscal year) and ¥2,552 million (an increase of 17.2% from the prior fiscal year), respectively.

Publication

The Publication segment includes comic books, comic magazines and game strategy books.

During the fiscal year ended March 31, 2012, due to the completion of larger serial manga titles, monthly magazines and comic books stagnated on sales. On the other hand, the Group has been dedicated to developing network-based publication businesses including the Group’s GANGAN ONLINE, a web-based comic magazine.

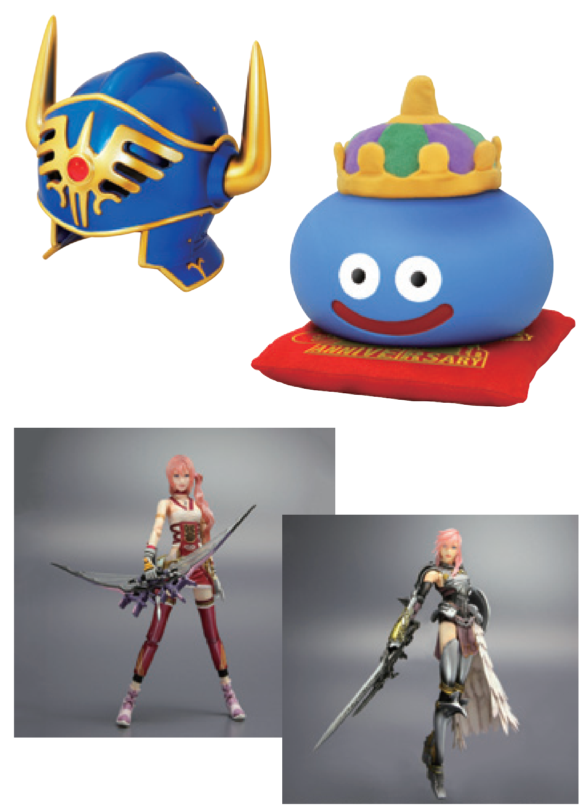
Net sales and operating income in the Publication segment totaled ¥11,335 million (a decrease of 13.1% from the prior fiscal year) and ¥2,575 million (a decrease of 19.6% from the prior fiscal year), respectively.

Merchandising

The Merchandising segment includes the planning, production, distribution and licensing of derivative products of titles owned by the Group.

During the fiscal year ended March 31, 2012, the Group continued to distribute and license items such as character goods and soundtracks based on the Group’s own IPs while diversifying new opportunities for profit by strengthening its character goods lineup with additional products based on third party content and overseas expansions.

Net sales and operating income in the Merchandising segment totaled ¥2,767 million (a decrease of 8.0% over the prior fiscal year) and ¥742 million (an increase of 9.1% over the prior fiscal year), respectively.



Providing Unforgettable Experiences


Even
Solo
Pair
Escape
HP
MP
1660
400


SLEEPING DOGS


回復お願いします！
おれにまかせろ！
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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 of whom, 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 Company-wide compliance measures are integrated 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 Company-wide basis.

To ensure the maintenance of a robust risk management system, Company-wide 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 corporate auditors; and coordination between internal audits, audits by corporate auditors and 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 evaluations) 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. The finance and accounting expertise of corporate auditors Ryoichi Kobayashi, Norikazu Yahagi and

Ryuji Matsuda is outlined in section (3) below. Nobuhiro Saito, a corporate auditor, has many years' experience working at financial institutions, and possesses extensive expertise in finance and accounting-related matters.

Information on audits by the independent audit firm is provided in section (6) below.

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 Company has not established any particular provisions regarding independence in appointing the outside director or the outside corporate auditors but selects individuals who can be expected to execute their duties appropriately, from an objective and independent perspective, to support corporate governance based on specialized expertise in such areas as finance, accounting and internal controls, and who are not likely to have any conflicts of interest with general shareholders.

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	312	200	112
Outside director	1	7	6	1
Total	5	320	206	114

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	6	6	—
Outside corporate auditors	3	29	29	—
Total	4	36	36	—

Note: Compensation for corporate auditors was determined as shown above after taking into account corporate auditor independence in relation to 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

Matters relating to shares held by the Company, which has the largest balance-sheet value of investments in shares within the Square Enix Group, are as follows:

(i) Number of companies in which shares are held and total amount presented on the balance sheets for investments in shares for purposes other than purely investment purposes:

There are no applicable items.

(ii) Companies in which shares are held, investment category, number of shares, amount presented on the balance sheets and investment purpose for investments in shares for purposes other than purely investment purposes:

There are no applicable items.

(iii) Total amount presented on balance sheets for the fiscal years ended March 31, 2010 and March 31, 2011; and total dividends received, total gain on sale of shares and total loss on revaluation of shares for the fiscal year ended March 31, 2011 for investments in shares for purely investment purposes:

Millions of yen

Category	Previous fiscal year	Fiscal year ended March 31, 2012			
	Total amount presented on balance sheets	Total amount presented on balance sheets	Total dividends received	Total gain on sale of shares	Total loss on revaluation of shares
Unlisted shares	31	31	1	47	(Note 1) (0)*
Shares other than those above	292	484	1	—	176 (—)*

Notes: 1. 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.
2. Figures denoted with an asterisk under "Total loss on revaluation of shares" indicate impairment losses for the fiscal year under review.

(iv) Companies in which shares are held, number of shares, amount presented on the balance sheets for investments in shares for which the purpose of investment has changed from "purely investment purposes" to "purposes other than purely investment purposes":

There are no applicable items.

(v) Companies in which shares are held, number of shares, amount presented on the balance sheets for investments in shares for which the purpose of investment has changed from "purposes other than purely investment purposes" to "purely investment purposes":

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, 2012.

- CPAs performing audits:

Limited-liability partners: Takashi Nagasaka, Kenichi Shibata and Tatsuya Yokouchi

- Personnel providing audit assistance:

11 CPAs, 9 assistant CPAs

(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, 2011		Fiscal year ended March 31, 2012	
	Compensation for statutory audit operations	Compensation for non-audit operations	Compensation for statutory audit operations	Compensation for non-audit operations
Parent company	52	1	47	1
Consolidated subsidiaries	78	—	70	—
Total	130	1	117	1

(2) Other significant compensation

Fiscal year ended March 31, 2011

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 ¥92 million for statutory audit operations and ¥19 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, 2012

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 ¥82 million for statutory audit operations and ¥14 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, 2011

The non-audit operations provided by the statutory audit firm for which the Company paid compensation comprise such operations as the provision of guidance and advice regarding the preparation of English-language financial statements.

Fiscal year ended March 31, 2012

The non-audit operations provided by the statutory audit firm for which the Company paid compensation comprise such operations as the provision of guidance and advice regarding the preparation of English-language financial statements.

(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 June 30, 2012)

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

Mike Fischer

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

CONTENTS

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

The following statements are based on management's view of SQUARE ENIX HOLDINGS CO., LTD. (the "Company") as of June 30, 2012 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) Allowance for Doubtful Accounts

The Group provides an allowance for doubtful accounts based on estimated irrecoverable amounts to prepare for bad debt losses on receivables. 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 value of these shares as of the end of the fiscal year declines by 50% or more of their acquisition cost, the entire amount is treated as an impairment loss. In addition, in the event that the fair value of marketable shares declines 30% to 50%, an amount determined as necessary considering the importance and potential for recovery of the shares is treated as an impairment loss.

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 be recovered. 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, 2012, the Group's balance of interest-bearing debt was ¥5,253 million. The net assets ratio stood at 63.3%. Cash and cash equivalents at the end of the year totaled ¥110,116 million, an increase of ¥364 million compared with the prior fiscal year-end.

Cash flows in the fiscal year ended March 31, 2012, 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 totaled ¥6,786 million, a decrease of 54.2% compared with the previous fiscal year.

Income before income taxes and minority interests of ¥9,866 million and the depreciation and amortization of ¥5,039 million were significant contributors to positive cash flows from operating activities despite the increase in inventories of ¥5,137 million and accounts receivable of ¥3,008 million.

(2) Net Cash Used in Investing Activities

Net cash used in investing activities totaled ¥5,778 million, compared to net cash provided by investing activities of ¥30,407 million in the prior fiscal year. The main factors are proceeds from collection of guarantee deposits of ¥1,084 million, payments for guarantee deposits of ¥1,492 million, and purchase of property and equipment of ¥4,620 million.

(3) Net Cash Provided by Financing Activities

Net cash provided by financing activities totaled ¥299 million, compared to net cash used in financing activities of ¥42,354 million in the prior fiscal year. The main factors are an increase in short-term loans payable of ¥3,791 million and cash dividends paid of ¥3,446 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, 2012

■ Assets

Total Assets

Millions of yen

March 31	2012	2011	Change
	¥213,981	¥206,336	¥7,645

Total assets as of March 31, 2012 amounted to ¥213,981 million, an increase of ¥7,645 million compared with the prior fiscal year. The main factors contributing to the change were as follows:

Cash and Deposits

Millions of yen

March 31	2012	2011	Change
	¥111,495	¥111,126	¥369

Notes and Accounts Receivable

Millions of yen

March 31	2012	2011	Change
	¥18,431	¥15,474	¥2,957

The year-end balance of notes and accounts receivable varies greatly depending on the timing of new game title releases. In the fiscal year ended March 31, 2012, notes and accounts receivable increased by ¥2,957 million to ¥18,431 million, mainly due to the March release of "KINGDOM HEARTS 3D" in Japan.

Content Production Account

Millions of yen

March 31	2012	2011	Change
	¥25,047	¥19,890	¥5,157

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.

As of March 31, 2012, the content production account totaled ¥25,047 million, an increase of ¥5,157 million compared with the prior fiscal year.

Property and Equipment

Millions of yen

March 31	2012	2011	Change
	¥17,183	¥17,328	¥(144)

Total property and equipment totaled ¥17,183 million, down ¥144 million from the prior fiscal year, primarily due to a decline in buildings and structures from ¥4,846 million to ¥4,231 million.

Intangible Assets

Millions of yen

March 31	2012	2011	Change
	¥10,121	¥10,324	¥(202)

Total intangible assets as of March 31, 2012 amounted to ¥10,121 million, a decrease of ¥202 million from the prior fiscal year, mainly due to software amortization costs.

Investments and Other Assets

Millions of yen

March 31	2012	2011	Change
	¥14,514	¥14,382	¥132

Total investments and other assets increased by ¥132 million, to ¥14,514 million as of March 31, 2012, primarily due to increases in guarantee deposits.

■ Liabilities

Millions of yen

March 31	2012	2011	Change
	¥76,684	¥71,192	¥5,491

As of March 31, 2012, total liabilities amounted to ¥76,684 million, an increase of ¥5,491 million compared to the prior fiscal year.

The main factors contributing to the change were as follows:

Current Liabilities

Millions of yen

March 31	2012	2011	Change
	¥33,778	¥28,504	¥5,273

Total current liabilities increased by ¥5,273 million, to ¥33,778 million as of March 31, 2012. This was mainly due to an increase in notes and accounts payable from ¥7,777 million to ¥9,220 million, an increase in short-term loans from ¥1,338 million to ¥5,253 million, and an increase in accrued income taxes from ¥2,269 million to ¥4,034 million.

