SQUARE ENIX

2013
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

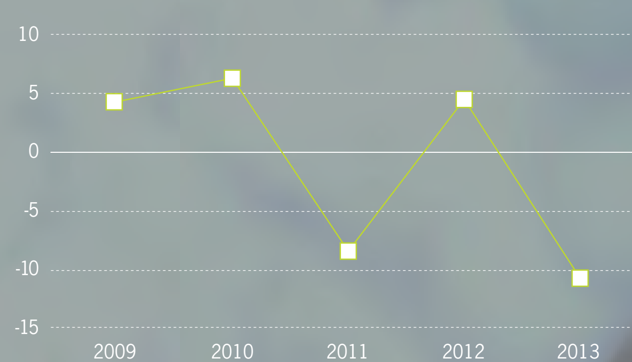
SQUARE ENIX HOLDINGS CO., LTD. and Consolidated Subsidiaries
Years ended March 31

					Millions of Yen	Thousands of U.S. Dollars
	2009	2010	2011	2012	2013	2013
For the Year						
Net sales	¥ 135,693	¥ 192,257	¥ 125,271	¥ 127,896	¥ 147,981	$1,573,437
Operating income (loss)	12,277	28,235	7,325	10,713	(6,081)	(64,667)
Recurring income (loss)	11,261	27,822	5,390	10,297	(4,378)	(46,552)
Net income (loss)	6,333	9,509	(12,043)	6,060	(13,714)	(145,825)
At Year-end						
Total assets	¥ 213,194	¥ 270,529	¥ 206,336	¥ 213,981	¥ 202,509	$2,153,207
Total net assets	148,724	154,258	135,143	137,297	121,636	1,293,321
					Yen	U.S. Dollars
Per Share of Common Stock						
Net income (loss)	¥ 55.11	¥ 82.65	¥ (104.66)	¥ 52.66	¥ (119.19)	$ (1.27)
Total net assets	1,280.92	1,326.82	1,160.66	1,177.87	1,043.62	11.00
					%	
Key Ratios						
Operating income margin	9.0%	14.7%	5.8%	8.4%	(4.1)%	
Recurring income margin	8.3	14.5	4.3	8.0	(2.9)	
Return on equity	4.3	6.3	(8.4)	4.5	(10.7)	
Equity ratio	69.1	56.4	64.7	63.3	59.3	

Note: For the convenience of readers, amounts in U.S. dollars have been translated using the currency exchange rate at March 31, 2013 of ¥94.05=US$1.

Operating Income Margin/Recurring Income Margin (%)

Return on Equity (%)



Yosuke Matsuda
President and Representative Director

Oct. 2001	Senior Vice President, SQUARE CO., LTD. (currently SQUARE ENIX HOLDINGS CO., LTD.)
Apr. 2003	Senior Vice President and General Manager, Accounting and Finance Division
Jun. 2004	Director, Accounting and Finance
Mar. 2013	Senior Executive Managing Director and Representative Director
Jun. 2013	President and Representative Director (incumbent)

(Significant Positions Concurrently Held)
President and Representative Director, SQUARE ENIX CO., LTD.
Director, SQUARE ENIX OF EUROPE HOLDINGS LTD.
(the Group's intermediate holding company in Europe)
President and Director, SQUARE ENIX OF AMERICA HOLDINGS, INC.
(the Group's intermediate holding company in North America)

I would like to express my sincere appreciation for all the understanding and support you kindly extend to the Square Enix group ("Group"). I was appointed to the position of President and Representative Director at the Annual Shareholders' Meeting and the Board of Directors' Meeting held on June 25, 2013. I will draw on my previous experience and do my utmost to guide the Group under the new management structure toward significant business growth. I look forward to your continued support.

The fiscal year ended March 31, 2013 was a very difficult year for the Group. On a consolidated basis, net sales totaled ¥147,981 million (an increase of 15.7% from the prior fiscal year), operating loss amounted to ¥6,081 million (operating income of ¥10,713 million in the prior fiscal year), recurring loss amounted to ¥4,378 million (recurring income of ¥10,297 million in the prior fiscal year), and net loss amounted to ¥13,714 million (net income of ¥6,060 million in the prior fiscal year). The Group posted an operating loss for the first time since the merger between ENIX CORPORATION and SQUARE CO., LTD. into SQUARE ENIX CO., LTD.

The business environment is undergoing major changes, notably, the evolution of consumer game consoles into the next generation, considerable growth in new game genres such as social gaming, and the rapid spread of smart devices including smartphones and tablets. While we exerted managerial efforts in the major business segments of Digital Entertainment, Amusement, Publication, and Merchandising under the changing environment, sluggish performance of the Digital Entertainment segment, most noticeably in the HD (High-Definition) games category, and slow sales of new arcade game machines in the Amusement segment led to the consolidated operating loss.

The Amusement segment consists of the operation of amusement facilities and the development and distribution of arcade game machines. In the arcade game machine business, "Chosoku Henkei GYROZETTER" (Super High-Speed Transforming GYROZETTER), a new machine launched in the first half of the fiscal year under review, ended up with a disappointing result, far below the original plan. The GYROZETTER business attained some progress in creating new intellectual property ("IP"), but failed to become a big hit as a whole, with the number of shipments substantially below the target.

On the other hand, the operation of amusement facilities produced favorable results throughout the fiscal year under review, and in particular, achieved, in the second half, comparable store sales of 103% on a year-on-year basis. In the fiscal year under review, sluggish sales of arcade game machines had a negative impact on segment performance, but the entire Group's arcade game machine development capabilities grew considerably, which produced strong IPs such as "LORD OF VERMILION" and "GUNSLINGER STRATOS." In the context of live, non-virtual entertainments, the development of games for amusement facilities as well as the operation of amusement facilities are areas where we can expect deep-rooted demand going forward, and will thus continue to represent vital parts of our business portfolio.

In and after the next fiscal year ending March 31, 2015, amusement facility operations will be adversely affected by the upcoming increase in the consumption tax. However, we shall overcome the negative impact by further efficiency in operations and our strong IP portfolio, and strive to achieve a solid recovery in this business.

The Publication segment made steady progress with net sales of ¥11,086 million and operating income of ¥2,484 million. The segment is taking effective control of the business process from creation of new titles to enhancement of comic book sales through deployment of TV animation series to generate steady business expansion. In addition, our web-based new media called “GANGAN ONLINE” is accelerating on full scale development of new IPs such as “Watashi ga Motenai no wa Dou Kangaete mo Omaera ga Warui!” (It’s obviously you guys’ fault I’m not popular!) and “Gekkan Shojo Nozaki-kun” (Monthly girl’s comic magazine “Nozaki-kun”), and thus “GANGAN ONLINE” is increasing its presence as an additional medium alongside magazines for highlighting new titles. The emergence of electronic books is making a major change in the paper media-oriented publication industry. The Group is taking a responsive approach to the new tide of the industry, and will strive to capture new opportunities precisely for further business expansion.

The Merchandising segment showed steady performance, posting net sales of ¥3,264 million and operating income of ¥667 million. In the fiscal year under review, we launched a collector’s box and held special concerts to commemorate the 25th anniversary of the FINAL FANTASY series, which received favorable reception from our fans. We also opened an official merchandise store, ARTNIA, at our new headquarters, following our relocation, and crowds of people have come to enjoy shopping at the store. On top of the merchandising of character goods and CDs, the ARTNIA store is contributing to further elevation of our brand value.

Now let me discuss the Digital Entertainment segment. This segment is divided broadly into three categories; HD games, MMO (Massively-Multiplayer Online) games, and social gaming and others (“SG”) for internal management purposes. While HD games turned in disappointing results, MMO games are highlighted by two major titles; “DRAGON QUEST X: Mezameshi Itsutsu no Shuzoku Online” (Rise of the Five Tribes Online) (“DQX”) and “FINAL FANTASY XIV: A REALM REBORN” (“FFXIV”). DQX has been operating steadily since its launch of service in August 2012. The development of FFXIV, another major pillar in this category, has been smoothly progressing toward the goal of its August 2013 launch.

In the SG category, existing titles are continuously contributing to the profit of this segment. “Kaku-San-Sei Million Arthur” (Diffusible Million Arthur), an SG title released in April 2012, has been successful not only in the domestic market, but also in Korea, where the game has become an instant hit since its launch in December 2012. In this manner, new titles are expanding satisfactorily. In the fiscal year under review, the SG category’s net sales amounted to ¥22,686 million, which resulted in significant growth in net sales and operating income from the previous fiscal year ended March 2012. We expect further expansion of the SG category as a key growth area.

In the HD games category, we delivered three major titles in the fiscal year under review, primarily in Europe and North America. These titles—“SLEEPING DOGS,” “Hitman: Absolution,” and “TOMB RAIDER”—failed to reach their respective targets, and resulted in financially unsatisfactory consequences, whereas the HD business in Japan remained strong through sales of the Nintendo 3DS version of “DRAGON QUEST VII: Eden no Senshitachi” (Warriors of Eden) and others.

These three titles, which were developed for consumer game consoles, were critically-acclaimed through media coverage, and therefore, I believe, were successful from a game development perspective. However, we were exposed to increasingly severe competition with a number of blockbuster titles from major publishers, and experienced great difficulties in price control of these titles from a marketing perspective. We had to expend considerable incentive programs offered to retailers such as price protection, back-end rebates, and promotional cooperation costs, which generated a certain level of shipment quantity but with lower margins than expected. As a result, provision for sales returns increased considerably year on year, reaching ¥3,927 million, and was a major factor in the deterioration of profits.

We do not recognize this situation as a temporary phenomenon that can be dealt with merely by restrengthening the distribution system, but as a structural problem in the HD business. That is to say, the financial results posted in the fiscal year under review reflect an intrinsic problem within the HD game business model that has come to the surface.

The basic business model of the HD games category is to distribute disc media on which a game is recorded. Many games for consumer game consoles are still provided on discs, whereas download distribution using no record media is becoming the mainstream for PC games and additional content available after a title is released. In the case of the disc-based distribution model, sales are determined by multiplying the unit price by the number of discs sold. An increase in shipments or unit price will naturally drive sales higher. However, supplying games to distribution channels has become much more difficult in the video game market due to an increase in the number of titles, in particular, blockbuster titles competing with each other. As retailers become more selective about titles to purchase, game publishers have to deal with more expenses associated with pricing policy, such as back-end rebates, advertising, and price protection, in order to expand the number of units shipped. As a result, street prices are substantially declining, which leads to a situation where profits remain sluggish even though the number of units shipped increases.

This business model is also having a critical impact on game development. Under the model of selling packaged games, the timing by which we may offer a game to customers is limited to the release of the product. Profit opportunities are almost non-existent during the game development phase. Although we are making on-site efforts to streamline our game development processes through the use of utility game engines and other approaches, HD games development requires increasingly longer time periods as the performance of game consoles improves.

From a financial point of view, investment in game development is being capitalized on the balance sheet over a significant time frame, and investment recovery risk increases. In other words, the investment turnover is low. In consequence, the financial results of the fiscal year under review were very unsatisfactory, being compounded by the sizable drop in street prices at the point of sale. I believe the problem is not a one-time event but a structural issue within the HD games category.

How to address the issue is a major task for the executive team. As noted above, the HD games category faces the structural issues of an inflexible earnings model and long-term, large-scale development resulting in a low rate of investment turnover. These two factors are closely interconnected. First, we have to create earnings opportunities even before a product is released in order to raise investment turnover of a long-term, large-scale development project. Titles of large-scale development are our flagship

titles, showcasing our technologies. We will never lower the flag of such titles. In fact, they are strong brands and therefore have the potential of diverse content exploitation. It is possible to establish a business model that delivers content in various formats to customers even before the launch of a game. Through implementation of such a development process, we will promote approaches to raise investment turnover by accelerating earnings opportunities and reducing financial risks. These approaches should not be discussed in the context of financial consequences. A lack of earnings opportunities over a long period of time means, essentially, having no contact with customers during the same period. In these days, it is becoming crucial to strengthen customer relations. Re-examining our approach to long-term, large-scale development is also a step toward building a better customer relationship.