Non-Current Liabilities

Millions of yen

March 31	2012	2011	Change
	¥42,906	¥42,687	¥218

Total non-current liabilities increased by ¥218 million to ¥42,906 million as of March 31, 2012, primarily due to an increase in the provision for employees' retirement benefits from ¥3,061 million to ¥3,808 million.

■ Shareholders' Equity/Net Assets

Millions of yen

March 31	2012	2011	Change
Common stock	¥ 15,204	¥ 15,204	¥ —
Capital surplus	44,444	44,444	(0)
Retained earnings	85,320	82,711	2,609
Treasury stock	(861)	(859)	(2)
Total shareholders' equity	144,108	141,501	2,606
Unrealized gain (loss) on revaluation of other investment securities	124	(14)	139
Foreign currency translation adjustments	(8,696)	(7,929)	(767)
Total accumulated other comprehensive loss	(8,572)	(7,943)	(628)
Stock acquisition rights	977	814	163
Minority interests in consolidated subsidiaries	783	771	12
Total net assets	¥137,297	¥135,143	¥2,153

As of March 31, 2012, total net assets amounted to ¥137,297 million, up ¥2,153 million compared to the prior fiscal year, reflecting an increase in retained earnings due to the recording of net income.

■ Consolidated Statements of Income

Net Sales and Operating Income

Millions of yen

Years ended March 31	2012	Composition	2011	Composition	Amount change	Percent change
Net sales	¥127,896	100.0%	¥125,271	100.0%	¥ 2,625	2.1%
Gross profit	51,627	40.4%	49,424	39.5%	2,202	4.5%
Reversal of provision for sales returns	1,706	1.3%	4,046	3.2%	(2,340)	(57.8)%
Provision for sales returns	1,502	1.2%	1,779	1.4%	(277)	(15.6)%
Net gross profit	51,831	40.5%	51,691	41.3%	139	0.3%
Selling, general and administrative expenses	41,118	32.1%	44,365	35.4%	(3,247)	(7.3)%
Operating income	¥ 10,713	8.4%	¥ 7,325	5.8%	¥ 3,387	46.2%

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	2012	2011	Change
Non-operating income	¥286	¥347	¥(60)
Non-operating expenses	701	2,282	(1,580)

Total non-operating income was ¥286 million, mainly reflecting dividends received.

Total non-operating expenses amounted to ¥701 million, mostly reflecting a foreign exchange loss of ¥536 million. In the previous fiscal year, the foreign exchange loss totaled ¥2,149 million.

Extraordinary Gain and Loss

Millions of yen

Years ended March 31	2012	2011	Change
Extraordinary gain	¥ 305	¥ 633	¥ (327)
Extraordinary loss	741	16,007	(15,265)

Total extraordinary gain was ¥305 million, mainly due to profits from the sale of subsidiaries' and affiliates' stocks.

Total extraordinary loss was ¥741 million, mainly due to an impairment loss and a loss on disposal of property and equipment. In the previous fiscal year, the Company recognized an impairment loss of ¥8,853 million, a loss on disposal of content and equipment of ¥2,398 million, and a loss related to content of ¥2,074 million.

■ Capital Expenditures and Depreciation and Amortization

Millions of yen

Years ended March 31	2012	2011	Change
Capital expenditures	¥5,209	¥5,363	¥(153)
Depreciation and amortization	5,039	6,608	(1,569)

Capital expenditures for the fiscal year ended March 31, 2012 amounted to ¥5,209 million, a decrease of ¥153 million compared to the prior fiscal year, mainly due to a decline in Company-wide spending from ¥685 million to ¥339 million.

Depreciation and amortization totaled ¥5,039 million, a decrease of ¥1,569 million from the prior fiscal year, primarily as a result of depreciation and amortization in the Amusement business declining from ¥3,987 million to ¥3,363 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, these trends are boosting demand for network-compliant entertainment, ensuring access to a broader range of content via devices with multiple functions, and leading to other key changes that are transforming the environment in which users enjoy the Group's content. This necessitates a more diverse business model tailored to user needs. Amid such large structural shifts in the digital entertainment industry, 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 key challenges are to expand operations overseas and to provide a diverse range of entertainment content and services that meet user needs, while recruiting and training a workforce that can achieve such goals.

The Group's operating forecast for the fiscal year ending March 31, 2013 is as follows (as of June 30, 2012).

Millions of yen

Years ended/ ending March 31	2004 actual	2005 actual	2006 actual	2007 actual	2008 actual	2009 actual	2010 actual	2011 actual	2012 actual	2013 forecast
Net sales	¥63,202	¥73,864	¥124,473	¥163,472	¥147,516	¥135,693	¥192,257	¥125,271	¥127,896	¥165,000
Operating income	19,398	26,438	15,470	25,916	21,520	12,277	28,235	7,325	10,713	15,000
Recurring income	18,248	25,901	15,547	26,241	18,864	11,261	27,822	5,390	10,297	15,000
Net income (loss)	10,993	14,932	17,076	11,619	9,196	6,333	9,509	(12,043)	6,060	9,000

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. The bodies authorized to determine dividends paid from retained earnings for the fiscal year ended March 31, 2012 were the Annual General Meeting of Shareholders or the Board of Directors in the case of the year-end dividend, and the Board of Directors in the case of the interim dividend.

Total dividends applicable to the fiscal year were ¥30 per share, comprising an interim dividend of ¥10 and a year-end dividend of ¥20. In accordance with Article 459 of the Companies Act, the Company's Articles of Incorporation stipulate that dividends paid from retained earnings and other related matters may be determined by a resolution of the Board of Directors.

Dividends from retained earnings applicable to the fiscal year ended March 31, 2012 were as follows.

Date of resolution	Total dividends (Millions of yen)	Dividends per share (Yen)
November 4, 2011 Resolution of the Board of Directors	¥1,150	¥10
May 18, 2012 Resolution of the Board of Directors	2,301	20

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 the submission date of the securities filing.

(1) Changes in the Economic Environment

In the event of a harsh downturn in the economy causing consumer expenditures 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 the "Medium- to Long-term Management Strategies and Challenges" 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 digital entertainment business could be affected by diversification, the trend toward increasingly advanced functions and the general transition of platforms for home-use video game consoles, smartphones and everyday digital devices, which would impact the way the Group supplies content, its business model and profitability.

(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 expansion of its international business operations, a variety of factors present in the countries and regions in which the Group operates may affect its business performance. Such factors include market trends, the political situation, economic climate, laws and regulations, social conditions, 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, lighting 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. 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 that an accident, disaster or infectious disease affects the Group, there is a possibility that all adverse impacts may not be entirely avoided or alleviated.

Major earthquakes, other natural disasters, accidents, and diseases that might impede Group operations for a continuous period of time could 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

	2012	2011
Assets		
Current assets		
Cash and deposits	¥111,495	¥111,126
Notes and accounts receivable	18,431	15,474
Merchandise and finished goods	2,343	2,992
Work in progress	738	287
Raw materials and supplies	573	427
Content production account	25,047	19,890
Deferred tax assets	5,022	4,493
Income taxes receivable	6,396	6,907
Other	2,236	2,821
Allowance for doubtful accounts	(124)	(120)
Total current assets	172,161	164,301
Non-current assets		
Property and equipment		
Buildings and structures	16,645	17,617
Accumulated depreciation	(12,414)	(12,771)
Buildings and structures (net)	4,231	4,846
Tools and fixtures	11,147	10,840
Accumulated depreciation	(9,245)	(9,031)
Tools and fixtures (net)	1,902	1,808
Amusement equipment	19,601	19,948
Accumulated depreciation	(17,008)	(17,643)
Amusement equipment (net)	2,593	2,304
Other	193	188
Accumulated depreciation	(127)	(99)
Other (net)	65	89
Land	8,102	8,277
Construction in progress	288	2
Total property and equipment	17,183	17,328
Intangible assets		
Other	10,121	10,324
Total intangible assets	10,121	10,324
Investments and other assets		
Investment securities	598	386
Guarantee deposits	12,785	12,316
Deferred tax assets	460	1,082
Other	*1 1,341	*1 1,280
Allowance for doubtful accounts	(672)	(683)
Total investments and other assets	14,514	14,382
Total non-current assets	41,819	42,034
Total assets	¥213,981	¥206,336

The accompanying notes are an integral part of these statements.

Millions of yen

	2012	2011
Liabilities		
Current liabilities		
Notes and accounts payable	¥ 9,220	¥ 7,777
Short-term loans	5,253	1,338
Accrued income taxes	4,034	2,269
Provision for bonuses	1,200	1,453
Provision for sales returns	1,545	1,780
Provision for game arcade closings	260	487
Asset retirement obligations	2	63
Other	12,258	13,332
Total current liabilities	33,778	28,504
Non-current liabilities		
Corporate bonds	35,000	35,000
Provision for employees' retirement benefits	3,808	3,061
Provision for directors' retirement benefits	234	266
Provision for game arcade closings	584	590
Deferred tax liabilities	2,605	2,577
Asset retirement obligations	149	657
Other	523	534
Total non-current liabilities	42,906	42,687
Total liabilities	76,684	71,192
Net Assets		
Shareholders' equity		
Common stock	15,204	15,204
Capital surplus	44,444	44,444
Retained earnings	85,320	82,711
Treasury stock	(861)	(859)
Total shareholders' equity	144,108	141,501
Accumulated other comprehensive income (loss)		
Unrealized loss on revaluation of other investment securities	124	(14)
Foreign currency translation adjustments	(8,696)	(7,929)
Total accumulated other comprehensive income (loss)	(8,572)	(7,943)
Stock acquisition rights	977	814
Minority interests in consolidated subsidiaries	783	771
Total net assets	137,297	135,143
Total liabilities and net assets	¥213,981	¥206,336

The accompanying notes are an integral part of these statements.

Consolidated Statements of Income (Loss) (JPNGAAP)

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

	Millions of yen	
	2012	2011
Net sales	¥127,896	¥125,271
Cost of sales	*1 76,268	*1 75,846
Gross profit	51,627	49,424
Reversal of provision for sales returns	1,706	4,046
Provision for sales returns	1,502	1,779
Net gross profit	51,831	51,691
Selling, general and administrative expenses		
Packaging freight charge	1,812	2,336
Advertising expense	7,258	7,935
Sales promotion expense	63	67
Allowance for doubtful accounts	67	—
Compensation for directors	541	596
Salaries	12,195	12,534
Provision for bonuses	1,814	1,408
Net periodic pension costs	1,288	1,135
Provision for directors' retirement benefits	13	15
Welfare expense	1,523	1,463
Rental expense	1,616	1,782
Commission fee	4,621	4,228
Depreciation and amortization	1,000	1,903
Other	*2 7,298	*2 8,956
Total selling, general and administrative expenses	41,118	44,365
Operating income	10,713	7,325
Non-operating income		
Interest income	136	95
Dividends received	4	36
Rental income	17	24
Miscellaneous income	127	190
Total non-operating income	286	347
Non-operating expenses		
Interest expenses	61	59
Commission fee	100	44
Foreign exchange loss	536	2,149
Miscellaneous loss	3	28
Total non-operating expenses	701	2,282
Recurring income	10,297	5,390
Extraordinary gain		
Gain on sale of property and equipment	—	*3 1
Gain on sale of investment securities	48	0
Gain on sale of stocks of subsidiaries and affiliates	192	—
Reversal of allowance for doubtful accounts	—	94
Gain on reversal of subscription rights to shares	46	125
Gain on disposition of foreign currency translation adjustments	—	317
Other	18	94
Total extraordinary gain	305	633
Extraordinary loss		
Loss on sale of property and equipment	*4 30	*4 1
Loss on disposal of property and equipment	*5 352	*5 621
Loss on liquidation of subsidiaries and affiliates	—	136
Loss on evaluation of investment securities	*6 0	*6 175
Impairment loss	*7 130	*7 8,853
Provision for game arcade closings	78	311
Loss on adjustment for changes of accounting standard for asset retirement obligations	—	462
Loss related to content	—	*8 2,074
Loss on disposal of content and equipment	*9 93	*9 2,398
Other	55	969
Total extraordinary loss	741	16,007
Income (loss) before dividends distribution from silent partnership, income taxes (*tokumei-kumiai*)	9,862	(9,983)
Dividends distribution from silent partnership (*tokumei-kumiai*)	(4)	(12)
Income (loss) before income taxes and minority interests	9,866	(9,970)
Income taxes–current	3,763	1,738
Refund of income taxes	(50)	(2,249)
Income taxes–deferred	79	2,594
Total income taxes	3,792	2,083
Income (loss) before minority interests	6,074	(12,054)
Minority interests income (loss)	13	(11)
Net income (loss)	¥ 6,060	¥(12,043)

The accompanying notes are an integral part of these statements.

Consolidated Statements of Comprehensive Income (Loss) (JPNGAAP)

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

Millions of yen

	2012	2011
Income (loss) before minority interests	¥6,074	¥(12,054)
Other comprehensive income (loss)		
Unrealized gain (loss) on revaluation of other investment securities	139	(5)
Foreign currency translation adjustments	(761)	(3,034)
Other comprehensive loss	*1 (622)	(3,040)
Comprehensive income (loss)	5,451	(15,094)
(Breakdown)		
Comprehensive income (loss) attributable to owners of the Company	5,431	(15,026)
Comprehensive income (loss) attributable to minority interests	¥ 19	¥ (67)

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

	2012	2011
Shareholders' equity		
Common stock		
Balance at the beginning of the year	¥ 15,204	¥ 15,204
Changes during the year		
Total changes of items during the year	—	—
Balance at the end of the year	15,204	15,204
Capital surplus		
Balance at the beginning of the year	44,444	44,444
Changes during the year		
Disposal of treasury stock	(0)	(0)
Total changes during the year	(0)	(0)
Balance at the end of the year	44,444	44,444
Retained earnings		
Balance at the beginning of the year	82,711	98,848
Changes during the year		
Dividends from retained earnings	(3,452)	(4,027)
Net income (loss)	6,060	(12,043)
Change of scope of consolidation	1	(22)
Change of scope of equity method	—	(42)
Total changes during the year	2,609	(16,136)
Balance at the end of the year	85,320	82,711
Treasury stock		
Balance at the beginning of the year	(859)	(856)
Changes during the year		
Purchase of treasury stock	(2)	(3)
Disposal of treasury stock	0	0
Total changes during the year	(2)	(2)
Balance at the end of the year	(861)	(859)
Total shareholders' equity		
Balance at the beginning of the year	141,501	157,641
Changes of items during the year		
Dividends from retained earnings	(3,452)	(4,027)
Net income (loss)	6,060	(12,043)
Purchase of treasury stock	(2)	(3)
Disposal of treasury stock	0	0
Change of scope of consolidation	1	(22)
Change of scope of equity method	—	(42)
Total changes during the year	2,606	(16,139)
Balance at the end of the year	¥144,108	¥141,501

The accompanying notes are an integral part of these statements.

	2012	2011
		Millions of yen
Accumulated other comprehensive income (loss)		
Unrealized gain (loss) on revaluation of other investment securities		
Balance at the beginning of the year	¥ (14)	¥ (9)
Changes during the year		
Net changes in items other than shareholders' equity	139	(5)
Total changes during the year	139	(5)
Balance at the end of the year	124	(14)
Foreign currency translation adjustments		
Balance at the beginning of the year	(7,929)	(4,951)
Changes during the year		
Net changes in items other than shareholders' equity	(767)	(2,977)
Total changes during the year	(767)	(2,977)
Balance at the end of the year	(8,696)	(7,929)
Total accumulated other comprehensive loss		
Balance at the beginning of the year	(7,943)	(4,960)
Changes during the year		
Net changes in items other than shareholders' equity	(628)	(2,983)
Total changes during the year	(628)	(2,983)
Balance at the end of the year	(8,572)	(7,943)
Stock acquisition rights		
Balance at the beginning of the year	814	715
Changes during the year		
Net changes in items other than shareholders' equity	163	98
Total changes during the year	163	98
Balance at the end of the year	977	814
Minority interests in consolidated subsidiaries		
Balance at the beginning of the year	771	861
Changes during the year		
Net changes in items other than shareholders' equity	12	(90)
Total changes during the year	12	(90)
Balance at the end of the year	783	771
Total net assets		
Balance at the beginning of the year	135,143	154,258
Changes during the year		
Dividends from retained earnings	(3,452)	(4,027)
Net income (loss)	6,060	(12,043)
Purchase of treasury stock	(2)	(3)
Disposal of treasury stock	0	0
Change of scope of consolidation	1	(22)
Change of scope of equity method	—	(42)
Net changes in items other than shareholders' equity	(453)	(2,975)
Total changes during the year	2,153	(19,115)
Balance at the end of the year	¥137,297	¥135,143

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

	2012	2011
Cash flows from operating activities		
Income (loss) before income taxes and minority interest	¥9,866	¥ (9,970)
Depreciation and amortization	5,039	6,608
Amortization of goodwill	—	1,492
Impairment loss	130	8,853
Loss on adjustment for changes of accounting standard for asset retirement obligations	—	462
Loss related to content	—	1,174
Loss on disposal of content and equipment	—	731
Loss on disaster	—	48
Increase (decrease) in allowance for doubtful accounts	(1)	(394)
Increase (decrease) in provision for bonuses	(232)	(121)
Increase (decrease) in provision for sales returns	(203)	(2,026)
Increase (decrease) in provision for employees' retirement benefits	747	891
Increase (decrease) in provision for directors' retirement benefits	(31)	15
Increase (decrease) in provision for game arcade closings	(186)	166
Interest and dividends income	(141)	(131)
Interest expenses paid	61	59
Foreign exchange losses (gains)	399	2,206
Loss (gain) on sales of investment securities	(48)	(0)
Loss (gain) on sales of stocks of subsidiaries and affiliates	(192)	—
Loss on valuation of investment securities	0	175
Loss on disposal of property and equipment	352	621
Loss on sales of property and equipment	30	1
Decrease (increase) in notes and accounts receivable	(3,008)	13,800
Decrease (increase) in inventories	(5,137)	(4,827)
Increase (decrease) in notes and accounts payable	1,102	(2,007)
Decrease (increase) in other current assets	547	2,218
Decrease (increase) in other noncurrent assets	56	67
Increase (decrease) in other current liabilities	(1,078)	(2,447)
Other, net	(26)	258
Subtotal	8,048	17,927
Interest and dividends income received	108	198
Interest expenses paid	(39)	(54)
Income taxes paid	(1,842)	(1,994)
Refund of income taxes	961	1,226
Income taxes paid for prior periods	(450)	(2,475)
Net cash provided by operating activities	¥6,786	¥14,827

The accompanying notes are an integral part of these statements.

	2012	2011
	Millions of yen	
Cash flows from investing activities		
Payments into time deposits	¥ (748)	¥ (1,062)
Proceeds from withdrawal of time deposits	747	1,052
Proceeds from redemption of securities	—	35,000
Proceeds from sales of investment securities	49	0
Purchase of property and equipment	(4,620)	(4,700)
Proceeds from sales of property and equipment	180	45
Purchase of intangible assets	(842)	(931)
Proceeds from sales of intangible assets	—	0
Purchase of investments in subsidiaries	(9)	(20)
Proceeds from sale of stocks of subsidiaries and affiliates	192	—
Payments for guarantee deposits	(1,492)	(143)
Proceeds from collection of guarantee deposits	1,084	1,482
Other, net	(319)	(314)
Net cash provided by (used in) investing activities	(5,778)	30,407
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	3,791	(1,325)
Redemption of bonds	—	(37,000)
Purchase of treasury stock	(2)	(3)
Cash dividends paid	(3,446)	(4,026)
Other, net	(42)	0
Net cash provided by (used in) financing activities	299	(42,354)
Effect of exchange rate change on cash and cash equivalents	(879)	(2,744)
Net increase (decrease) in cash and cash equivalents	428	135
Cash and cash equivalents at the beginning of the year	109,751	109,717
Decrease in cash and cash equivalents resulting from exclusion of subsidiaries from consolidation	(64)	(101)
Cash and cash equivalents at end of the year	*1 ¥110,116	*1 ¥109,751

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

(1) Number of consolidated subsidiaries:
33 companies and one voluntary 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

During the fiscal year ended March 31, 2012, BEIJING TAIXIN CULTURAL AMUSEMENT CO., LTD. was excluded from the scope of consolidation due to diminished material impact on the Company's business performance and financial status.

(2) Names of principal non-consolidated subsidiaries:
hippos lab Co., Ltd.
SQUARE ENIX MOBILE STUDIO CO., LTD.
SQUARE ENIX Business Support, CO., LTD.

(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.

2. Application of the Equity Method of Accounting

(1) There are no non-consolidated subsidiaries or affiliates which are accounted for under equity method.
(2) Non-consolidated subsidiaries that were not accounted for under the equity method, including hippos lab Co., Ltd., SQUARE ENIX MOBILE STUDIO CO., LTD., and SQUARE ENIX Business Support, CO., LTD., as well as affiliated companies were excluded from the scope of application of the equity method because the impact on net income (corresponding to the share) and retained earnings (corresponding to the share) was insignificant to the consolidated financial statements overall.

3. Fiscal Year-End of Consolidated Subsidiaries

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

In the preparation of the accompanying consolidated financial statements, such financial statements which have a December 31 fiscal year-end, have been used. Significant transactions between the 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., the fiscal year-end of which is December 31, 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.

4. Summary of Significant Accounting Policies

(1) Standards and valuation methods for major assets:
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:
Mainly 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 values) and 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:
Stated at cost, determined by the moving-average method (book-entry devaluation method based on the decrease in profitability is used with respect to balance sheet values).
Supplies:
Stated at the last purchase price

(2) Method of depreciation and amortization for major assets:
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	3–5 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
Leased assets under finance lease transactions that do not transfer ownership.