Next, let me comment on the earnings model. In the online game area, including games for mobile devices, flexible pricing models represented by free-to-play ("F2P") have become mainstream. Sales units of F2P-based games are not physical discs, but rather are in-game items or virtual currency. Therefore, the F2P model is flexible in that earnings are adjustable according to players' demand without any restriction on distribution of game products. My aim here is not to discuss the dichotomy between F2P and the fixed pricing model, but I would like to put emphasis on the major transformation of the game-playing environment in these days and big changes in consumer preferences regarding games. Devices for playing games are undergoing a rapid evolution and customer requirements for game experiences are becoming diversified accordingly. Consequently, the time has come for us game makers to take more flexible approaches in offering games and to devise various earnings models conforming to customers' game-playing environments, moving away from the limited outlet of disc-based distribution of games. In this current of change, it is extremely important for the HD games category to enable transition from a disc-based earnings model to a more flexible one. This will define the future way we pursue HD games development.

The evolution of devices, particularly smartphones and tablets, is progressing at an amazing pace. Consumer game consoles are becoming smarter as well. It is too soon to predict if all of these devices will ultimately converge or diverge, but regardless of the direction taken, we still have to have the capability of supplying games to any platform. On top of all that, the market has even more choices: new game machines called microconsoles, as well as the upcoming commercial launch of cloud gaming services. The market for our HD games has considerably expanded from the days when games could only be played on conventional PCs and consumer game consoles. That is to say, consumers can now enjoy playing HD games on various devices and in various environments. This is an enormous paradigm shift. Under the conventional disc distribution business model, development and sales were separated as different functions, with total optimization achieved through partial optimization in each function. Since games were provided on discs, we set a price of a game upon a unit-basis, we concentrated our development efforts on the completion of a gold master, and we were able to maximize profits through maximization of the number of discs shipped and unit prices. However, the spread of smart devices has now enabled multi-device, multi-environment experiences of HD games. Once distributed exclusively on discs, HD games are now available through other media. We must shift away from the traditional divided structure in favor of a unified system that aligns earnings models with game development.

This is a new challenge for us—a big one that requires a new skill set. If we can resolve the challenge successfully, we will open the door to new business opportunities. We are the company developing games and delivering them to customers. No matter how devices evolve or how the game environment changes, we still have to have the capabilities of delivering games to our customers. The environment supporting high-end games is definitely expanding, and this fact convinces me of the advent of a new age when we can fully demonstrate all the game development capabilities we have accumulated to date. The big difference from the past practice is the earnings model. A priority in the fiscal year ending March 31, 2014 is to build a firm business structure as quickly as possible to address changes in the earnings model while providing customers with excellent game experiences that make us stand out from the others.

Let me wrap up with one more major theme—the issue of locality. Marketing AAA titles on a global basis was one of our strategic initiatives. I, however, have to admit that titles appealing to a global audience are very limited, with a few exceptions. In addition, it is exceedingly difficult to achieve worldwide prominence for a new IP. Customer preferences vary from region to region, and other factors such as lifestyle, income status, and infrastructure are vastly different throughout the world. Therefore, developing a game on the assumption of world-wide distribution involves tremendous challenges. Consequently, we will prioritize a product portfolio for the future that attaches importance to consumer preferences in each region we serve. We will utilize our global network to propel our global business with a product lineup that emphasizes regional tastes. Of course, we will always pursue an opportunity to expand a hit title's service territory beyond its original region. We, however, will start with global business development by fine-tuning each product portfolio to customers in the targeted region. We will also be watching markets that present considerable growth potential, particularly the India and Asia region, the Middle East, and Latin America. We aim to establish a solid business base in these markets, and start generating a profit as soon as possible thereafter. This is another major business objective for the fiscal year ending March 31, 2014.

Our poor performance in the fiscal year under review undoubtedly caused shareholders considerable concern. It is our mission, as the new executive team, to reverse this situation, and to return the Group to a profitable position at the earliest possible date.

The business environment for the game industry is in the midst of intense and extensive changes not yet seen. However, we see this as an enormous opportunity for growth. I would appreciate your continued great support.

Yosuke Matsuda
President and Representative Director

Directors and Auditors

(As of June 28, 2013)

Board of Directors

President and Representative Director
Yosuke Matsuda

Director
Philip Timo Rogers

Director
Keiji Honda

Director
Yukinobu Chida

Director *1
Yukihiro Yamamura

Audit & Supervisory Board Members

Ryoichi Kobayashi (Standing*2)

Ryuji Matsuda *2

Masaji Tomiyama *2

Honorary Chairman

Yasuhiro Fukushima

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

Philip Timo Rogers

I am honored to join the board of Square Enix Holdings. The games industry is at a seminal point in its development with significant possibilities to expand rapidly and prosper; in the world today more people are playing games, in different ways and on different devices like PC, console, mobile or tablet than at any other point in time. Over the next few years I believe the distinctions between these devices will begin to blur and in the Square Enix Group I believe we have one of the industry's most talented team of people to seize the opportunity this represents.

My early years in the industry were spent working with technology businesses before moving into roles with responsibility for strategic direction and then into general management. Throughout all of this I learnt about the need for operational agility, simplicity and embracing change. As a board member I am absolutely determined to help lead the Square Enix Group through its next phase and I am sincerely grateful to you as shareholders for your support.

[Brief Personal History]

Jan. 2008 Director and CEO, EIDOS PLC
Nov. 2009 Director and CEO, SQUARE ENIX LTD. (the Group's operating company in Europe) (incumbent)
May 2013 President and CEO, SQUARE ENIX, INC. (the Group's operating company in North America) (incumbent)
Jun. 2013 Director, SQUARE ENIX HOLDINGS CO., LTD. (incumbent)

(Significant Positions Concurrently Held)
Director, SQUARE ENIX OF EUROPE HOLDINGS LTD. (the Group's intermediate holding company in Europe)
Director, SQUARE ENIX OF AMERICA HOLDINGS, INC. (the Group's intermediate holding company in North America)

Yukihiro Yamamura

I have been involved in various online businesses for 25 years, since the early days of the Internet. Over the past 15 years, I have led the business of three online companies as representative director, and in the last five years, I have also experienced the launch of businesses in Asia. I wish to contribute to the management of Square Enix Holdings by applying my experience with global businesses in the United States and Asia, as well as my experience in marketing and business development in the area of paid content services.

I also believe that my experience as a director at a listed company and as chairman of the board, running the meetings, can contribute to ensuring that corporate management is fully compliant with laws and rules.

Square Enix is keen to enhance its prevailing business model, currently centered on console games, to conform to a multi-device, multi-platform business environment. At this critical juncture in the Company's execution of the strategy, I will make recommendations to the board to develop a management culture in which decisions are made promptly in response to changes in this rapidly evolving business environment.

[Brief Personal History]

Apr. 1996 Deputy General Manager, Sales Division, transcosmos inc.
Apr. 1997 Director, Deputy General Manager, Business Development Division
Oct. 1997 President and Representative Director, DoubleClick Japan Inc.
Jan. 1999 President and Representative Director, Excite Japan Co., Ltd.
Aug. 2008 Representative Director, Glam Media Japan Corp. (incumbent)
Jun. 2013 Director, SQUARE ENIX HOLDINGS CO., LTD. (incumbent)

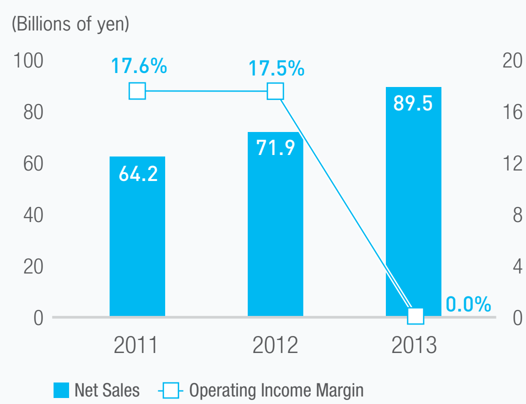
The Square Enix Group (the “Group”) is continuing determined efforts to strengthen the competitiveness and profitability of its business segments of Digital Entertainment, Amusement, Publication, and Merchandising.

Net sales for the fiscal year ended March 31, 2013 totaled ¥147,981 million (an increase of 15.7% from the prior fiscal year), operating loss amounted to ¥6,081 million (operating income of ¥10,713 million in the prior fiscal year), and recurring loss amounted to ¥4,378 million (recurring income of ¥10,297 million in the prior fiscal year).

In response to the latest environmental changes in the game industry, the Group has implemented various strategic initiatives such as a change in its development policy, organizational reforms, and the redesign of some business models. As a result of such initiatives, the Group posted extraordinary losses, which led to a net loss of ¥13,714 million (net income of ¥6,060 million in the prior fiscal year).

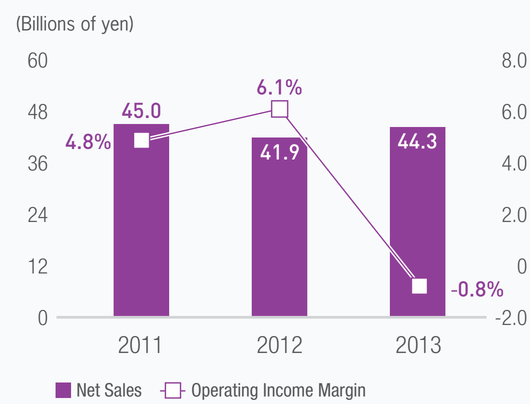
Digital Entertainment

(Years ended March 31)



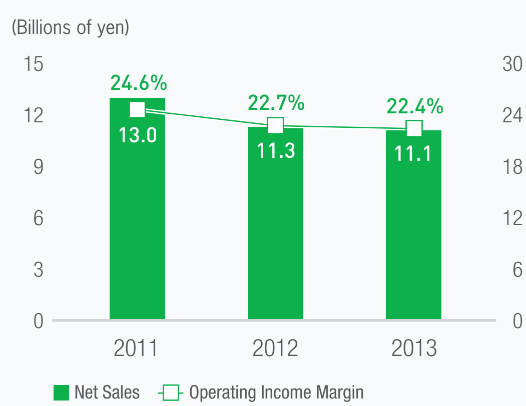
Amusement

(Years ended March 31)



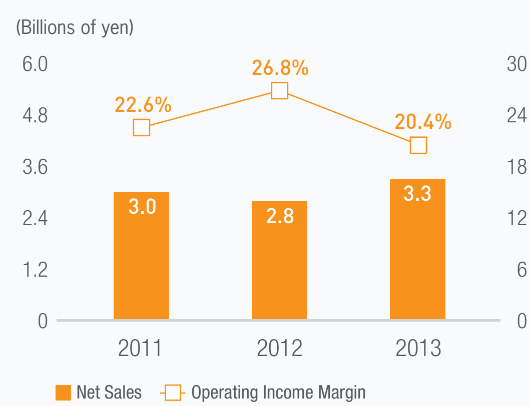
Publication

(Years ended March 31)

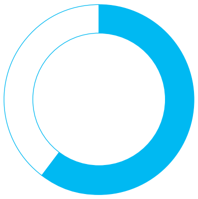


Merchandising

(Years ended March 31)



Digital Entertainment



Share of Net Sales (FY ended March 2013)

60.4%

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).

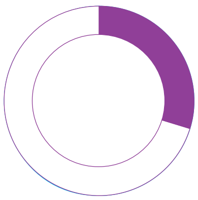
During the fiscal year ended March 31, 2013, the Group's operating income decreased significantly, primarily due to underperformance of major titles for consumer game consoles in North America and Europe.

Regarding content on platforms such as browsers and smartphones, "SENGOKU IXA," a browser game, and "FINAL FANTASY BRIGADE," a Mobage-based social game, are continuously contributing to the profit of this segment. "Kaku-San-Sei Million Arthur," a social game released in April 2012, has been successful not only in the domestic market, but also in Korea, where the game has become an instant hit since its launch in December 2012. In this manner, new titles are expanding satisfactorily.

"DRAGON QUEST X," the major MMORPG released in August 2012, has been showing steady performance.

Net sales and operating income in the Digital Entertainment segment totaled ¥89,482 million (an increase of 24.5% from the prior fiscal year) and ¥44 million (a decrease of 99.7% from the prior fiscal year), respectively.

Amusement



Share of Net Sales (FY ended March 2013)

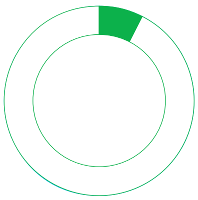
29.9%

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, 2013, amusement facility operations were showing steady progress. However, negative effects caused by the sluggish performance of arcade game machines that were released during the fiscal year ended March 31, 2013 led to an operating loss in the segment.

Net sales and operating loss in the Amusement segment totaled ¥44,276 million (an increase of 5.6% from the prior fiscal year) and ¥353 million (operating income of ¥2,552 million in the prior fiscal year), respectively.

Publication



Share of Net Sales (FY ended March 2013)

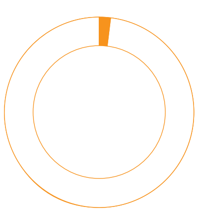
7.5%

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

During the fiscal year ended March 31, 2013, popular comic book titles showed steady sales supported by media mix exploitations of popular titles.

Net sales and operating income in the Publication segment totaled ¥11,086 million (a decrease of 2.2% from the prior fiscal year) and ¥2,484 million (a decrease of 3.5% from the prior fiscal year), respectively.

Merchandising



Share of Net Sales (FY ended March 2013)

2.2%

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, 2013, 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 ¥3,264 million (an increase of 18.0% from the prior fiscal year) and ¥667 million (a decrease of 10.2% from the prior fiscal year), respectively.

Creator's Voice

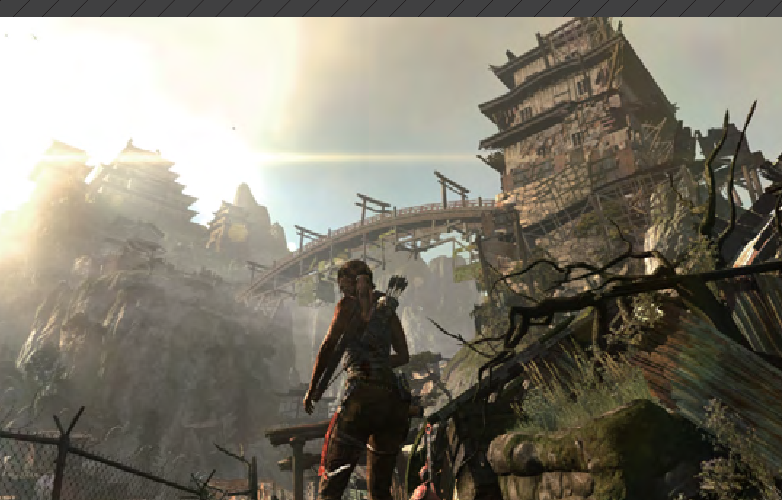
We interviewed the Group's top creators where they are most at home—in their studios in their respective countries—and we would like to share with you their thoughts, ambitions, and dreams.

Darrell Gallagher

Head of Product Development and Studios for Square Enix studios in North America and Europe

Previously Studio Head at Crystal Dynamics, where he worked to oversee the "TOMB RAIDER" franchise, prior to that Darrell worked for both Sony Europe and Rockstar Games for 10 years. In 2013 he became Head of Product Development and Studios for Square Enix Group's studios in North America and Europe.

My ambition is to create worlds and experiences that can take audiences to unforgettable places. My passion has always been to be part of something that leaves a permanent mark on the industry, on peers, and on gamers. To create games which inspire other people, and become larger than the moment. I look back on my life and many of my defining memories are centered on moments that were pivotal in gaming. Those moments of magic now drive my personal ambition, to create similar lasting memories in other people's lives.



Takehiro Ando

General Manager of Special Mobile Business Division II, Game Producer

Previously Producer of various console games, Takehiro Ando is currently working with hit content for smartphones, including the "CHAOS RINGS" series and "Kaku-San-Sei Million Arthur."

Basically, my top priority is to create games that customers truly “enjoy,” while having a solid profit plan. This means the world to me.

I want Square Enix games to recover the customers’ trust, so that customers can buy our games with confidence.

We are creating games to earn profits, a part of which has to be returned to the customers in the form of “enjoyment.” That cycle is an integral part of our business.

I believe that people are expecting Square Enix to deliver RPGs (role-playing games) with beautiful graphics and deep scenarios. I wish to be the kind of creator who pinpoints market needs and boldly takes on new challenges.

Personally speaking, I’m keen to tackle new game experiences using cloud servers as the backend system.

Naoki Yoshida

Producer and Director of “FINAL FANTASY XIV”

Previously Director of “DRAGON QUEST: MONSTER BATTLE ROAD” and Chief Planner for “DRAGON QUEST X: Mezameshi Itsutsu no Shuzoku Online,” Naoki Yoshida is currently the Producer and Director of “FINAL FANTASY XIV.”

For over 25 years, Square Enix has created a library of titles—like those in the “DRAGON QUEST” and “FINAL FANTASY” franchises—that has been beloved by our customers.

I will create new titles—true originals—that will be beloved for the next 25 years.

I have three slogans that help me achieve this goal:

FAST—Develop titles faster than anyone else,
ONLY ONE—Make it more enjoyable than anyone else, and
MOST—Produce more titles than anyone else.

I promise to create new titles that will evolve as the third and fourth pillars of the Square Enix library, and I will provide new stories that appeal to you.

Creator's Voice

Since 2010—the year said to have marked the dawn of the e-book era in the domestic market—the shift toward digitization and subsequent evolution of Web-based media in the publication industry has unfolded at incredible speed.

Against this backdrop, our publication business has grown along with development of the Web publication sector, thanks to a relatively early entry into this realm with online distribution of comics and the debut of "GANGAN ONLINE," the online magazine. New downloading methods and widespread use of smartphones and tablets may present consumers with more diverse access to content, but the fundamental objective in the publication business has not changed. Creating quality content remains the core activity. We will constantly grow our businesses through analysis of the newest market trends that emerge as the Internet evolves. We also will maintain our never-changing posture to "create amusing comics." As General Editor-in-Chief, Comics, I will always take on various challenges, making daily efforts to find our way via these two pillars.

Takeshi Matsuzaki

Editor-in-Chief of Comic Editorial Division and Editor-in-Chief of "GANGAN ONLINE"

Previously Editor-in-Chief of "SHONEN GANGAN" and "GANGAN-IXA-" Takeshi Matsuzaki is currently Editor-in-Chief of "GANGAN ONLINE" and also heads, as General Editor-in-Chief, the Comics Editorial Division, covering six magazines in total.

David Anfossi
Studio Head of Eidos-Montreal

Previously the producer of “DEUS EX: HUMAN REVOLUTION,” the critically acclaimed first game to be developed by Eidos-Montreal, prior to that David worked at Ubisoft Montreal. In 2013 David has taken up the role of Studio Head at Eidos-Montreal, where they are developing “THIEF” along with two unannounced projects currently in development at the studio.

Our job is to create deep worlds, strong characters and stories that deal with universal themes. But we are not just working in the gaming industry as it stands. Obviously our first goal is to deliver an incredible experience to gamers, but our approach should allow us to easily expand our game universe into other media and share it with other audiences. My ultimate goal is to create a “meta-narrative” with all different mediums supporting one same story on different levels; imagine a movie introducing the story of the PC game while mobile games could extend the story of characters of the PC game, and graphic novels giving an idea of what comes after the PC game.

It’s a pleasure to introduce myself to our shareholders. My name is Hajime Tabata and I’m Co-Director of “FINAL FANTASY XV.”

My aim for the projects centering on “FINAL FANTASY XV” is to achieve the highest-acclaimed, highest-profitable installment in the “FINAL FANTASY” series. With this goal in mind, I would appreciate your continuous support.

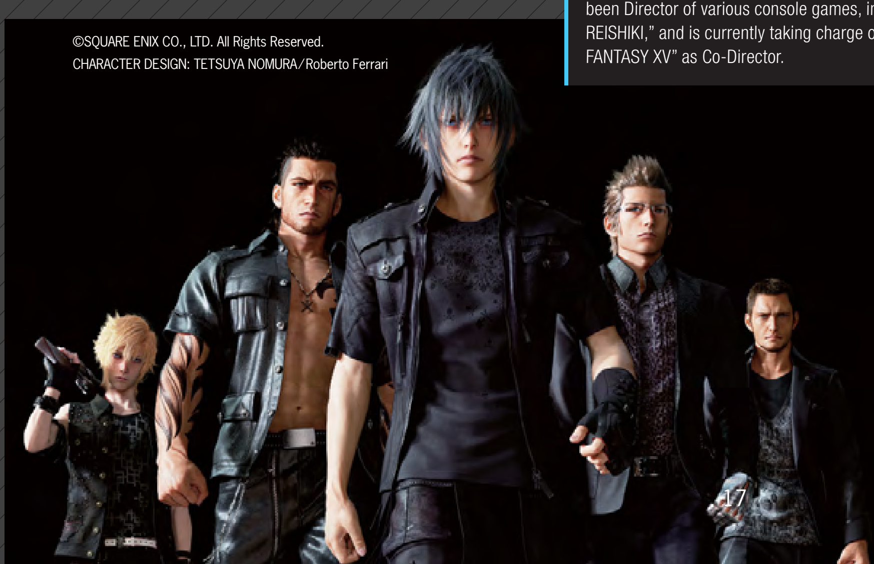
Going forward, as a creator I would like to develop new IPs for seniors. I will create games that would thoroughly satisfy myself as I get older.

Also, as a leader, I want to establish a strong production studio with an open, flexible atmosphere that constantly delivers excitement to shareholders, employees, the game industry and users—a studio with the capacity to consolidate the Group’s capabilities and play the best match at the forefront of the industry.

On this journey, the support of shareholders would be very much appreciated.

Hajime Tabata
Co-Director of “FINAL FANTASY XV”

Previously responsible for games for mobile phones, Hajime Tabata has been Director of various console games, including “FINAL FANTASY REISHIKI,” and is currently taking charge of the development of “FINAL FANTASY XV” as Co-Director.



Creator's Voice

I am an omnivorous gamer, playing every genre from simulation to fighting games. Maybe this background is what has led me to produce a variety of products, from online games and arcade games to consumer Japanese role-playing games.

Going forward, I want to produce games that would "leave a scar on players." This expression may be difficult to understand, but I'm talking about something like a "life-altering product," which may sound scary, too. I used to be a hard-core gamer playing PC and NES games, taking part in arcade game tournaments, and enjoying tabletop role-playing games* and board games every week or so. Those things made me who I am today. I'm sort of a "representative of people whose lives were changed by games."

As of today, in 2013, I think that games are not for the masses; rather, they are articles of taste. I want to create "authentic games" that would "fanaticize" people, and "change" or even "trouble" their lives. Those are the kind of products I want to produce.

Takamasa Shiba
General Manager of Producer Management Division II

In addition to acting as Producer of various console games, including the "DRAKENGARD" series, Takamasa Shiba is currently applying his skills in a wide range of fields, including producing the arcade game series "LORD of VERMILION."

*Tabletop role-playing game:
A type of role-playing game in which participants play the game through speech, pen-and-paper, and dice.