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

(3) Accounting for allowances and provisions:

A) Allowance for doubtful accounts
An allowance for doubtful accounts provides for possible losses on defaults of receivables. 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) Provision for bonuses
A provision 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) Provision for sales returns
At certain consolidated subsidiaries prior to the fiscal year ended March 31, 2012, provisions are provided for losses on the return of published materials, at an amount calculated based on historical experience prior to this fiscal year and provisions are provided for losses on the return of game software and other, comprising an estimated amount of future losses assessed based on the probability of the return by each game title.

D) Provision for game arcade closings
For closures of game arcades that have been determined at certain consolidated subsidiaries, a provision is provided at an amount in line with reasonable estimates of future losses on such closures.

E) Provision for employees' retirement benefits
At the Company and certain consolidated subsidiaries, a provision for employees' and directors' 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 occur. At certain consolidated subsidiaries, amortization for each fiscal year is made using the straight-line method over a certain period (five years) within the average remaining service period of the eligible employees when the differences are recognized, commencing from the year after 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.

F) Provision for directors' retirement benefits
At the Company and certain consolidated subsidiaries a provision 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.

(4) Translation of foreign currency transactions and accounts:

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 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 the average 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.

(5) Scope of cash and cash equivalents in the consolidated statements of cash flows:

Cash and cash equivalents in the consolidated statements of cash flows comprises cash on hand, bank deposits which may be withdrawn on demand and short-term investments with an original maturity of three months or less and with minimal risk of fluctuations in value.

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

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

Changes in Accounting Policy

(Application of accounting standard for net income per share)
From the fiscal year ended March 31, 2012, the Company applies "Accounting Standard for Earnings Per Share" (ASBJ Statement No. 2, issued June 30, 2010) and "Guidance on Accounting Standard for Earnings Per Share" (ASBJ Guidance No. 4, issued June 30, 2010).

Consequently, the Company has changed the method by which it calculates diluted net income per share. For stock options that vest after a certain period of service, the fair value of service to be provided to the Company in the future is included in the proceeds that the Company assumes it will receive through the exercise of rights.

The impact of this change is described in Per Share Information.

Reclassifications

(Consolidated Statements of Income)
"Commission fee," which was included in "Miscellaneous loss" under "Non-operating expenses" in the fiscal year ended March 31, 2011, is presented separately as of the fiscal year ended March 31, 2012, because the amount exceeded 10 percent of total non-operating expenses. To reflect this change in the method of presentation, the consolidated financial statements for the fiscal year ended March 31, 2011, have been reclassified.

Consequently, the ¥73 million recorded for "Miscellaneous loss" under "Non-operating expenses" on the Consolidated Statement of Income for the fiscal year ended March 31, 2011, has been broken down to reveal specifically ¥44 million for "Commission fee" and ¥28 million for "Miscellaneous loss."

"Loss on disaster" was presented separately under "Extraordinary loss" in the fiscal year ended March 31, 2011, but is included under "Other" as of the fiscal year ended March 31, 2012, due to reduced significance as the amount fell below 10 percent of total extraordinary loss. To reflect this change in the method of presentation, the consolidated financial statements for the fiscal year ended March 31, 2011, have been reclassified.

Consequently, the ¥570 million in "Loss on disaster" recorded under "Extraordinary loss" on the Consolidated Statement of Income for the fiscal year ended March 31, 2011, has been incorporated into "Other."

(Consolidated Statements of Cash Flows)
"Reversal of foreign currency translation adjustments," a separate item under "Cash flows from operating activities" in the fiscal year ended March 31, 2011, was included within "Other, net" in the fiscal year ended March 31, 2012, because of its reduced monetary significance. To reflect this change in the method of presentation, the consolidated financial statements for the fiscal year ended March 31, 2011, have been reclassified.

Consequently, the gain of ¥317 million from foreign currency translation in the fiscal year ended March 31, 2011, has been incorporated into "Other, net."

"Increase (decrease) in accrued consumption taxes," a separate item under "Cash flows from operating activities" in the fiscal year ended March 31, 2011, was included within "Increase (decrease) in other current liabilities" in the fiscal year ended March 31, 2012, because of its reduced monetary significance. To reflect this change in the method of presentation, the consolidated financial statements for the fiscal year ended March 31, 2011, have been reclassified.

Consequently, the ¥2,421 million recorded as a decrease in accrued consumption taxes under "Cash flows from operating activities" in the fiscal year ended March 31, 2011, has been incorporated into "Increase (decrease) in other current liabilities."

"Decrease in short-term loans payable," a separate item under "Cash flows from financing activities" in the fiscal year ended March 31, 2011, is presented as "Increase (decrease) in short-term loans payable" in the fiscal year ended March 31, 2012. To reflect this change in the method of presentation, the consolidated financial statements for the fiscal year ended March 31, 2011, have been reclassified.

Consequently, the ¥1,325 million recorded as a decrease in short-term loans payable under "Cash flows from financing activities" in the fiscal year ended March 31, 2011, has been included within "Increase (decrease) in short-term loans payable" for the fiscal year ended March 31, 2012.

Changes in Accounting Estimates

(Change in Estimate for Asset Retirement Obligations)
The Company and some of its consolidated subsidiaries made the decision in the fiscal year ended March 31, 2012, to relocate the head office as well as offices within the vicinity of the head office building in the next fiscal year, ending March 31, 2013. Consequently, because a more precise estimate of asset retirement obligations could be determined, the Company changed the asset retirement obligations estimate that had been booked to address obligations that are incurred to restore premises to their original state at the time of leaving, in accordance with the respective real estate lease contracts for these buildings.

Consequently, consolidated operating income, ordinary income and income before income taxes and minority interests are ¥508 million higher for the fiscal year ended March 31, 2012.

Additional Information

(Application of Accounting Standard for Accounting Changes and Error Corrections)
Effective April 1, 2011, the Company has applied "Accounting Standard for Accounting Changes and Error Corrections" (ASBJ Statement No. 24, December 4, 2009) and "Guidance on Accounting Standard for Accounting Changes and Error Corrections" (ASBJ Guidance No. 24, December 4, 2009) for accounting changes and corrections of prior period errors.

Notes to Consolidated Balance Sheets

*1 Investments in non-consolidated subsidiaries and affiliates

Millions of yen

	As of March 31, 2012	As of March 31, 2011
Investments and other assets	¥98	¥51

Notes to Consolidated Statements of Income

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

Millions of yen

Fiscal year ended March 31, 2012	Fiscal year ended March 31, 2011
¥4,797	¥2,095

*2 Selling, general and administrative expenses include research and development expenses

Millions of yen

Fiscal year ended March 31, 2012	Fiscal year ended March 31, 2011
¥1,273	¥710

*3 Breakdown of gain on sale of property and equipment

Millions of yen

	Fiscal year ended March 31, 2012	Fiscal year ended March 31, 2011
Tools and fixtures	¥—	¥0
Amusement equipment	—	1
Total	¥—	¥1

*4 Breakdown of loss on sale of property and equipment

Millions of yen

	Fiscal year ended March 31, 2012	Fiscal year ended March 31, 2011
Buildings and structures	¥ 1	¥—
Tools and fixtures	23	1
Land	6	—
Total	¥30	¥ 1

*5 Breakdown of loss on disposal of property and equipment

Millions of yen

	Fiscal year ended March 31, 2012	Fiscal year ended March 31, 2011
Buildings and structures	¥ 41	¥ 49
Tools and fixtures	16	297
Amusement equipment	292	257
Software	1	6
Other	0	10
Total	¥352	¥621

*6 Loss on evaluation 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, 2012, the Group posted impairment loss on the following groups of assets.

Millions of yen

Location	Usage	Category	Impairment amount
Shibuya-ku, Tokyo	Idle assets	Telephone subscription rights	¥ 6
Shibuya-ku, Tokyo	Assets planned for disposal	Amusement equipment	23
Moriguchi-shi, Osaka	Assets planned for disposal	Buildings	58
Ebina, Kanagawa Prefecture	Amusement equipment production and sale	Tools and fixtures	23
		Other (Property and equipment)	9
		Long-term prepaid expenses	0
		Finance lease that does not transfer ownership of rental transactions	9
Total			¥130

In the Amusement business segment, each division, including captive outlets, rented outlets and equipment production and sales, 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.

The recoverable amounts are primarily measured at net selling price which is based on reasonably estimated market prices.

In the fiscal year ended March 31, 2011, the Group posted impairment loss on the following groups of assets.

Millions of yen

Location	Usage	Category	Impairment amount
Shinjuku-ku, Tokyo	Assets planned for disposal related to home-use online karaoke business (discontinued business)	Telephone subscription rights	¥ 10
		Amusement equipment	1
		Tools and fixtures	1
Ebina, Kanagawa Prefecture	Amusement equipment production and sale	Buildings	0
		Tools and fixtures	45
		Software	4
		Long-term prepaid expenses	0
		Leased tools and fixtures	13
		Finance leases that do not transfer ownership of rental transactions	13
Shibuya-ku, Tokyo	Idle assets	Telephone subscription rights	2
Shibuya-ku, Tokyo	Assets planned for disposal	Amusement equipment	94
Shibuya-ku, Tokyo	Other	Goodwill	3,574
United Kingdom	Other	Goodwill	4,841
		Intangible assets	248
Total			¥8,853

In the Amusement business segment, each division, including captive outlets, rented outlets and equipment production and sales, 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.

For goodwill and intangible assets, asset values were reassessed, taking into account changes in the market environment, and book values were subsequently written down to the applicable recoverable values. Note that calculation of recoverable amounts is based on net selling price or value in use.

In principle, net selling price is based mainly on market price, and value in use is calculated using future cash flows discounted at 10.5%.

*8 Loss related to content

These are losses related primarily to the special maintenance of content.

*9 Loss on disposal of content and equipment

Fiscal year ended March 31, 2012	Fiscal year ended March 31, 2011
This loss is related to equipment in the Amusement segment for which development has ceased, following a careful review of marketability.	These are losses related to content in the Digital Entertainment segment and equipment in the Amusement segment for which development has ceased, following careful review of marketability prompted by sluggish sales of newly released console games and the market's harsh assessment of key titles.

Notes to Consolidated Statements of Comprehensive Income

*1 Reclassification adjustments and tax effects allocated to each component of other comprehensive income

	Millions of yen
Net unrealized gain on revaluation of other investment securities:	
Gains arising during the year	¥214
Reclassification adjustments	0
Total amount before tax-effect	214
Tax-effect	(75)
Net unrealized gain on revaluation of other investment securities	139
Foreign currency translation adjustments:	
Exchange differences arising during the year	(767)
Reclassification adjustments relating to foreign operations	5
Foreign currency translation adjustments	(761)
Total other comprehensive loss	¥(622)

Items Pertaining to the Consolidated Statements of Changes in Net Assets

Year ended March 31, 2012

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

Thousands of shares

	Shares as of April 1, 2011	Share increases during the year	Share decreases during the year	Shares as of March 31, 2012
Shares issued and outstanding				
Common stock	115,370	—	—	115,370
Total	115,370	—	—	115,370
Treasury stock*				
Common stock	299	1	0	301
Total	299	1	0	301

* The increase of 1 thousand shares of treasury stock was due to the acquisition of fractional shares constituting less than one trading unit.
  The decrease of 0 thousand shares of treasury stock was due to the sale of fractional shares constituting less than one trading unit.