Jin Fujisawa

Director, DRAGON QUEST X: Mezameshi Itsutsu no Shuzoku Online

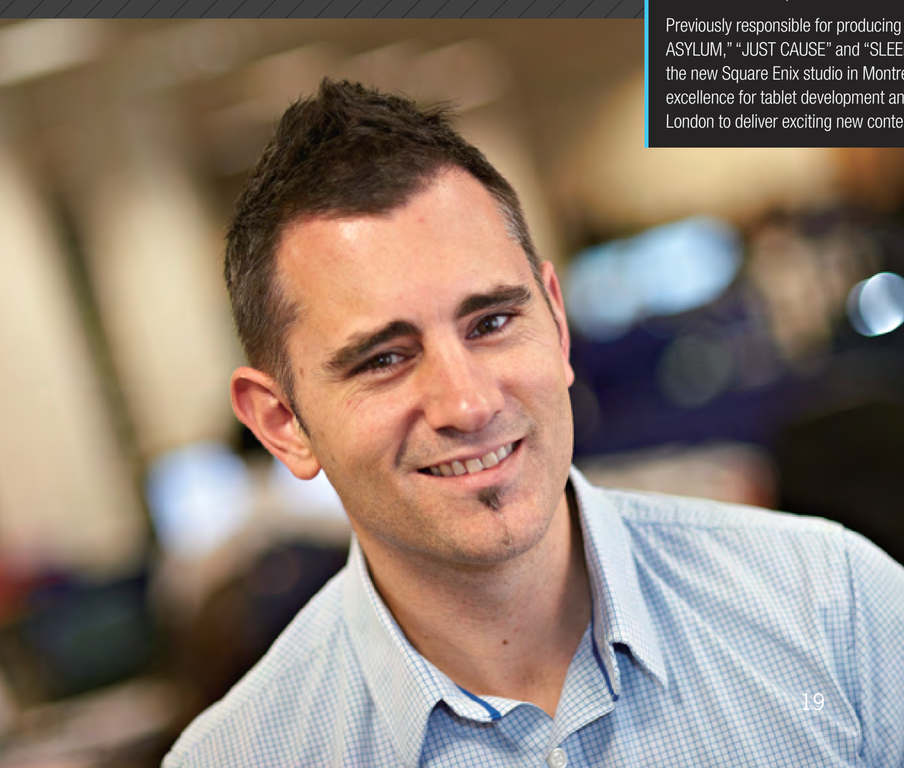
Jin Fujisawa has been involved in scenario production for the DRAGON QUEST series since DRAGON QUEST VII: Eden no Senshitachi. Previously, he was the Director on DRAGON QUEST IX: Sentinels of the Starry Skies, and currently he is the Director, responsible for scenario content, on DRAGON QUEST X: Mezameshi Itsutsu no Shuzoku Online. In addition to these duties, Jin also oversees online game operations and development.

Until fairly recently, the competitive advantage of the game industry centered on two key elements—“enjoyment” and “technology.” However, the times have really changed in the last few years. What strikes me about this one year since the Dragon Quest X service launched is that our top priority now is to “give our full attention to the customers who love our titles.” Taking this implication a step further, we have to “address customer expectations while at the same time exceed those expectations.” A developer cannot go on creating the same thing forever. Having said that, even if the content were to change, I wish to retain that concept as conviction, and to create titles, as many as possible, that resonate with customers.

Lee Singleton

Studio Head of Square Enix London Studios and Square Enix Montreal

Previously responsible for producing games such as “BATMAN ARKHAM ASYLUM,” “JUST CAUSE” and “SLEEPING DOGS.” Lee has recently set up the new Square Enix studio in Montreal, which will become a centre of excellence for tablet development and now heads up all production in London to deliver exciting new content for the Group.



I’m really excited about the future for the games industry. I love the way new technology such as touch devices and cloud computing offers us, as creators, new ways to play. And this is at a time when new business models like free-to-play are removing barriers to entry. Everything is changing and I’m excited about ‘smashing together’ high definition gaming domain expertise with new devices like tablets. I want to make fun games of significance that deserve people’s time while leaving a positive impression and making customers happy.

1. Status of Corporate Governance

(1) Overview of corporate governance system and objectives

The Company has adopted the audit & supervisory board member system for its corporate governance. To strengthen monitoring functions and ensure the maintenance of sound management, at least half of the audit & supervisory board members 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 three audit & supervisory board members, including one standing audit & supervisory board member, who 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 audit & supervisory board members, 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 Audit & Supervisory Board convenes monthly, and conducts accounting and operational audits based on the audit plan. The audit & supervisory board members 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 audit & supervisory board members; and coordination between internal audits, audits by audit & supervisory board members and statutory 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 Audit & Supervisory Board and the statutory audit firm.

Audits by the audit & supervisory board members are carried out by three audit & supervisory board members, who are drawn from outside the Company.

Ryoichi Kobayashi was appointed as an audit & supervisory board member (external) based on his abundant experience and extensive knowledge gained through serving as an officer at several companies. Mr. Kobayashi offers his opinions at meetings of the Board of Directors and Audit & Supervisory Board as appropriate.

Ryuji Matsuda holds qualifications as an attorney and certified public accountant (CPA). He was appointed as an audit & supervisory board member (external) based on his extensive expertise in finance and accounting-related matters. Mr. Matsuda offers his opinions at meetings of the Board of Directors and Audit & Supervisory Board as appropriate.

Masaji Tomiyama does not have experience in corporate management excluding duties as outside director or audit & supervisory board member (external) at several companies. However, he holds a qualification as a CPA and therefore has extensive expertise in finance and accounting-related matters. Based on this expertise, he was appointed as an audit & supervisory board member (external).

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

Each quarter, the audit & supervisory board members 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) Summary of personal, financial, business or other relationships constituting conflicts of interest between the Company and its outside director or audit & supervisory board members (external), and links between supervision or audits by the outside director or audit & supervisory board members (external) and internal audits, audits by audit & supervisory board members and audits by the accounting firm

(i) Personal, financial, business or other relationships constituting conflicts of interest with the Company

The Company has one outside director and three audit & supervisory board members (external), and no conflict-of-interest relationships exist between the Company and its outside director or between the Company and its audit & supervisory board members (external).

(ii) Expected functions and roles under the Company's corporate governance structure

Yukihiro Yamamura was appointed as an outside director on the expectation that he would apply extensive and broad-based insights acquired as a senior corporate executive to support the Company's management. At meetings of the Board of Directors, Mr. Yamamura offers recommendations and advice to ensure that the decisions made by the Board are appropriate and reasonable.

The expected functions and roles of Ryoichi Kobayashi, Ryuji Matsuda and Masaji Tomiyama under the Company's corporate governance structure are described in (2) above.

(iii) Standards and policy on independence from the Company in the appointment of the outside director and audit & supervisory board members (external)

The Company has not established any particular provisions regarding independence in appointing the outside director or the audit & supervisory board members (external) 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 unlikely to cause any conflicts of interest with general shareholders.

The Company has notified the Tokyo Stock Exchange regarding the status of Messrs. Yamamura, Kobayashi, Matsuda and Tomiyama as independent officers pursuant to the rules for listed companies established by this stock exchange.

(iv) Links between audits by the outside director or audit & supervisory board members (external) and internal audits, audits by corporate auditors and audits by the accounting firm, and relationship with the internal control unit

The outside director and audit & supervisory board members (external) work closely with the Auditing Division, audit & supervisory board members and the Company's accounting firm, and are required to submit reports and offer opinions for discussion at meetings of the Board of Directors, Audit & Supervisory Board, Internal Control Committee and other corporate forums.

(4) Overview of compensation system for directors and audit & supervisory board members

(i) Total compensation paid to directors and audit & supervisory board members, total compensation for each category of director and audit & supervisory board member, and the total number of directors and audit & supervisory board members

Compensation Paid to Directors

	Number of individuals	Total remuneration (Millions of yen)	Remuneration breakdown (Millions of yen)	
			Monetary compensation	Non-monetary compensation
Directors	4	300	237	62
Outside director	1	6	6	0
Total	5	307	243	63

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 audit & supervisory board members.

Compensation Paid to Audit & Supervisory Board Members

	Number of individuals	Total remuneration (Millions of yen)	Remuneration breakdown (Millions of yen)	
			Monetary compensation	Non-monetary compensation
Audit & supervisory board member	1	6	6	—
Audit & supervisory board members (external)	3	29	29	—
Total	4	36	36	—

Note: The Company has abolished retirement benefits for directors and audit & supervisory board members.

(ii) Decision-making policies on remuneration, etc., for directors and audit & supervisory board members

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 audit & supervisory board members is only monetary compensation in light of the independence of audit & supervisory board members from the corporate management of the Company. Audit & supervisory board members' remuneration is also reviewed every year. The amount of remuneration and the distribution among the audit

& supervisory board members are determined through consultations among the audit & supervisory board members 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 the 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, 2012 and March 31, 2013; and total dividends received, total gain on sale of shares and total loss on revaluation of shares for the fiscal year ended March 31, 2013 for investments in shares for purely investment purposes:

Millions of yen

Category	Previous fiscal year	Fiscal year ended March 31, 2013			
	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	30	2	8	(Note 1) (—)*
Shares other than those above	484	371	4	—	63 (0)*

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, 2013.

• CPAs performing audits:
Limited-liability partners: Takashi Nagasaka, Tatsuya Yokouchi and Hiroyoshi Kaneno

• Personnel providing audit assistance:
12 CPAs, 7 assistant CPAs

(7) Overview of liability limitation agreements

The Company has liability limitation agreements in place with its outside director and audit & supervisory board members (external) 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 audit & supervisory board member (external) to ¥10 million or the legally specified amount, whichever is greater, on condition that the director or audit & supervisory board members 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 audit & supervisory board members

Pursuant to Article 426, Paragraph 1, of the Companies Act, the Company's Articles of Incorporation stipulate that a director (including former directors) and an audit & supervisory board member (including former audit & supervisory board members) 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 and audit & supervisory board members 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 Statutory Audit Firm, etc.

(1) Compensation paid to statutory audit firm

Millions of yen

Category	Fiscal year ended March 31, 2012		Fiscal year ended March 31, 2013	
	Compensation for statutory audit operations	Compensation for non-audit operations	Compensation for statutory audit operations	Compensation for non-audit operations
Parent company	47	1	47	1
Consolidated subsidiaries	70	—	70	—
Total	117	1	117	1

(2) Other significant compensation

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 statutory audit firm retained by the Company is also affiliated with the international auditing network of the Ernst & Young Group.

Fiscal year ended March 31, 2013

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 ¥83 million for statutory audit operations and ¥7 million for non-audit operations. The statutory 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, 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.

Fiscal year ended March 31, 2013

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.

Financial Section

CONTENTS

The financial statements and notes thereto in this section are the English translation of the Japanese original, which was reconstructed by the Company at its sole discretion from those in the Annual Security Report (*yukashoken hokokusho*).

The following statements are based on management's view of SQUARE ENIX HOLDINGS CO., LTD. (the "Company") as of June 30, 2013 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 allowance 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, 2013, the Group's balance of interest-bearing debt was ¥5,796 million. The net assets ratio stood at 59.3%. Cash and cash equivalents at the end of the year totaled ¥98,822 million, a decrease of ¥11,293 million compared with the previous fiscal year-end.
Cash flows in the fiscal year ended March 31, 2013, 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 ¥110 million, a decrease of 98.4% compared with the previous fiscal year.
This position is primarily due to a loss before income taxes and minority interests of ¥14,948 million, an increase of ¥9,903 million in notes and accounts receivable, a decrease of ¥10,933 million in inventories, and ¥7,301 million in depreciation and amortization.

(2) Net Cash Used in Investing Activities

Net cash used in investing activities totaled ¥9,189 million, an increase of 59.0% compared with the previous fiscal year. The main factors are proceeds from collection of guarantee deposits of ¥2,928 million, purchase of property and equipment of ¥10,626 million, and purchase of intangible assets of ¥1,392 million.

(3) Net Cash Used in Financing Activities

Net cash used in financing activities totaled ¥3,481 million, compared with net cash provided by financing activities of ¥299 million in the previous fiscal year. The primary application of funds was for cash dividends paid of ¥3,444 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, 2013

■ Assets

Total Assets

Millions of yen

March 31	2013	2012	Change
	¥202,509	¥213,981	¥(11,472)

Total assets as of March 31, 2013, amounted to ¥202,509 million, a decrease of ¥11,472 million compared with the previous fiscal year. The main factors contributing to the change were as follows:

Cash and Deposits

Millions of yen

March 31	2013	2012	Change
	¥100,418	¥111,495	¥(11,077)

Notes and Accounts Receivable

Millions of yen

March 31	2013	2012	Change
	¥30,226	¥18,431	¥11,795

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, 2013, notes and accounts receivable increased by ¥11,795 million to ¥30,226 million, mainly due to the March release of "Tomb Raider" in Europe and North America.

Content Production Account

Millions of yen

March 31	2013	2012	Change
	¥15,805	¥25,047	¥(9,242)

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, 2013, the content production account totaled ¥15,805 million, a decrease of ¥9,242 million compared with the previous fiscal year.

Property and Equipment

Millions of yen

March 31	2013	2012	Change
	¥20,169	¥17,183	¥2,986

Total property and equipment totaled ¥20,169 million, up ¥2,986 million from the previous fiscal year, primarily due to an increase in buildings and structures (net) from ¥4,231 million to ¥6,256 million and an increase in tools and fixtures (net) from ¥1,902 million to ¥3,672 million.

Intangible Assets

Millions of yen

March 31	2013	2012	Change
	¥10,940	¥10,121	¥819

Total intangible assets as of March 31, 2013, amounted to ¥10,940 million, an increase of ¥819 million from the previous fiscal year, mainly due to an increase in software.

Investments and Other Assets

Millions of yen

March 31	2013	2012	Change
	¥12,363	¥14,514	¥(2,151)

Total investments and other assets decreased by ¥2,151 million, to ¥12,363 million as of March 31, 2013, primarily due to decreases in guarantee deposits.

■ Liabilities

Millions of yen

March 31	2013	2012	Change
	¥80,872	¥76,684	¥4,188

As of March 31, 2013, total liabilities amounted to ¥80,872 million, an increase of ¥4,188 million compared with the previous fiscal year. The main factors contributing to the change were as follows:

Current Liabilities

Millions of yen

March 31	2013	2012	Change
	¥37,414	¥33,778	¥3,636

Total current liabilities increased by ¥3,636 million, to ¥37,414 million as of March 31, 2013. This was mainly due to an increase in provision for sales returns from ¥1,545 million to ¥4,319 million.

Non-Current Liabilities

Millions of yen

March 31	2013	2012	Change
	¥43,457	¥42,906	¥551

Total non-current liabilities increased by ¥551 million to ¥43,457 million as of March 31, 2013, primarily due to an increase in the provision for employees' retirement benefits from ¥3,808 million to ¥4,714 million, and an increase in asset retirement obligations from ¥149 million to ¥800 million.

■ Shareholders' Equity/Net Assets

Millions of yen

March 31	2013	2012	Change
Common stock	¥ 15,204	¥ 15,204	¥ —
Capital surplus	44,444	44,444	—
Retained earnings	68,153	85,320	(17,167)
Treasury stock	(862)	(861)	(1)
Total shareholders' equity	126,940	144,108	(17,168)
Unrealized gain (loss) on revaluation of other investment securities	57	124	(67)
Foreign currency translation adjustments	(6,911)	(8,696)	1,785
Total accumulated other comprehensive gain (loss)	(6,853)	(8,572)	1,719
Stock acquisition rights	652	977	(325)
Minority interests in consolidated subsidiaries	897	783	114
Total net assets	¥121,636	¥137,297	¥(15,661)

As of March 31, 2013, total net assets amounted to ¥121,636 million, down ¥15,661 million compared with the previous fiscal year, reflecting the occurrence of a net loss, payment of year-end dividends (¥20 per share) for the previous fiscal year, and interim dividends (¥10 per share) for the fiscal year under review.

Consolidated Statement of Operations

Net Sales and Operating Income

Millions of yen

Years ended March 31	2013	Composition	2012	Composition	Amount change	Percent change
Net sales	¥147,981	100.0%	¥127,896	100.0%	¥20,085	15.7%
Gross profit	49,192	33.2%	51,627	40.4%	(2,435)	(4.7)%
Reversal of allowance for sales returns	1,551	1.0%	1,706	1.3%	(155)	(9.1)%
Provision for allowance for sales returns	3,927	2.7%	1,502	1.2%	2,425	161.5%
Net gross profit	46,817	31.6%	51,831	40.5%	(5,014)	(9.7)%
Selling, general and administrative expenses	52,899	35.7%	41,118	32.1%	11,781	28.7%
Operating income (loss)	¥ (6,081)	—	¥ 10,713	8.4%	¥(16,794)	—

Comparisons by segment with the previous fiscal year are provided on pages 10–13.

Non-Operating Income and Expenses

Millions of yen

Years ended March 31	2013	2012	Change
Non-operating income	¥1,858	¥286	¥1,572
Non-operating expenses	155	701	(546)

Total non-operating income was ¥1,858 million, up ¥1,572 million, mainly reflecting ¥1,620 million in foreign exchange gain. Total non-operating expenses amounted to ¥155 million, down ¥546 million, mostly reflecting the fact that a foreign exchange loss of ¥536 million was recorded in the previous fiscal year and no foreign exchange loss was recorded in the fiscal year under review.

Extraordinary Gain and Loss

Millions of yen

Years ended March 31	2013	2012	Change
Extraordinary gain	¥ 653	¥ 305	¥ 348
Extraordinary loss	11,210	741	10,469

Total extraordinary gain was ¥653 million, mainly due to gain on reversal of subscription rights to shares.
Total extraordinary loss was ¥11,210 million, mainly due to a change in development policy, a structural review and a change in some business models, given changes in the game business environment, and the booking of ¥4,834 million in loss on evaluation of content and ¥3,696 million in loss on disposal of content.

Capital Expenditures and Depreciation and Amortization

Millions of yen

Years ended March 31	2013	2012	Change
Capital expenditures	¥12,508	¥5,209	¥7,298
Depreciation and amortization	7,301	5,039	2,261

Capital expenditures for the fiscal year ended March 31, 2013, amounted to ¥12,508 million, an increase of ¥7,298 million compared with the previous fiscal year, mainly due to spending associated with the relocation of Company headquarters.
Depreciation and amortization totaled ¥7,301 million, an increase of ¥2,261 million from the previous fiscal year, primarily due to an increase in depreciation and amortization in the Amusement business from ¥3,363 million in the previous fiscal year to ¥4,384 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. Currently, 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 include expanding operations overseas and providing 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, 2014, is as follows (as of June 30, 2013).

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 actual	2014 forecast
Net sales	¥63,202	¥73,864	¥124,473	¥163,472	¥147,516	¥135,693	¥192,257	¥125,271	¥127,896	¥147,981	¥140,000–¥150,000
Operating income (loss)	19,398	26,438	15,470	25,916	21,520	12,277	28,235	7,325	10,713	(6,081)	¥5,000–¥9,000
Recurring income (loss)	18,248	25,901	15,547	26,241	18,864	11,261	27,822	5,390	10,297	(4,378)	¥5,000–¥9,000
Net income (loss)	10,993	14,932	17,076	11,619	9,196	6,333	9,509	(12,043)	6,060	(13,714)	¥3,500–¥6,000

5. Basic Policy for Profit Distribution and Dividends

The Group has made the return of profits to shareholders one of its most important management tasks. The Group prioritizes investments that will enhance the value of the Group and toward this end maintains internal reserves to finance efforts that include expanding existing businesses, developing new businesses and restructuring business segments. Funds remaining after the allocation of retained earnings are appropriated for dividends, keeping in mind returns to shareholders and seeking an optimal balance of stable returns linked to operating performance.

For dividends applicable to the fiscal year ending March 31, 2014, the Company is looking at a consolidated payout ratio target of 30%. However, if net income per share (based on the number of shares outstanding at the end of the fiscal year; hereafter, the same shall apply) falls below ¥100, the annual dividend will be set at ¥30 per share (exceeding the consolidated payout ratio target of 30%) in line with management's view to ensure stable dividends. Furthermore, if net income per share should fall below ¥30, the annual dividend will be whatever the net income per share amount is (for a consolidated payout ratio of 100%), but in principle ¥10 will be the lower limit for the annual per-share dividend.

Date of resolution	Total dividends (Millions of yen)	Dividends per share (Yen)
November 6, 2012 Resolution by the Board of Directors	¥1,150	¥10
May 17, 2013 Resolution by 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 June 30, 2013.

(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 an 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 business performance will be affected if the Group is unable to respond promptly and accurately to the major reforms outlined in **4. Strategic Outlook, Issues Facing Management and Future Direction.**

(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 alter the forms by which the Group supplies content, the existing 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 no guarantee that preventative measures will fully prevent or lessen the adverse effects associated with such events. Major earthquakes, accidents and disasters, 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 Sheet (JPNGAAP)

SQUARE ENIX HOLDINGS CO., LTD. and Consolidated Subsidiaries
As of March 31

Millions of yen

	2013	2012
Assets		
Current assets		
Cash and deposits	¥100,418	¥111,495
Notes and accounts receivable	30,226	18,431
Merchandise and finished goods	2,376	2,343
Work in progress	47	738
Raw materials and supplies	357	573
Content production account	15,805	25,047
Deferred tax assets	5,438	5,022
Income taxes receivable	2,223	6,396
Other	2,279	2,236
Allowance for doubtful accounts	(136)	(124)
Total current assets	159,035	172,161
Non-current assets		
Property and equipment		
Buildings and structures	17,875	16,645
Accumulated depreciation	(11,619)	(12,414)
Buildings and structures (net)	6,256	4,231
Tools and fixtures	12,558	11,147
Accumulated depreciation	(8,885)	(9,245)
Tools and fixtures (net)	3,672	1,902
Amusement equipment	20,014	19,601
Accumulated depreciation	(17,804)	(17,008)
Amusement equipment (net)	2,209	2,593
Other	169	193
Accumulated depreciation	(109)	(127)
Other (net)	59	65
Land	7,964	8,102
Construction in progress	5	288
Total property and equipment	20,169	17,183
Intangible assets		
Other	10,940	10,121
Total intangible assets	10,940	10,121
Investments and other assets		
Investment securities	493	598
Guarantee deposits	10,121	12,785
Deferred tax assets	1,229	460
Other	*1 1,150	*1 1,341
Allowance for doubtful accounts	(631)	(672)
Total investments and other assets	12,363	14,514
Total non-current assets	43,473	41,819
Total assets	¥202,509	¥213,981

The accompanying notes are an integral part of these statements.

Millions of yen

	2013	2012
Liabilities		
Current liabilities		
Notes and accounts payable	¥ 8,653	¥ 9,220
Short-term loans	5,726	5,253
Accrued income taxes	1,499	4,034
Provision for bonuses	966	1,200
Provision for sales returns	4,319	1,545
Provision for game arcade closings	256	260
Asset retirement obligations	3	2
Other	15,989	12,258
Total current liabilities	37,414	33,778
Non-current liabilities		
Corporate bonds	35,000	35,000
Provision for employees' retirement benefits	4,714	3,808
Provision for directors' retirement benefits	244	234
Provision for game arcade closings	468	584
Deferred tax liabilities	1,655	2,605
Asset retirement obligations	800	149
Other	574	523
Total non-current liabilities	43,457	42,906
Total liabilities	80,872	76,684
Net Assets		
Shareholders' equity		
Common stock	15,204	15,204
Capital surplus	44,444	44,444
Retained earnings	68,153	85,320
Treasury stock	(862)	(861)
Total shareholders' equity	126,940	144,108
Accumulated other comprehensive income (loss)		
Unrealized loss on revaluation of other investment securities	57	124
Foreign currency translation adjustments	(6,911)	(8,696)
Total accumulated other comprehensive income (loss)	(6,853)	(8,572)
Stock acquisition rights	652	977
Minority interests in consolidated subsidiaries	897	783
Total net assets	121,636	137,297
Total liabilities and net assets	¥202,509	¥213,981

The accompanying notes are an integral part of these statements.