2. Stock options and the Company's stock options

Category	Details of stock options	Type of shares issuable for the exercise of stock options	Number of shares allocated for the purpose of stock options: As of April 1, 2011	Increase during the year	Decrease during the year	As of March 31, 2012	Balance as of March 31, 2012 (Millions of yen)
Supplying company (parent company)	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	—	—	—	—	—	977
	Total	—	—	—	—	—	977

3. Dividends

(1) Dividend payments

Date of approval	Type of shares	Total dividends (Millions of yen)	Dividends per share (Yen)	Record date	Effective date
May 18, 2011 (Board of Directors' Meeting)	Common stock	¥2,301	¥20	March 31, 2011	June 23, 2011
November 4, 2011 (Board of Directors' Meeting)	Common stock	1,150	10	September 30, 2011	December 5, 2011

(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
May 18, 2012 (Board of Directors' Meeting)	Common stock	¥2,301	Retained earnings	¥20	March 31, 2012	June 5, 2012

Year ended March 31, 2011

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

Thousands of shares

	Shares as of April 1, 2010	Share increases during the year	Share decreases during the year	Shares as of March 31, 2011
Shares issued and outstanding				
Common stock	115,370	—	—	115,370
Total	115,370	—	—	115,370
Treasury stock*				
Common stock	297	1	0	299
Total	297	1	0	299

* The increase of 1 thousand shares of treasury stock was due to the acquisition of fractional shares constituting less than one trading unit.
The decrease of 0 thousand shares of treasury stock was due to the sale of fractional shares constituting less than one trading unit.

2. Stock options and the Company's stock options

Category	Details of stock options	Type of shares issuable for the exercise of stock options	Number of shares allocated for the purpose of stock options: As of April 1, 2010	Increase during the year	Decrease during the year	As of March 31, 2011	Balance as of March 31, 2011 (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	—	—	—	—	—	¥814
	Total	—	—	—	—	—	¥814

Note: The decrease of 10,882,352 shares in the fiscal year ended March 31, 2011, was because the period in which to exercise stock options (stock acquisition rights) attached to applicable bonds closed.

3. Dividends

(1) Dividend payments

Date of approval	Type of shares	Total dividends (Millions of yen)	Dividends per share (Yen)	Record date	Effective date
June 23, 2010 (Annual General Meeting of Shareholders)	Common stock	¥2,876	¥25	March 31, 2010	June 24, 2010
November 4, 2010 (Board of Directors' Meeting)	Common stock	1,150	10	September 30, 2010	December 3, 2010

(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
May 18, 2011 (Board of Directors' Meeting)	Common stock	¥2,301	Retained earnings	¥20	March 31, 2011	June 23, 2011

Notes to Consolidated Statements of Cash Flows

*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:

Millions of yen

	Fiscal year ended March 31, 2012	Fiscal year ended March 31, 2011
Cash and deposits	¥111,495	¥111,126
Time deposits with maturity periods over three months	(1,379)	(1,375)
Cash and cash equivalents	¥110,116	¥109,751

Lease Transactions

1. Finance lease transactions

(1) Type of leased assets

Amusement facilities in the Amusement business (buildings and structures, tools and fixtures and amusement equipment)

(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

	As of March 31, 2012			As of March 31, 2011		
	Acquisition cost	Accumulated depreciation	Net book value	Acquisition cost	Accumulated depreciation	Net book value
Buildings and structures	¥114	¥ 83	¥30	¥425	¥390	¥34
Tools and fixtures	210	168	42	218	160	58
Total	¥325	¥252	¥73	¥643	¥550	¥92

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:

Millions of yen

	As of March 31, 2012	As of March 31, 2011
Ending balances of future lease payments		
Due within one year	¥49	¥67
Due after one year	23	24
Total	¥73	¥92

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:

Millions of yen

	Fiscal year ended March 31, 2012	Fiscal year ended March 31, 2011
Lease payments	¥95	¥175
Depreciation expense	95	175

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.

2. Operating lease transactions
Future lease payments on noncancellable leases:

Millions of yen

	As of March 31, 2012	As of March 31, 2011
Due within one year	¥251	¥655
Due after one year	46	124
Total	¥298	¥779

Notes Regarding Financial Instruments

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 these financial instruments and the 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.

Corporate taxes receivable is a refund of corporate taxes that is recouped in a short period of time.

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.

Guarantee 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. Although these deposits involve exposure to counterparty credit risk, for the headquarters and other offices, and for amusement arcades, the general affairs division and the sales division, respectively, confirm the creditworthiness of the lessors through regular contact. 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, accrued corporate taxes 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. The Group is exposed to interest rate risk through short-term loans. The Group, however, is able to respond flexibly to interest rate fluctuations since the borrowing periods are short.

Corporate bonds comprise euro yen zero-coupon convertible bonds due 2015. As zero-coupon bonds, they are not exposed to the risk of interest rate fluctuations.

(3) Supplementary information regarding the fair value, and others, 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, 2011, 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).

As of March 31, 2012

Millions of yen

Assets:	Book value	Fair value	Difference
(1) Cash and deposits	¥111,495	¥111,495	¥ —
(2) Notes and accounts receivable	18,431		
Allowance for doubtful accounts	(123)		
Notes and accounts receivable, net	18,307	18,307	—
(3) Income taxes receivable	6,396	6,396	—
(4) Investment securities	549	549	—
(5) Guarantee deposits	12,785		
Allowance for doubtful deposits paid	(526)		
Guarantee deposits, net	12,259	11,614	(645)
Total assets	149,009	148,364	(645)
Liabilities:			
(1) Notes and accounts payable	9,220	9,220	—
(2) Short-term loans	5,253	5,253	—
(3) Accrued income taxes	4,034	4,034	—
(4) Corporate bonds	35,000	36,452	1,452
Total liabilities	¥ 53,509	¥ 54,961	¥ 1,452
Derivative transactions	—	—	—

As of March 31, 2011

Millions of yen

Assets:	Book value	Fair value	Difference
(1) Cash and deposits	¥111,126	¥111,126	¥ —
(2) Notes and accounts receivable	15,474		
Allowance for doubtful accounts	(119)		
Notes and accounts receivable, net	15,354	15,354	—
(3) Income taxes receivable	6,907	6,907	—
(4) Investment securities	334	334	—
(5) Guarantee deposits	12,316		
Allowance for doubtful deposits paid	(526)		
Guarantee deposits, net	11,790	11,335	(455)
Total assets	145,513	145,058	(455)
Liabilities:			
(1) Notes and accounts payable	7,777	7,777	—
(2) Short-term loans	1,338	1,338	—
(3) Accrued income taxes	2,269	2,269	—
(4) Corporate bonds	35,000	35,000	—
Total liabilities	¥ 46,386	¥ 46,386	¥ —
Derivative transactions	—	—	—

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

Assets

(1) Cash and deposits, (2) Notes and accounts receivable and (3) Income taxes 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.

(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) Guarantee 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.

Liabilities

(1) Notes and accounts payable, (2) Short-term loans and (3) Accrued corporate taxes

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.

(4) 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	As of March 31, 2012	As of March 31, 2011
Unlisted shares	¥49	¥51

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

	As of March 31, 2012				As of March 31, 2011			
	Within one year	More than one year but within five years	More than five years but within 10 years	More than 10 years	Within one year	More than one year but within five years	More than five years but within 10 years	More than 10 years
Deposits	¥109,863	¥ —	¥ —	¥ —	¥109,618	¥ —	¥ —	¥ —
Notes and accounts receivable	18,431	—	—	—	15,474	—	—	—
Income taxes receivable	6,396	—	—	—	6,907	—	—	—
Guarantee deposits	6,073	2,916	3,747	48	3,788	4,392	4,013	121
Total	¥140,765	¥2,916	¥3,747	¥ 48	¥135,664	¥4,392	¥4,013	¥121

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.

Securities

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

		As of March 31, 2012			As of March 31, 2011		
	Type	Book value	Acquisition cost	Difference	Book value	Acquisition cost	Difference
Securities with book value exceeding acquisition cost	(1) Stocks	¥442	¥243	¥198	¥ 4	¥ 2	¥ 1
	(2) Bonds						
	a. Government bonds and municipal bonds	—	—	—	—	—	—
	b. Corporate bonds	—	—	—	—	—	—
	c. Other	—	—	—	—	—	—
	(3) Other	—	—	—	—	—	—
	Subtotal	442	243	198	4	2	1
Securities with acquisition cost exceeding book value	(1) Stocks	106	111	(5)	330	352	(22)
	(2) Bonds						
	a. Government bonds and municipal bonds	—	—	—	—	—	—
	b. Corporate bonds	—	—	—	—	—	—
	c. Other	—	—	—	—	—	—
	(3) Other	—	—	—	—	—	—
	Subtotal	106	111	(5)	330	352	(22)
Total		¥549	¥355	¥(193)	¥334	¥355	¥(21)

4. Securities sold during the year

Millions of yen

	Fiscal year ended March 31, 2012			Fiscal year ended March 31, 2011		
Item	Proceeds	Aggregate gain on sale	Aggregate loss on sale	Proceeds	Aggregate gain on sale	Aggregate loss on sale
(1) Stocks	¥49	¥48	¥—	¥0	¥0	¥—
(2) Bonds						
a. Government bonds and municipal bonds	—	—	—	—	—	—
b. Corporate bonds	—	—	—	—	—	—
c. Other	—	—	—	—	—	—
(3) Other	—	—	—	—	—	—
Total	¥49	¥48	¥—	¥0	¥0	¥—

5. Investment securities subject to impairment

In the fiscal year ended March 31, 2012, other investment securities (shares) were subject to impairment amounting to ¥0 million.

In the fiscal year ended March 31, 2011, other investment securities (shares) were subject to impairment amounting to ¥175 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

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

Year ended March 31, 2012

Not applicable

Year ended March 31, 2011

Not applicable

2. Derivative transactions for which hedge accounting has been applied

Year ended March 31, 2012

Not applicable

Year ended March 31, 2011

Not applicable

Employees' Retirement Benefits

1. Overview of employees' 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

	Fiscal year ended March 31, 2012	Fiscal year ended March 31, 2011
(1) Retirement benefit obligation	¥(11,795)	¥(11,255)
(2) Fair value of plan assets	6,386	6,209
(3) Net unfunded obligation (1)+(2)	(5,409)	(5,046)
(4) Unrecognized actuarial loss	1,600	1,984
(5) Unrecognized amortization of prior service cost	—	—
(6) Provision for employees' retirement benefits (3)+(4)+(5)	(3,808)	(3,061)
(7) Prepaid pension expenses	—	—
(8) Provision for employees' retirement benefits, net (6)-(7)	¥ (3,808)	¥ (3,061)

3. Retirement benefit expenses:

Millions of yen

	Fiscal year ended March 31, 2012	Fiscal year ended March 31, 2011
Retirement benefit expenses	¥1,397	¥1,249
(1) Service cost	562	542
(2) Interest cost	151	152
(3) Expected return on plan assets	(75)	(82)
(4) Amortization of net actuarial gain	759	720
(5) Amortization of prior service cost	—	(81)

Note: In addition to the retirement benefit expenses shown above, the Company recorded severance payments related to business restructuring for the years ended March 31, 2012 and 2011 amounting to ¥11 million and ¥75 million, respectively.