Consolidated Statement of Operations (JPNGAAP)

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

Millions of yen

	2013	2012
Net sales	¥147,981	¥127,896
Cost of sales	*1 98,788	*1 76,268
Gross profit	49,192	51,627
Reversal of provision for sales returns	1,551	1,706
Provision for sales returns	3,927	1,502
Net gross profit	46,817	51,831
Selling, general and administrative expenses		
Packaging freight charge	1,867	1,812
Advertising expense	12,309	7,258
Sales promotion expense	100	63
Allowance for doubtful accounts	—	67
Compensation for directors	607	541
Salaries	14,105	12,195
Provision for bonuses	1,483	1,814
Net periodic pension costs	1,484	1,288
Provision for directors' retirement benefits	12	13
Welfare expense	1,710	1,523
Rental expense	1,554	1,616
Commission fee	7,588	4,621
Depreciation and amortization	2,091	1,000
Other	*2 7,984	*2 7,298
Total selling, general and administrative expenses	52,899	41,118
Operating income (loss)	(6,081)	10,713
Non-operating income		
Interest income	100	136
Dividends received	9	4
Rental income	14	17
Foreign exchange gain	1,620	—
Miscellaneous income	114	127
Total non-operating income	1,858	286
Non-operating expenses		
Interest expenses	98	61
Commission fee	53	100
Foreign exchange loss	—	536
Miscellaneous loss	3	3
Total non-operating expenses	155	701
Recurring income (loss)	(4,378)	10,297
Extraordinary gain		
Gain on sale of property and equipment	*3 2	—
Gain on sale of investment securities	8	48
Gain on sale of stocks of subsidiaries and affiliates	—	192
Gain on liquidation of subsidiaries and affiliates	76	—
Gain on reversal of subscription rights to shares	445	46
Other	120	18
Total extraordinary gain	653	305
Extraordinary loss		
Loss on sale of property and equipment	*4 58	*4 30
Loss on disposal of property and equipment	*5 213	*5 352
Loss on evaluation of investment securities	*6 0	*6 0
Impairment loss	*7 939	*7 130
Provision for game arcade closings	60	78
Loss on disposal of content	*9 3,696	*9 93
Loss on evaluation of content	*9 4,834	—
Other	1,406	55
Total extraordinary loss	11,210	741
Income (loss) before dividends distribution from silent partnership, income taxes (*tokumei-kumiai*)	(14,934)	9,862
Dividends distribution from silent partnership (*tokumei-kumiai*)	13	(4)
Income (loss) before income taxes and minority interests	(14,948)	9,866
Income taxes–current	957	3,763
Refund of income taxes	—	(50)
Income taxes–deferred	(2,208)	79
Total income taxes	(1,250)	3,792
Income (loss) before minority interests	(13,697)	6,074
Minority interests income (loss)	17	13
Net income (loss)	¥ (13,714)	¥ 6,060

The accompanying notes are an integral part of these statements.

Consolidated Statement of Comprehensive Income (JPNGAAP)

SQUARE ENIX HOLDINGS CO., LTD. and Consolidated Subsidiaries

Years ended March 31

Millions of yen

	2013	2012
Income (loss) before minority interests	¥(13,697)	¥6,074
Other comprehensive income (loss)		
Unrealized gain (loss) on revaluation of available-for-sale securities	(66)	139
Foreign currency translation adjustments	1,882	(761)
Other comprehensive income (loss)	1,815	*1 (622)
Comprehensive income (loss)	(11,881)	5,451
(Breakdown)		
Comprehensive income (loss) attributable to owners of the Company	(11,995)	5,431
Comprehensive income attributable to minority interests	¥ 113	¥ 19

The accompanying notes are an integral part of these statements.

Consolidated Statement of Changes in Net Assets (JPNGAAP)

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

Millions of yen

	2013	2012
Shareholders' equity		
Common stock		
Balance at the beginning of the year	¥ 15,204	¥ 15,204
Changes during the year		
Total changes 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	85,320	82,711
Changes during the year		
Dividends from retained earnings	(3,452)	(3,452)
Net income (loss)	(13,714)	6,060
Change of scope of consolidation	—	1
Total changes during the year	(17,166)	2,609
Balance at the end of the year	68,153	85,320
Treasury stock		
Balance at the beginning of the year	(861)	(859)
Changes during the year		
Purchase of treasury stock	(1)	(2)
Disposal of treasury stock	0	0
Total changes during the year	(0)	(2)
Balance at the end of the year	(862)	(861)
Total shareholders' equity		
Balance at the beginning of the year	144,108	141,501
Changes during the year		
Dividends from retained earnings	(3,452)	(3,452)
Net income (loss)	(13,714)	6,060
Purchase of treasury stock	(1)	(2)
Disposal of treasury stock	0	0
Change of scope of consolidation	—	1
Total changes during the year	(17,168)	2,606
Balance at the end of the year	¥ 126,940	¥144,108

The accompanying notes are an integral part of these statements.

	2013	2012
Accumulated other comprehensive income (loss)		
Unrealized gain (loss) on revaluation of other investment securities		
Balance at the beginning of the year	¥ 124	¥ (14)
Changes during the year		
Net changes in items other than shareholders' equity	(66)	139
Total changes during the year	(66)	139
Balance at the end of the year	57	124
Foreign currency translation adjustments		
Balance at the beginning of the year	(8,696)	(7,929)
Changes during the year		
Net changes in items other than shareholders' equity	1,785	(767)
Total changes during the year	1,785	(767)
Balance at the end of the year	(6,911)	(8,696)
Total accumulated other comprehensive income (loss)		
Balance at the beginning of the year	(8,572)	(7,943)
Changes during the year		
Net changes in items other than shareholders' equity	1,719	(628)
Total changes during the year	1,719	(628)
Balance at the end of the year	(6,853)	(8,572)
Stock acquisition rights		
Balance at the beginning of the year	977	814
Changes during the year		
Net changes in items other than shareholders' equity	(325)	163
Total changes during the year	(325)	163
Balance at the end of the year	652	977
Minority interests in consolidated subsidiaries		
Balance at the beginning of the year	783	771
Changes during the year		
Net changes in items other than shareholders' equity	113	12
Total changes during the year	113	12
Balance at the end of the year	897	783
Total net assets		
Balance at the beginning of the year	137,297	135,143
Changes during the year		
Dividends from retained earnings	(3,452)	(3,452)
Net income (loss)	(13,714)	6,060
Purchase of treasury stock	(1)	(2)
Disposal of treasury stock	0	0
Change of scope of consolidation	—	1
Net changes in items other than shareholders' equity	1,507	(453)
Total changes during the year	(15,660)	2,153
Balance at the end of the year	¥ 121,636	¥137,297

Millions of yen

The accompanying notes are an integral part of these statements.

Consolidated Statement of Cash Flows (JPNGAAP)

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

Millions of yen

	2013	2012
Cash flows from operating activities		
Income (loss) before income taxes and minority interest suggestion	¥(14,948)	¥9,866
Depreciation and amortization	7,301	5,039
Impairment loss	939	130
Increase (decrease) in allowance for doubtful accounts	(38)	(1)
Increase (decrease) in provision for bonuses	(245)	(232)
Increase (decrease) in provision for sales returns	2,375	(203)
Increase (decrease) in provision for retirement benefits	905	747
Increase (decrease) in provision for directors' retirement benefits	10	(31)
Increase (decrease) in provision for game arcade closing	(84)	(186)
Interest and dividends income	(110)	(141)
Interest expenses paid	98	61
Foreign exchange losses (gains)	(780)	399
Loss (gain) on sales of investment securities	(8)	(48)
Loss (gain) on sales of stocks of subsidiaries and affiliates	—	(192)
Loss (gain) on valuation of investment securities	0	0
Loss on disposal of property and equipment	213	352
Loss on sales of property and equipment	58	30
Decrease (increase) in notes and accounts receivable	(9,903)	(3,008)
Decrease (increase) in inventories	10,933	(5,137)
Increase (decrease) in notes and accounts payable–trade	(927)	1,102
Decrease (increase) in other current assets	(599)	547
Decrease (increase) in other noncurrent assets	36	56
Increase (decrease) in other current liabilities	2,213	(1,078)
Other, net	1,151	(26)
Subtotal	(1,409)	8,048
Interest and dividends income received	691	108
Interest expenses paid	(109)	(39)
Income taxes paid	(3,617)	(1,842)
Income taxes refund	4,555	961
Income taxes paid for prior periods	—	(450)
Net cash provided by operating activities	¥ 110	¥6,786

The accompanying notes are an integral part of these statements.

	2013	2012
	Millions of yen	
Cash flows from investing activities		
Payments into time deposits	¥ (2,366)	¥ (748)
Proceeds from withdrawal of time deposits	2,353	747
Proceeds from sales of investment securities	10	49
Purchase of property and equipment	(10,626)	(4,620)
Proceeds from sales of property and equipment	157	180
Purchase of intangible assets	(1,392)	(842)
Purchase of investments in subsidiaries	(73)	(9)
Proceeds from sale of stocks of subsidiaries and affiliates	—	192
Proceeds from the liquidation of subsidiaries and affiliates	113	—
Payments for guarantee deposits	(152)	(1,492)
Proceeds from collection of guarantee deposits	2,928	1,084
Other, net	(139)	(319)
Net cash used in investing activities	(9,189)	(5,778)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	—	3,791
Purchase of treasury stock	(1)	(2)
Cash dividends paid	(3,444)	(3,446)
Other, net	(35)	(42)
Net cash provided by (used in) financing activities	(3,481)	299
Effect of exchange rate change on cash and cash equivalents	1,267	(879)
Net increase (decrease) in cash and cash equivalents	(11,293)	428
Cash and cash equivalents at the beginning of the year	110,116	109,751
Decrease in cash and cash equivalents resulting from exclusion of subsidiaries from consolidation	—	(64)
Cash and cash equivalents at end of the year	*1 ¥ 98,822	*1 ¥110,116

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:

32 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, 2013, EIDOS HUNGARY KFT completed liquidation procedures, and, consequently, was excluded from the Company's scope of consolidation.

(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

There are no non-consolidated subsidiaries or affiliates which are accounted for under equity method.
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 (three to 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, 2013, 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

(Change in depreciation method)

The Company and its domestic consolidated subsidiaries have, in accordance with revisions to the Corporation Tax Act of Japan, changed their depreciation method for property, plant and equipment acquired on or after April 1, 2012, based on the revised Corporation Tax Act, effective the fiscal year under review.

Accounting Standards Issued but Not Yet Applied

Accounting Standard for Retirement Benefits (Accounting Standards Board of Japan [ASBJ] Statement No. 26, issued May 17, 2012), and Guidance on Accounting Standard for Retirement Benefits (ASBJ Guidance No. 25, issued May 17, 2012)

(1) Overview

The method for booking the difference between retirement benefit obligations and plan assets has been revised so that actuarial gains and losses and past service costs that are not yet recognized in profit or loss are instead recognized as liabilities or assets, after adjusting for tax effects, within the net asset section (accumulated other comprehensive income) on the consolidated balance sheet. In addition, the method of attributing expected benefits to periods of service has been changed to permit use of the plan's benefit formula in addition to the straight-line method. The discount rate has also been changed.

(2) Effective dates

The Company will apply the revised accounting standard and related guidance to the consolidated financial statements for the fiscal year ending March 31, 2014. However, amendments relating to the method of attributing expected benefits to periods service will not be implemented until the beginning of the fiscal year ending March 31, 2015. Notwithstanding, this accounting standard will not be applied retroactively to the consolidated financial statements of prior years since transitional measures are provided for in said accounting standard.

(3) Impact from application of new accounting standard

The Company expects the application of the Accounting Standard for Retirement Benefits to have a material impact on the consolidated financial statements of the Square Enix Group. On the balance sheet, net assets will likely fluctuate more, mainly because actuarial differences are recognized immediately in the period in which they occur. Therefore, the Company is currently assessing the financial impact of the accounting standard on its consolidated financial statements.

Notes to Consolidated Balance Sheet

*1 Investments in non-consolidated subsidiaries and affiliates

Millions of yen

	As of March 31, 2013	As of March 31, 2012
Investments and other assets	¥134	¥98

Notes to Consolidated Statement of Operations

*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, 2013	Fiscal year ended March 31, 2012
¥7,141	¥4,797

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

Millions of yen

Fiscal year ended March 31, 2013	Fiscal year ended March 31, 2012
¥1,808	¥1,273

*3 Breakdown of gain on sale of property and equipment

Millions of yen

	Fiscal year ended March 31, 2013	Fiscal year ended March 31, 2012
Buildings and structures	¥0	¥—
Tools and fixtures	2	—
Total	¥2	¥—

*4 Breakdown of loss on sale of property and equipment

Millions of yen

	Fiscal year ended March 31, 2013	Fiscal year ended March 31, 2012
Buildings and structures	¥ 4	¥ 1
Tools and fixtures	53	23
Land	—	6
Total	¥58	¥30

*5 Breakdown of loss on disposal of property and equipment

Millions of yen

	Fiscal year ended March 31, 2013	Fiscal year ended March 31, 2012
Buildings and structures	¥ 24	¥ 41
Tools and fixtures	56	16
Amusement equipment	132	292
Software	0	1
Other	0	0
Total	¥213	¥352

*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, 2013, the Group posted impairment loss on the following groups of assets.

Millions of yen

Location	Usage	Category	Impairment amount
Shinjuku-ku, Tokyo	Idle assets	Telephone subscription rights	¥ 8
Shinjuku-ku, Tokyo	Assets planned for disposal	Amusement equipment	840
Ebina, Kanagawa Prefecture	Assets planned for disposal	Other (Property and equipment)	9
Ebina, Kanagawa Prefecture	Amusement equipment production and sale	Other (Property and equipment)	3
		Finance lease that does not transfer ownership of rental transactions	4
Shibuya-ku, Tokyo	DARTS machine sales and facility operation	Buildings	13
		Amusement equipment	0
		Other (Property and equipment)	1
		Finance lease that does not transfer ownership of rental transactions	1
United States of America	Assets planned for disposal	Other (Property and equipment)	8
		Software	6
		Other (Intangible assets)	42
Total			¥939

In the Amusement business segment, each division, including captive outlets, rented outlets, franchise outlets and amusement 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, future recovery of the investment amount has been deemed uncertain and 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 measured mainly by net selling price which is based on a reasonable assumption of market price.

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.

*8 Loss on disposal of content and equipment

Fiscal year ended March 31, 2013	Fiscal year ended March 31, 2012
These are losses related to content in the Digital Entertainment Segment for which development has ceased, following revisions to development policy prompted by changes in the game industry environment.	This loss is related to equipment in the Amusement Segment for which development has ceased, following a careful review of marketability.

*9 Loss on revaluation of content

Fiscal year ended March 31, 2013	Fiscal year ended March 31, 2012
These are losses related to content in the Digital Entertainment Segment that reflect a careful review of marketability following revisions to development policy prompted by changes in the game industry environment.	—

Notes to Consolidated Statement of Comprehensive Income

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

Millions of yen

	Fiscal year ended March 31, 2013	Fiscal year ended March 31, 2012
Net unrealized gain (loss) on revaluation of other investment securities:		
Gains (Losses) arising during the year	¥(104)	¥ 214
Reclassification adjustments	0	0
Total amount before tax-effect	(103)	214
Tax-effect	37	(75)
Net unrealized gain (loss) on revaluation of other investment securities	(66)	139
Foreign currency translation adjustments:		
Exchange differences arising during the year	1,882	(767)
Reclassification adjustments relating to foreign operations	—	5
Total amount before tax-effect	1,882	(761)
Tax-effect	—	—
Foreign currency translation adjustments	1,882	(761)
Total other comprehensive income (loss)	¥1,815	¥(622)

Items Pertaining to the Consolidated Statement of Changes in Net Assets

■ Year ended March 31, 2013

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, 2012	Share increases during the year	Share decreases during the year	Shares as of March 31, 2013
Shares issued and outstanding				
Common stock	115,370	—	—	115,370
Total	115,370	—	—	115,370
Treasury stock*1, 2				
Common stock	301	1	0	302
Total	301	1	0	302

Notes: 1 The increase of 1 thousand shares of treasury stock was due to the acquisition of fractional shares constituting less than one trading unit.
2 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, 2012	Increase during the year	Decrease during the year	As of March 31, 2013	Balance as of March 31, 2013 (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	—	—	—	—	—	¥652
	Total	—	—	—	—	—	¥652

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, 2012 (Board of Directors' Meeting)	Common stock	¥2,301	¥20	March 31, 2012	June 5, 2012
November 6, 2012 (Board of Directors' Meeting)	Common stock	1,150	10	September 30, 2012	December 5, 2012

(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 17, 2013 (Board of Directors' Meeting)	Common stock	¥2,301	Retained earnings	¥20	March 31, 2013	June 4, 2013

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*[1, 2]				
Common stock	299	1	0	301
Total	299	1	0	301

Notes: 1 The increase of 1 thousand shares of treasury stock was due to the acquisition of fractional shares constituting less than one trading unit.
2 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, 2012 (Board of Directors' Meeting)	Common stock	¥2,301	¥20	March 31, 2011	June 23, 2011
November 4, 2012 (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, 2013 (Board of Directors' Meeting)	Common stock	¥2,301	Retained earnings	¥20	March 31, 2012	June 5, 2012

Notes to Consolidated Statement 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, 2013	Fiscal year ended March 31, 2012
Cash and deposits	¥100,418	¥111,495
Time deposits with maturity periods over three months	(1,595)	(1,379)
Cash and cash equivalents	¥ 98,822	¥110,116

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, 2013			As of March 31, 2012		
	Acquisition cost	Accumulated depreciation	Net book value	Acquisition cost	Accumulated depreciation	Net book value
Buildings and structures	¥ 62	¥ 53	¥ 8	¥114	¥ 83	¥30
Tools and fixtures	103	92	10	210	168	42
Total	¥165	¥146	¥19	¥325	¥252	¥73

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, 2013	As of March 31, 2012
Ending balances of future lease payments		
Due within one year	¥19	¥49
Due after one year	—	23
Total	¥19	¥73

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, 2013	Fiscal year ended March 31, 2012
Lease payments	¥50	¥95
Depreciation expense	50	95

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, 2013	As of March 31, 2012
Due within one year	¥44	¥251
Due after one year	—	46
Total	¥44	¥298

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, 2013, 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, 2013

Millions of yen

Assets:	Book value	Fair value	Difference
(1) Cash and deposits	¥100,418	¥100,418	¥ —
(2) Notes and accounts receivable	30,226		
Allowance for doubtful accounts	(135)		
Notes and accounts receivable, net	30,090	30,090	—
(3) Income taxes receivable	2,223	2,223	—
(4) Investment securities	444	444	—
(5) Rental deposits	10,121		
Allowance for doubtful deposits paid	(500)		
Rental deposits, net	9,621	9,383	(237)
Total assets	142,799	142,561	(237)
Liabilities:			
(1) Notes and accounts payable	8,653	8,653	—
(2) Short-term loans	5,726	5,726	—
(3) Accrued income taxes	1,499	1,499	—
(4) Corporate bonds	35,000	34,387	(612)
Total liabilities	¥ 50,879	¥ 50,266	¥(612)
Derivative transactions	—	—	—

■ 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) Rental deposits	12,785		
Allowance for doubtful deposits paid	(526)		
Rental 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	—	—	—

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, 2013	As of March 31, 2012
Unlisted shares	¥48	¥49

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

Millions of yen

	As of March 31, 2013				As of March 31, 2012			
	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	¥ 98,827	¥ —	¥ —	¥—	¥109,863	¥ —	¥ —	¥ —
Notes and accounts receivable	30,226	—	—	—	18,431	—	—	—
Income taxes receivable	2,223	—	—	—	6,396	—	—	—
Guarantee deposits	4,114	3,246	2,759	—	6,073	2,916	3,747	48
Total	¥135,392	¥3,246	¥2,759	—	¥140,765	¥2,916	¥3,747	¥ 48

4. Planned repayment amounts subsequent to the consolidated balance sheet date for corporate bonds and other interest-bearing liabilities

Millions of yen

	As of March 31, 2013						As of March 31, 2012					
	Within one year	More than one year but within two years	More than two yeasr but within three years	More than three years but within four years	More than four years but within five years	More than 5 years	Within one year	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	More than 5 years
Short-term borrowing	¥5,726	—	¥—	¥—	¥—	¥—	¥5,253	¥ —	¥ —	¥—	¥—	¥—
Corporate bond	—	35,000	—	—	—	—	—	—	35,000	—	—	—
Total	¥5,726	¥35,000	¥—	¥—	¥—	¥—	¥5,253	¥ —	¥35,000	¥—	¥—	¥—

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

	Type	As of March 31, 2013			As of March 31, 2012		
		Book value	Acquisition cost	Difference	Book value	Acquisition cost	Difference
Securities with book value exceeding acquisition cost	(1) Stocks	¥334	¥228	¥ 105	¥442	¥243	¥198
	(2) Bonds						
	a. Government bonds and municipal bonds	—	—	—	—	—	—
	b. Corporate bonds	—	—	—	—	—	—
	c. Other	—	—	—	—	—	—
	(3) Other	—	—	—	—	—	—
	Subtotal	334	228	105	442	243	198
Securities with acquisition cost exceeding book value	(1) Stocks	110	126	(15)	106	111	(5)
	(2) Bonds						
	a. Government bonds and municipal bonds	—	—	—	—	—	—
	b. Corporate bonds	—	—	—	—	—	—
	c. Other	—	—	—	—	—	—
	(3) Other	—	—	—	—	—	—
	Subtotal	110	126	(15)	106	111	(5)
Total		¥444	¥355	¥ 89	¥549	¥355	¥193

4. Securities sold during the year

Millions of yen

	Fiscal year ended March 31, 2013			Fiscal year ended March 31, 2012		
Item	Proceeds	Aggregate gain on sale	Aggregate loss on sale	Proceeds	Aggregate gain on sale	Aggregate loss on sale
(1) Stocks	¥10	¥8	¥—	¥49	¥48	¥—
(2) Bonds						
a. Government bonds and municipal bonds	—	—	—	—	—	—
b. Corporate bonds	—	—	—	—	—	—
c. Other	—	—	—	—	—	—
(3) Other	—	—	—	—	—	—
Total	¥10	¥8	¥—	¥49	¥48	¥—

5. Investment securities subject to impairment

In the fiscal year ended March 31, 2013, other investment securities (shares) were subject to impairment amounting to ¥0 million.