4. Assumptions used in accounting for the above plans:

(1) Periodic allocation method for projected benefits

Straight-line basis

(2) Discount rates

Fiscal year ended March 31, 2012	Fiscal year ended March 31, 2011
0.973–1.550%	1.250–1.969%

(3) Expected rate of return on plan assets

Fiscal year ended March 31, 2012	Fiscal year ended March 31, 2011
1.250%	1.250%

(4) Period over which prior service cost is amortized
1–5 years
(Prior service costs are amortized over the average of the estimated remaining service lives.)
(5) Period over which net actuarial gain or loss is amortized
1–5 years
(Actuarial gains and losses are expensed at one time in the fiscal year following the fiscal year in which they occur. Some consolidated subsidiaries expense the gains and losses in the fiscal year following the fiscal year in which they occur on a straight-line basis over a certain number of years within the employees' average remaining years of service, commencing from the year each gain or loss occurred.)

Stock Options

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

Millions of yen

	Fiscal year ended March 31, 2012	Fiscal year ended March 31, 2011
Cost of sales	¥ 6	¥ 13
Selling, general and administrative expenses	203	210

2. Amounts recorded as gains due to vested stock options unexercised by employees:

Millions of yen

	Fiscal year ended March 31, 2012	Fiscal year ended March 31, 2011
Reversal of stock acquisition rights	¥46	¥125

3. Details, scale of and changes in stock options:
(1) Details of stock options

	2007 stock options	2007 stock options	2008 stock options	2009 stock options	2009 stock options	2010 stock options	2010 stock options	2010 stock options	2011 stock options	2011 stock options
Category of grantees	Company directors	Company employees, and directors and employees of the Company's subsidiaries	Company directors	Company directors	Company employees	Company directors	Company employees	Company employees	Company directors	Company employees, and directors and employees of the Company's subsidiaries
Number of grantees	5	59	5	5	7	5	6	2	5	12
Number of stock options	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	77,000 shares of common stock	140,000 shares of common stock	20,000 shares of common stock	87,000 shares of common stock	180,000 shares of common stock
Date granted	December 4, 2007	December 4, 2007	August 21, 2008	October 21, 2009	January 15, 2010	August 23, 2010	August 23, 2010	January 14, 2011	July 21, 2011	August 31, 2011
Conditions for vesting of interests	No conditions have been set for vesting interests	No conditions have been set for vesting interests	No conditions have been set for vesting interests	No conditions have been set for vesting interests	No conditions have been set for vesting interests	No conditions have been set for vesting interests	No conditions have been set for vesting interests	No conditions have been set for vesting interests	No conditions have been set for vesting interests	No conditions have been set for vesting interests
Service period	No service period established	No service period established	No service period established	No service period established	No service period established	No service period established	No service period established	No service period established	No service period established	No service period established
Rights exercise period	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 November 21, 2028	October 22, 2009 to October 21, 2029	December 26, 2011 to December 25, 2014	August 24, 2010 to August 23, 2030	July 30, 2012 to July 29, 2015	December 25, 2012 to December 24, 2015	July 22, 2011 to July 21, 2031	August 6, 2013 to August 5, 2016

Note: The number of stock options described is the number of shares after conversion.

(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

	2007 stock options	2007 stock options	2008 stock options	2009 stock options	2009 stock options	2010 stock options	2010 stock options	2010 stock options	2011 stock options	2011 stock options
Before vesting (shares)										
March 31, 2011	—	199,400	—	—	140,000	—	140,000	20,000	—	—
Granted	—	—	—	—	—	—	—	—	87,000	180,000
Forfeited	—	20,400	—	—	—	—	—	—	—	—
Vested	—	179,000	—	—	140,000	—	—	—	87,000	—
Unvested balance	—	—	—	—	—	—	140,000	20,000	—	180,000
After vesting (shares)										
March 31, 2011	250,000	387,600	19,800	57,000	—	77,000	—	—	—	—
Vested	—	179,000	—	—	140,000	—	—	—	87,000	—
Exercised	—	—	—	—	—	—	—	—	—	—
Forfeited	—	62,600	—	—	10,000	—	—	—	—	—
Balance unexercised	250,000	504,000	19,800	57,000	130,000	77,000	—	—	87,000	—

2) Price information

Yen

	2007 stock options	2007 stock options	2008 stock options	2009 stock options	2009 stock options	2010 stock options	2010 stock options	2010 stock options	2011 stock options	2011 stock options
Exercise price	¥3,706	¥3,706	¥1	¥1	¥2,293	¥1	¥1,895	¥1,779	¥1	¥1,835
Average share price at exercise	—	—	—	—	—	—	—	—	—	—
Fair market value on grant date	526	A. 526 B. 594 C. 715	3,171	2,107	385	1,464	364	250	1,312	435

4. Method of estimating the fair value of stock options

The fair value of the 2011 Stock Options granted during the fiscal year under review was estimated using the following method.

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

(2) Main assumptions used and method of valuation

	2011 Stock Options	2011 Stock Options
Expected share price volatility (Note 1)	32.3%	37.1%
Expected life (Note 2)	10 years	3.4 years
Expected dividend (Note 3)	Dividend yield 1.89%	Dividend yield 1.63%
Risk-free interest rate (Note 4)	1.10%	0.21%

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 2011 Stock Options, this was calculated based on the actual dividend applicable to the fiscal year ended March 31, 2011.

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

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

Millions of yen

	As of March 31, 2012	As of March 31, 2011
Deferred tax assets		
1) Current assets		
Enterprise tax payable	¥ 344	¥ 212
Business office tax payable	41	46
Provision for bonuses	457	440
Accrued expenses	170	659
Provision for sales returns	122	200
Non-deductible portion of allowance for doubtful accounts	68	88
Tax credits	—	503
Loss on write-offs of content production account	3,204	2,237
Loss on inventory revaluation	818	645
Provision for game arcade closings	98	197
Loss carried forward	99	171
Other	218	145
Valuation allowance	(444)	(863)
Offset to deferred tax liabilities (current)	(176)	(191)
Total	5,022	4,493
2) Non-current assets		
Non-deductible portion of provision for employees' retirement benefits	1,395	1,252
Provision for directors' retirement benefits	82	96
Expense for stock-based compensation	344	336
Non-deductible depreciation expense of property and equipment	123	200
Asset retirement obligations	49	181
Impairment loss	308	424
Loss on evaluation of investments in securities	306	456
Loss on evaluation of stocks of subsidiaries and affiliates	51	—
Non-deductible portion of allowance for doubtful accounts	59	67
Non-deductible portion of excess expenses on lump-sum depreciable assets	145	219
Loss carried forward, and others, at overseas subsidiaries	845	1,720
Provision for game arcade closings	211	238
Tax credits	119	—
Loss carried forward	59	173
Other	134	443
Valuation allowance	(2,556)	(2,936)
Offset to deferred tax liabilities (non-current)	(1,221)	(1,792)
Total	460	1,082
Total deferred tax assets	5,483	5,576
Deferred tax liabilities		
1) Current liabilities		
Accrued expenses and other cost calculation details	151	190
Other	25	0
Offset to deferred tax assets (non-current assets)	(176)	(191)
Total	—	—
2) Non-current liabilities		
Non-current assets	1,654	1,544
Tax effects from intangible non-current assets relating to business combinations	1,804	2,076
Other	367	749
Offset to deferred tax assets (non-current)	(1,221)	(1,792)
Total	2,605	2,577
Total deferred tax liabilities	2,605	2,577
Balance: Net deferred tax assets	¥ 2,878	¥ 2,998

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

	As of March 31, 2012
Statutory tax rate	40.70%
(Adjustments)	
Permanent differences relating to entertainment expense, etc., excluded from non-taxable expenses	0.65
Permanent differences relating to dividends received, etc., excluded from non-taxable expenses	(0.17)
Valuation allowance	(2.38)
Taxation on a per capita basis for inhabitants' tax	1.13
Tax credit for R&D expenses	(11.36)
Reduction of deferred tax assets and liabilities at fiscal year-end due to changes in corporate tax rate	5.13
Foreign tax credit	3.19
Differences in tax rate from the parent company's statutory tax rate	0.55
Other	1.00
Effective tax rate	38.44

No breakdown of key components is presented for the fiscal year ended March 31, 2011 because the Company posted a loss before income taxes and minority interests.

3. Reduction of deferred tax assets and deferred tax liabilities due to changes in tax rate
Following promulgation of the "Law to revise a part of the income tax law and other laws to build the tax system in response to structural changes in the economy of Japan" (Law No. 114 of 2011) and the "Law on special measures related to securing financial resources necessary to execute programs for recovery from the Great East Japan Earthquake" (Law No. 117 of 2011) on December 2, 2011, a reduction in the corporate tax rate and the introduction of a special tax to be applied to reconstruction costs will become effective from fiscal years beginning on or after April 1, 2012. Along with these changes, the statutory tax rate used in calculating deferred tax assets and deferred tax liabilities will decrease from the current 40.70% to 38.01% concerning temporary differences expected to be resolved in the fiscal years beginning between April 1, 2012 and April 1, 2014, and to 35.64%, concerning temporary differences expected to be resolved in fiscal years beginning on or after April 1, 2015. Due to these tax rate changes, the amount of deferred tax assets (net of deferred tax liabilities) decreased by ¥495 million and income taxes–deferred increased by ¥504 million as of and for the fiscal year ended March 31, 2012.

Business Combinations

■ **Year ended March 31, 2012**

Not applicable

Asset Retirement Obligations

Balance Sheet Amount for Asset Retirement Obligations

a) Summary of applicable asset retirement obligations
Asset retirement obligations include the duty of restoration arising from contractual requirements set forth in real estate leases for buildings, including offices at the headquarters, as well as amusement facility arcades.

b) Assumptions used in calculating applicable asset retirement obligations
Asset retirement obligations on buildings, including offices at the headquarters, are based on estimated useful life, generally ranging between 10 and 24 years, and a discount rate generally set between 1.300% and 2.240%.
For amusement facility arcades, asset retirement obligations are based on an estimated useful life of 10 years—the average operating period for arcades that have been closed—and a discount rate between 0.955% and 1.355%.

c) Changes to aggregate asset retirement obligations

Millions of yen

	Fiscal year ended March 31, 2012	Fiscal year ended March 31, 2011
Beginning balance	¥ 721	¥649
Increase due to procurement of property and equipment	2	1
Accretion expense	7	8
Decrease due to fulfillment of asset retirement obligations	(58)	(9)
Decrease due to change in estimates	(517)	—
Other	(3)	71
Ending balance	¥ 152	¥721

d) Change in estimates on applicable asset retirement obligations

The Company and some of its consolidated subsidiaries made the decision in the fiscal year ended March 31, 2012 to relocate the head office and its neighboring offices in the fiscal year ending on March 31, 2013. Consequently, because a more precise estimate of asset retirement obligations could be determined, the Company changed the asset retirement obligations estimate that had been booked for the obligations to restore premises to their original state in accordance with the respective real estate lease contracts of these buildings.

Matters Relating to Real Estate Leases, Etc.

■ Year ended March 31, 2011

Not applicable

■ Year ended March 31, 2012

Not applicable

Segment Information

[Consolidated Business Segment Information]

[Segment Information]

■ Year ended March 31, 2012

1. Outline of reporting segments

The Company's reporting segments are business units for which abstracted financial data is available and periodically reviewed by the Board of Directors to determine resource allocation and to evaluate business performance.

In a rapidly evolving business environment, the Company seeks to provide high-quality entertainment content and services through a variety of environment to match customer lifestyles.

Accordingly, the Company maintains four business segments, each dedicated to a particular entertainment content and service format: (1) the "Digital Entertainment" segment, for interactive digital content for game consoles (including handheld game machines), personal computers and mobile phones (including smartphones); (2) the "Amusement" segment, for amusement facility operation as well as the sale and rental of arcade game machines; (3) the "Publication" segment, for publication of comic books, game strategy books and comic magazines; and (4) the "Merchandising" segment, for planning, production, distribution and licensing of derivative products. These are the Company's reporting segments.

2. Calculating reporting segment sales, income (loss), assets and other items

Accounting treatment methods applied to financial results of reporting segments are the same as those used in the preparation of the Company's consolidated financial statements. Reporting segment income corresponds to operating income. Intersegment sales are based on prevailing prices in the market for the content and/or services provided.

3. Information on sales, income (loss), assets and other items by reporting segment

Millions of yen

	Reporting Segments					Adjustment (Note 1)	Consolidated total (Note 2)
	Digital Entertainment	Amusement	Publication	Merchandising	Total		
Net sales							
(1) Sales to outside customers	¥71,871	¥41,921	¥11,335	¥2,767	¥127,896	¥ —	¥127,896
(2) Intersegment sales	—	—	—	0	0	(0)	—
Total	71,871	41,921	11,335	2,767	127,896	(0)	127,896
Segment operating income	¥12,602	¥ 2,552	¥ 2,575	¥ 742	¥ 18,472	¥ (7,759)	¥ 10,713
Segment assets	¥49,401	¥23,916	¥ 5,492	¥2,957	¥ 81,767	¥132,213	¥213,981
Other items							
Depreciation and amortization	1,589	3,363	22	16	4,991	48	5,039
Increases in property and equipment and intangible assets	936	3,932	1	—	4,870	339	5,209

Notes: 1 (1) Segment adjustments (¥7,759 million) include unallocated corporate operating expenses (¥7,784 million).
(2) Unallocated assets amounting to ¥132,329 million are included in the ¥132,213 million adjustment to segment assets. Most of this amount comprises funds for management of surplus funds (cash and cash equivalents).
(3) The ¥48 million adjustment to depreciation and amortization is associated with unallocated assets that do not belong to any reporting segment.
(4) The ¥339 million adjustment to increases in property and equipment and intangible assets is associated with unallocated assets that do not belong to any reporting segment.
2. Segment operating income corresponds to operating income on the Consolidated Statements of Income.

Year ended March 31, 2011

1. Outline of reporting segments

The Company's reporting segments are business units for which abstracted financial data is available and periodically reviewed by the Board of Directors to determine resource allocation and evaluate business performance.

Under internationally recognized brands, such as SQUARE ENIX, TAITO and EIDOS, the Company seeks to provide high-quality entertainment content and services through diverse formats geared to customer lifestyles.

Accordingly, the Company maintains four business segments, each dedicated to a particular entertainment content and service format: (1) the "Digital Entertainment" segment, for interactive digital content for game consoles, personal computers and mobile phones; (2) the "Amusement" segment, for amusement facility operation as well as the sale and rental of arcade game machines; (3) the "Publication" segment, for publication of comic books, game strategy books and comic magazines; and (4) the "Merchandising" segment, for planning, production, distribution and licensing of derivative products. These are the Company's reporting segments.

2. Calculating reporting segment sales, income (loss), assets and other items

Same as the year ended March 31, 2012

3. Information on sales, income (loss), assets and other items by reporting segment

Millions of yen

	Reporting Segments					Adjustment (Note 1)	Consolidated total (Note 2)
	Digital Entertainment	Amusement	Publication	Merchandising	Total		
Net sales							
(1) Sales to outside customers	¥64,203	¥45,012	¥13,045	¥3,009	¥125,271	¥ —	¥125,271
(2) Intersegment sales	0	0	—	8	9	(9)	—
Total	64,204	45,012	13,045	3,018	125,280	(9)	125,271
Segment operating income	¥11,283	¥ 2,178	¥ 3,204	¥ 680	¥ 17,346	¥(10,021)	¥ 7,325
Segment assets	¥44,471	¥23,241	¥ 5,252	¥2,803	¥ 75,768	¥130,568	¥206,336
Other items							
Depreciation and amortization	1,855	3,987	22	18	5,884	724	6,608
Increases in property and equipment and intangible assets	874	3,779	11	12	4,677	685	5,363

Notes: 1. (1) Segment adjustments (¥10,021 million) include amortization of goodwill (¥1,492 million) and unallocated corporate operating expenses (¥8,573 million).
(2) Unallocated assets amounting to ¥130,440 million are included in the ¥130,568 million adjustment to segment assets. Most of this amount comprises funds for management of surplus funds (cash and cash equivalents).
(3) The ¥724 million adjustment to depreciation and amortization is associated with unallocated assets that do not belong to any reporting segment.
(4) The ¥685 million adjustment to increases in property and equipment and intangible assets is associated with unallocated assets that do not belong to any reporting segment.
2. Segment operating income corresponds to operating income on the Consolidated Statements of Income.

[Related Information]

■ Year ended March 31, 2012

1. Information by product or service

This information is identical to that of segment information and has therefore been omitted.

2. Information by geographical area

(1) Sales

Millions of yen

Japan	North America	Europe	Asia	Total
¥101,686	¥10,614	¥13,180	¥2,415	¥127,896

Note: Sales are grouped by country or region, based on customer location.

(2) Property and equipment

Millions of yen

Japan	North America	Europe	Asia	Total
¥16,297	¥529	¥326	¥29	¥17,183

3. Information by major customer

This information has been omitted because all sales to major customers account for less than 10% of the net sales amount shown on the Consolidated Statements of Income.

■ Year ended March 31, 2011

1. Information by product or service

This information is identical to that of segment information and has therefore been omitted.

2. Information by geographical area

(1) Sales

Millions of yen

Japan	North America	Europe	Asia	Total
¥104,633	¥10,639	¥8,723	¥1,273	¥125,271

Note: Sales are grouped by country or region, based on customer location.

(2) Property and equipment

Millions of yen

Japan	North America	Europe	Asia	Total
¥16,655	¥394	¥258	¥20	¥17,328

3. Information by major customer

This information has been omitted because all sales to major customers account for less than 10% of the net sales amount shown on the Consolidated Statements of Income.

[Information related to impairment losses on property and equipment in each reporting segment]

■ Year ended March 31, 2012

Millions of yen

	Digital Entertainment	Amusement	Publication	Merchandising	Eliminations or unallocated (Note)	Total
Impairment losses	¥—	¥66	¥—	¥—	¥64	¥130

Note: "Eliminations or unallocated" is amount related mainly to impairment losses on assets planned for disposal.

■ Year ended March 31, 2011

Millions of yen

	Digital Entertainment	Amusement	Publication	Merchandising	Eliminations or unallocated (Note)	Total
Impairment losses	¥261	¥173	¥—	¥—	¥8,418	¥8,853

Note: "Eliminations or unallocated" is amount related mainly to impairment losses on goodwill.

[Information related to amortization of goodwill and the unamortized balance in each reporting segment]

■ Year ended March 31, 2012

Not applicable

■ Year ended March 31, 2011

Millions of yen

	Digital Entertainment	Amusement	Publication	Merchandising	Eliminations or unallocated (Note)	Total
Amortization for fiscal year under review	¥—	¥—	¥—	¥—	¥1,492	¥1,492
Balance at end of fiscal year under review	¥—	¥—	¥—	¥—	¥ —	¥ —

Note: "Eliminations or unallocated" is the amount of amortization expense on goodwill in corporate that cannot be allocated to reporting segments.

[Information related to gain on negative goodwill in each reporting segment]

■ Year ended March 31, 2012

Not applicable

■ Year ended March 31, 2011

Not applicable

[Related Party Transactions]

■ **Year ended March 31, 2012**

Not applicable

■ **Year ended March 31, 2011**

Not applicable

Per Share Information

Yen

	Fiscal year ended March 31, 2012	Fiscal year ended March 31, 2011
Net assets per share	¥1,177.87	¥1,160.66
Net income (loss) per share	52.66	(104.66)
Diluted net income per share	52.55	Note that earnings per share after adjustment for residual securities has been omitted because, despite the existence of residual securities, the Company posted a net loss.

(Change in accounting policy)

From the fiscal year ended March 31, 2012, the Company applies "Accounting Standard for Earnings Per Share" (ASBJ Statement No. 2, June 30, 2010) and "Guidance on Accounting Standard for Earnings Per Share" (ASBJ Guidance No. 4, issued June 30, 2010).

Consequently, the Company has changed the method by which it calculates diluted net income per share. For stock options that vest after a certain period of service, the fair value of service to be provided to the Company in the future is included in the proceeds that the Company assumes it will receive through the exercise of rights.

This change has no impact.

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

Millions of yen

	Fiscal year ended March 31, 2012	Fiscal year ended March 31, 2011
Net income per share:		
Net income (loss)	¥ 6,060	¥(12,043)
Income (loss) not available to common shareholders	—	—
Income (loss) available to common shareholders	6,060	(12,043)
Average number of shares of common stock outstanding during the fiscal year (thousands of shares)	115,070	115,072
Adjustments to net income used to calculate diluted net income per share:		
Adjustments to net income	—	—
Increase in the number of shares of common stock (thousands of shares)	240	—
(number of shares reserved for the purpose of new share issuances for exercise of share subscription rights)	(240)	(—)
Summary of residual securities that do not dilute the Company's earnings per share	Fourth issuance of stock acquisition rights pursuant to a resolution by the Board of Directors on November 19, 2007; fifth series 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 by the Board of Directors on January 18, 2010; issuance of stock acquisition rights in August 2010 pursuant to a resolution by the Board of Directors on July 29, 2010; issuance of stock acquisition rights in January 2011 pursuant to a resolution by the Board of Directors on December 24, 2010; issuance of stock acquisition rights in August 2011 pursuant to a resolution by the Board of Directors on August 5, 2011.	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; issuance of August 2010 stock acquisition rights pursuant to a resolution by the Board of Directors on July 29, 2010; issuance of January 2011 stock acquisition rights pursuant to a resolution by the Board of Directors on December 24, 2010.

Significant Subsequent Events

At its meeting on June 26, 2012, the Board of Directors resolved to grant stock acquisition rights in the form of stock options as a component of compensation for the Company's Directors, in accordance with the provisions of Articles 236, 238 and 240 of the Company Law of Japan.

(1) Reason for issuing stock acquisition rights as stock options

The Company will issue stock acquisition rights as stock options as compensation for the execution of duties by directors.

(2) Outline of stock acquisition rights

1. Issue date

July 26, 2012

2. Eligibility and number of allotted shares

A total of 670 units, wherein one (1) unit equals 100 shares, will be offered to five (5) directors.

3. Issue price

No payment will be required in exchange for stock acquisition rights.

4. Class and number of shares given to stock acquisition rights

A total of 67,000 shares of common stock.

5. Exercise price

One (1) yen per share.

6. Exercise period

From July 27, 2012 through July 26, 2032

7. Increases in common stock and capital surplus in the event shares are issued through the exercise of stock acquisition rights

a) The amount by which common stock increases through the issuance of shares upon the exercise of stock acquisition rights will be half the maximum increase of common stock, as calculated in accordance with Article 17, Paragraph 1 of the Corporate Accounting Rules, and any fraction less than one (1) yen that results from such calculation will be rounded up to the nearest whole yen.

b) The amount by which capital surplus increases through the issuance of shares upon the exercise of stock acquisition rights will be the amount that remains after the aforementioned maximum increase in common stock is subtracted from the aforementioned capital increase.

Supplementary Schedule

[Corporate Bonds Issued]

Company	Bond type	Issuance date	Outstanding balance as of April 1, 2011 (Millions of yen)	Outstanding balance as of March 31, 2012 (Millions of yen)	Coupon (%)	Security	Maturity date
SQUARE ENIX HOLDINGS CO., LTD.	euro yen zero coupon convertible bonds due 2015*[1, 2]	February 4, 2010 (UK time)	¥35,000	¥35,000	—	None	February 4, 2015 (UK time)
Total			¥35,000	¥35,000			

Notes: 1. Information relating to euro yen zero-coupon convertible bonds maturing in 2015 is as follows.

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 (local time where funds are deposited)	February 19, 2010 to January 20, 2015
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

2. Amount scheduled to be repaid within five years from March 31, 2012 is 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
¥—	¥—	¥35,000	¥—	¥—

[Borrowings]

Category	Balance as of April 1, 2011 (Millions of yen)	Balance as of March 31, 2012 (Millions of yen)	Average interest rate (%)	Repayment date
Short-term borrowings	¥1,338	¥5,253	1.9	—
Long-term borrowings due for repayment within one year	—	—	—	—
Lease obligations due for repayment within one year	40	34	—	—
Long-term borrowings (excluding the amount due for repayment within one year)	—	—	—	—
Lease obligations (excluding the amount due for repayment within one year)	66	51	—	May 2013 to February 2017
Other interest-bearing liabilities	—	—	—	—
Total	¥1,445	¥5,338	¥—	¥—

Notes: 1. The average interest rate shown is the weighted average interest rate on the balance of borrowings as of March 31, 2012.
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 subsequent to March 31, 2012 for lease obligations (excluding the amount due for repayment within one year) are as follows.

Millions of yen

	More than one year but within two years	More than two years but within three years	More than three years but within four years	More than four years but within five years
Lease obligations	¥26	¥17	¥6	¥1

[Asset retirement obligations]

Asset retirement obligations at the end of the fiscal year in review (ended March 31, 2012) amounted to less than one percent of total liabilities and net assets as at the year-end date and have therefore been omitted, as provided in Article 92-2 of Regulations for Consolidated Financial Statements.

[Other]

Quarterly Financial Information

Millions of yen

Cumulative period	1Q April 1, 2011 to June 30, 2011	2Q April 1, 2011 to September 30, 2011	3Q April 1, 2011 to December 31, 2011	4Q April 1, 2011 to March 31, 2012
Net sales	¥24,529	¥57,516	¥95,738	¥127,896
Income before income taxes and minority interests	1,665	5,345	9,359	9,866
Net income	690	3,704	5,013	6,060
Net income per share (yen)	6.00	32.19	43.57	52.66

	1Q April 1, 2011 to June 30, 2011	2Q July 1, 2011 to September 30, 2011	3Q October 1, 2011 to December 31, 2011	4Q January 1, 2012 to March 31, 2012
Net income per share (yen)	¥6.00	¥26.19	¥11.38	¥9.09

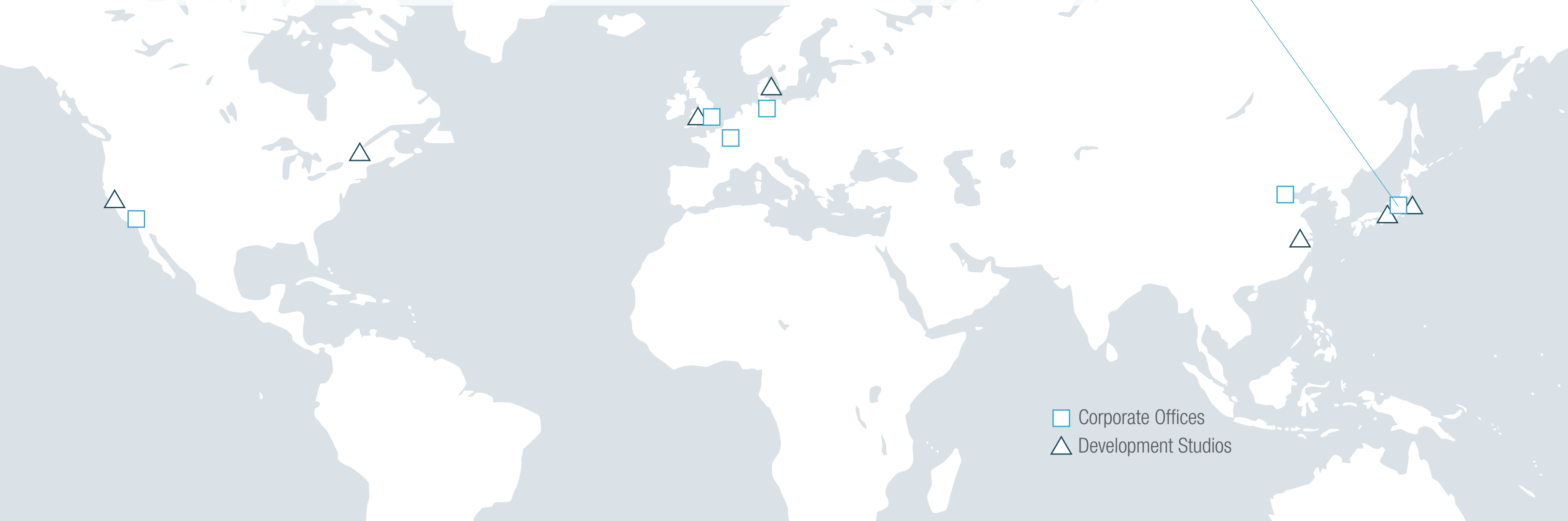
Corporate Data

(As of March 31, 2012)

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: 3,424 (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	Percentage of Voting Rights	Principal Lines of Business
Major Consolidated Subsidiaries					
Japan					
SQUARE ENIX CO., LTD.	October 2008	March	¥1,500 million	100.0%	Digital entertainment, amusement, publication, merchandising
TAITO CORPORATION	June 2009	March	¥1,500 million	100.0%	Digital entertainment, amusement, merchandising
SMILE-LAB Co., Ltd.	February 2008	March	¥10 million	100.0%	Provision of online entertainment service
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%)	Digital entertainment, publication, 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$6 million	100.0% (100.0%)	Development of games
Europe					
SQUARE ENIX OF EUROPE HOLDINGS LTD.	December 2008	March	GB£2	100.0%	Holding of shares in and business management of Square Enix Group companies located in Europe
SQUARE ENIX LTD.	December 1998	March	GB£111 million	100.0% (100.0%)	Digital entertainment, publication, merchandising in Europe
IO INTERACTIVE A/S	November 1990	March	DKK656 thousand	100.0% (100.0%)	Development of games
Asia					
SQUARE ENIX (China) CO., LTD.	January 2005	December	US$12 million	100.0% (100.0%)	Digital entertainment in China and Asia
HUANG LONG CO., LTD.	August 2005	December	10 million yuan RMB	— [100.0%]	Sale and management of online games in Asia

Note: In the Percentage of Voting Rights column, numbers in parentheses ( ) represent the percentage of indirect holdings and are included 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.

Investor Information

(As of March 31, 2012)

Share Information

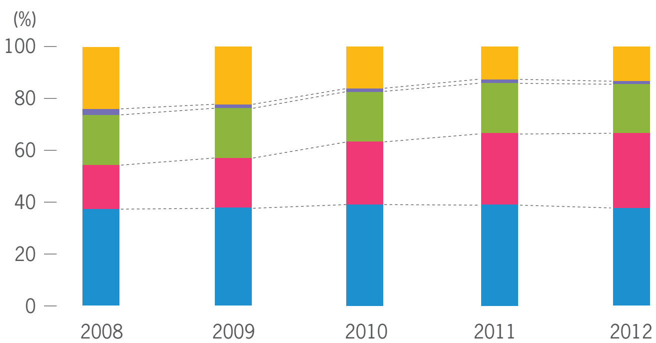
Number of shares issued: 115,370,596

Number of shareholders: 31,385

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	Masashi Miyamoto	7,077	6.13
5	State Street Bank and Trust Company 505223	7,007	6.07
6	Japan Trustee Services Bank, Ltd. (Trust Account)	4,631	4.01
7	The Master Trust Bank of Japan, Ltd. (Trust Account)	3,694	3.2
8	State Street Bank and Trust Company	2,915	2.52
9	S System Co., Ltd.	2,045	1.77
10	State Street Bank and Trust Company 505225	1,371	1.18

Share Ownership (Thousands of shares)



	2008		2009		2010		2011		2012	
Financial Institutions	27,760	(24.1%)	25,770	(22.4%)	18,643	(16.2%)	15,711	(13.6%)	15,485	(13.4%)
Financial Instruments Companies	2,678	(2.3%)	1,558	(1.4%)	1,479	(1.3%)	981	(0.9%)	995	(0.9%)
Other Companies	22,148	(19.2%)	22,190	(19.2%)	22,161	(19.2%)	22,122	(19.2%)	22,089	(19.2%)
Foreign Companies and Individuals	19,620	(17.1%)	22,271	(19.3%)	28,029	(24.3%)	31,668	(27.4%)	33,268	(28.8%)
Individuals and Other	42,909	(37.3%)	43,514	(37.7%)	45,055	(39.0%)	44,884	(38.9%)	43,530	(37.7%)
Total	115,117	(100.0%)	115,305	(100.0%)	115,370	(100.0%)	115,370	(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.pronexus.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 accident or other unavoidable reason.)

SQUARE ENIX HOLDINGS CO., LTD.
www.square-enix.com/

VEGETABLE OIL INK