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

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Derivative Transactions

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

■ Year ended March 31, 2013

Not applicable

■ Year ended March 31, 2012

Not applicable

2. Derivative transactions for which hedge accounting has been applied

■ Year ended March 31, 2013

Not applicable

■ Year ended March 31, 2012

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, 2013	Fiscal year ended March 31, 2012
(1) Retirement benefit obligation	¥(12,674)	¥(11,795)
(2) Fair value of plan assets	7,282	6,386
(3) Net unfunded obligation (1)+(2)	(5,392)	(5,409)
(4) Unrecognized actuarial loss	678	1,600
(5) Unrecognized amortization of prior service cost	—	—
(6) Provision for employees' retirement benefits (3)+(4)+(5)	(4,714)	(3,808)
(7) Prepaid pension expenses	—	—
(8) Provision for employees' retirement benefits, net (6)-(7)	¥ (4,714)	¥ (3,808)

3. Retirement benefit expenses:

Millions of yen

	Fiscal year ended March 31, 2013	Fiscal year ended March 31, 2012
Retirement benefit expenses	¥1,717	¥1,397
(1) Service cost	724	562
(2) Interest cost	125	151
(3) Expected return on plan assets	(60)	(75)
(4) Amortization of net actuarial gain	971	759
(5) Amortization of prior service cost	(43)	—

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, 2013 and 2012 amounting to ¥901 million and ¥11 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, 2013	Fiscal year ended March 31, 2012
0.636–0.990%	0.973–1.550%

(3) Expected rate of return on plan assets

Fiscal year ended March 31, 2013	Fiscal year ended March 31, 2012
0.973%	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, 2013	Fiscal year ended March 31, 2012
Cost of sales	¥ 2	¥ 6
Selling, general and administrative expenses	118	203

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

Millions of yen

	Fiscal year ended March 31, 2013	Fiscal year ended March 31, 2012
Reversal of stock acquisition rights	¥445	¥46

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	2012 stock options	2012 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	Company directors	Company employees
Number of grantees	5	59	5	5	7	5	6	2	5	12	5	8
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	67,000 shares of common stock	110,000 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	July 26, 2012	August 29, 2012
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	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	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 August 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	July 27, 2012 to July 26, 2032	July 31, 2014 to July 30, 2017

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	2012 stock options	2012 stock options
Before vesting (shares)												
March 31, 2012	—	—	—	—	—	—	140,000	20,000	—	180,000	—	—
Granted	—	—	—	—	—	—	—	—	—	—	67,000	110,000
Forfeited	—	—	—	—	—	—	—	—	—	—	—	—
Vested	—	—	—	—	—	—	140,000	20,000	—	—	67,000	—
Unvested balance	—	—	—	—	—	—	—	—	—	180,000	—	110,000
After vesting (shares)												
March 31, 2012	250,000	504,000	19,800	57,000	130,000	77,000	—	—	87,000	—	—	—
Vested	—	—	—	—	—	—	140,000	20,000	—	—	67,000	—
Exercised	—	—	—	—	—	—	—	—	—	—	—	—
Forfeited	250,000	504,000	—	—	—	—	—	—	—	—	—	—
Balance unexercised	—	—	19,800	57,000	130,000	77,000	140,000	20,000	87,000	—	67,000	—

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	2012 stock options	2012 stock options
Exercise price	¥3,706	¥3,706	¥1	¥1	¥2,293	¥1	¥1,895	¥1,779	¥1	¥1,835	¥1	¥1,515
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	948	214

4. Method of estimating the fair value of stock options

The fair value of the 2012 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

	2012 Stock Options	2012 Stock Options
Expected share price volatility (Note 1)	32.5%	31.3%
Expected life (Note 2)	10 years	3.4 years
Expected dividend (Note 3)	Dividend yield 2.47%	Dividend yield 2.18%
Risk-free interest rate (Note 4)	0.74%	0.12%

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 2012 Stock Options, this was calculated based on the actual dividend applicable to the fiscal year ended March 31, 2012.

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, 2013	As of March 31, 2012
Deferred tax assets		
1) Current assets		
Enterprise tax payable	¥ 121	¥ 344
Business office tax payable	44	41
Provision for bonuses	344	457
Accrued expenses	547	170
Provision for sales returns	780	122
Non-deductible portion of allowance for doubtful accounts	94	68
Tax credits	85	—
Loss on write-offs of content production account	4,802	3,204
Loss on inventory revaluation	711	818
Provision for game arcade closings	97	98
Loss carried forward	—	99
Other	268	218
Valuation allowance	(1,993)	(444)
Offset to deferred tax liabilities (current)	(466)	(176)
Total	5,438	5,022
2) Non-current assets		
Non-deductible portion of provision for employees' retirement benefits	1,729	1,395
Provision for directors' retirement benefits	84	82
Expense for stock-based compensation	232	344
Non-deductible depreciation expense of property and equipment	438	123
Asset retirement obligations	284	49
Impairment loss	290	308
Loss on evaluation of investments in securities	303	306
Loss on evaluation of stocks of subsidiaries and affiliates	—	51
Non-deductible portion of allowance for doubtful accounts	25	59
Non-deductible portion of excess expenses on lump-sum depreciable assets	182	145
Loss carried forward, and others, at overseas subsidiaries	883	845
Provision for game arcade closings	168	211
Tax credits	145	119
Loss carried forward	200	59
Other	325	134
Valuation allowance	(2,897)	(2,556)
Offset to deferred tax liabilities (non-current)	(1,169)	(1,221)
Total	1,229	460
Total deferred tax assets	6,668	5,483
Deferred tax liabilities		
1) Current liabilities		
Accrued expenses and other cost calculation details	179	151
Other	286	25
Offset to deferred tax assets (non-current assets)	(466)	(176)
Total	—	—
2) Non-current liabilities		
Non-current assets	1,006	1,654
Tax effects from intangible non-current assets relating to business combinations	1,779	1,804
Other	39	367
Offset to deferred tax assets (non-current)	(1,169)	(1,221)
Total	1,655	2,605
Total deferred tax liabilities	1,655	2,605
Balance: Net deferred tax assets	¥ 5,012	¥ 2,878

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

	As of March 31, 2013	As of March 31, 2012
Statutory tax rate	—%	40.70%
(Adjustments)		
Permanent differences relating to entertainment expense and others excluded from non-taxable expenses	—	0.65
Permanent differences relating to dividends received and others 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, 2013 because the Company posted a loss before income taxes and minority interests.

Business Combinations

■ Year ended March 31, 2013

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 15 years, and a discount rate generally set between 0.801% 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 0.645% and 1.355%.
c) Changes to aggregate asset retirement obligations

Millions of yen

	Fiscal year ended March 31, 2013	Fiscal year ended March 31, 2012
Beginning balance	¥152	¥ 721
Increase due to procurement of property and equipment	647	2
Accretion expense	5	7
Decrease due to fulfillment of asset retirement obligations	(1)	(58)
Decrease due to change in estimates	—	(517)
Other	—	(3)
Ending balance	¥803	¥ 152

Matters Relating to Real Estate Leases, Etc.

■ Year ended March 31, 2013
Not applicable

■ Year ended March 31, 2012
Not applicable

Segment Information

[Consolidated Business Segment Information]

[Segment Information]

■ Year ended March 31, 2013

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	¥89,482	¥44,276	¥11,086	¥3,137	¥147,981	¥ —	¥147,981
(2) Intersegment sales	0	—	0	127	127	(127)	—
Total	89,482	44,276	11,086	3,264	148,109	(127)	147,981
Segment operating income	¥ 44	¥ (353)	¥ 2,484	¥ 667	¥ 2,842	¥ (8,924)	¥ (6,081)
Segment assets	¥57,927	¥19,192	¥ 5,337	¥3,065	¥ 85,522	¥116,986	¥202,509
Other items							
Depreciation and amortization	2,235	4,384	88	23	6,730	570	7,301
Increases in property and equipment and intangible assets	3,339	4,934	199	84	8,558	3,950	12,508

Notes: 1. (1) Segment adjustments (¥8,924 million) include unallocated corporate operating expenses (¥8,965 million).

(2) Unallocated assets amounting to ¥116,986 million are included in the ¥117,043 million adjustment to segment assets. Most of this amount comprises funds for management of surplus funds (cash and cash equivalents).

(3) The ¥570 million adjustment to depreciation and amortization is associated with unallocated assets that do not belong to any reporting segment.

(4) The ¥3,950 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, 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.

[Related Information]

■ **Year ended March 31, 2013**

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
¥109,524	¥14,936	¥21,588	¥1,931	¥147,981

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
¥18,214	¥1,604	¥309	¥41	¥20,169

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, 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.

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

Year ended March 31, 2013

Millions of yen

	Digital Entertainment	Amusement	Publication	Merchandising	Eliminations or unallocated (Note)	Total
Impairment losses	¥56	¥875	¥—	¥—	¥8	¥939

Note: “Eliminations or unallocated” is amount related mainly to impairment losses on telephone subscription rights.

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 telephone subscription rights.

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

Year ended March 31, 2013

Not applicable

■ **Year ended March 31, 2012**
Not applicable

[Information related to gain on negative goodwill in each reporting segment]
■ **Year ended March 31, 2013**
Not applicable

■ **Year ended March 31, 2012**
Not applicable

[Related Party Transactions]
■ **Year ended March 31, 2013**
Not applicable

■ **Year ended March 31, 2012**
Not applicable

Per Share Information

Yen

	Fiscal year ended March 31, 2013	Fiscal year ended March 31, 2012
Net assets per share	¥1,043.62	¥1,177.87
Net income (loss) per share	(119.19)	52.66
Diluted net income per share	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.	52.55

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, 2013	Fiscal year ended March 31, 2012
Net income per share:		
Net income (loss)	¥ (13,714)	¥ 6,060
Income (loss) not available to common shareholders	—	—
Income (loss) available to common shareholders	(13,714)	6,060
Average number of shares of common stock outstanding during the fiscal year (thousands of shares)	115,069	115,070
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	Issuance of January 2010 stock acquisition rights, pursuant to a resolution of 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 of the Board of Directors on August 5, 2011; issuance of August 2012 stock acquisition rights, pursuant to a resolution of the Board of Directors on July 30, 2012	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.

Significant Subsequent Events

Not applicable

Supplementary Schedule

[Corporate Bonds Issued]

Company	Bond type	Issuance date	Outstanding balance as of March 31, 2012 (Millions of yen)	Outstanding balance as of March 31, 2013 (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, 2013 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, 2012 (Millions of yen)	Balance as of March 31, 2013 (Millions of yen)	Average interest rate (%)	Repayment date
Short-term borrowings	¥5,253	¥5,726	1.1	—
Long-term borrowings due for repayment within one year	—	—	—	—
Lease obligations due for repayment within one year	34	30	—	—
Long-term borrowings (excluding the amount due for repayment within one year)	—	—	—	—
Lease obligations (excluding the amount due for repayment within one year)	51	40	—	June 2014 to September 2017
Other interest-bearing liabilities	—	—	—	—
Total	¥5,338	¥5,796	¥—	¥—

Notes: 1. The average interest rate shown is the weighted average interest rate on the balance of borrowings as of March 31, 2013.

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 (excluding due for repayment after within one year) are included in "Other" of "Non-current liabilities."

4. Scheduled repayment amounts during five years subsequent to March 31, 2013 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	¥21	¥10	¥6	¥2

[Asset retirement obligations]

Asset retirement obligations at the end of the fiscal year in review (ended March 31, 2013) 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, 2012 to June 30, 2012	2Q July 1, 2012 to September 30, 2012	3Q October 1, 2012 to December 31, 2012	4Q January 1, 2013 to March 31, 2013
Net sales	¥24,914	¥61,055	¥102,794	¥147,981
Loss before income taxes and minority interests	(2,105)	(6,375)	(5,337)	(14,948)
Net loss	(2,077)	(5,480)	(5,745)	(13,714)
Net loss per share (yen)	(18.05)	(47.63)	(49.93)	(119.19)

Cumulative period	1Q April 1, 2012 to June 30, 2012	2Q April 1, 2012 to September 30, 2012	3Q April 1, 2012 to December 31, 2012	4Q April 1, 2012 to March 31, 2013
Net loss per share (yen)	¥(18.05)	¥(29.58)	¥(2.30)	¥(69.26)

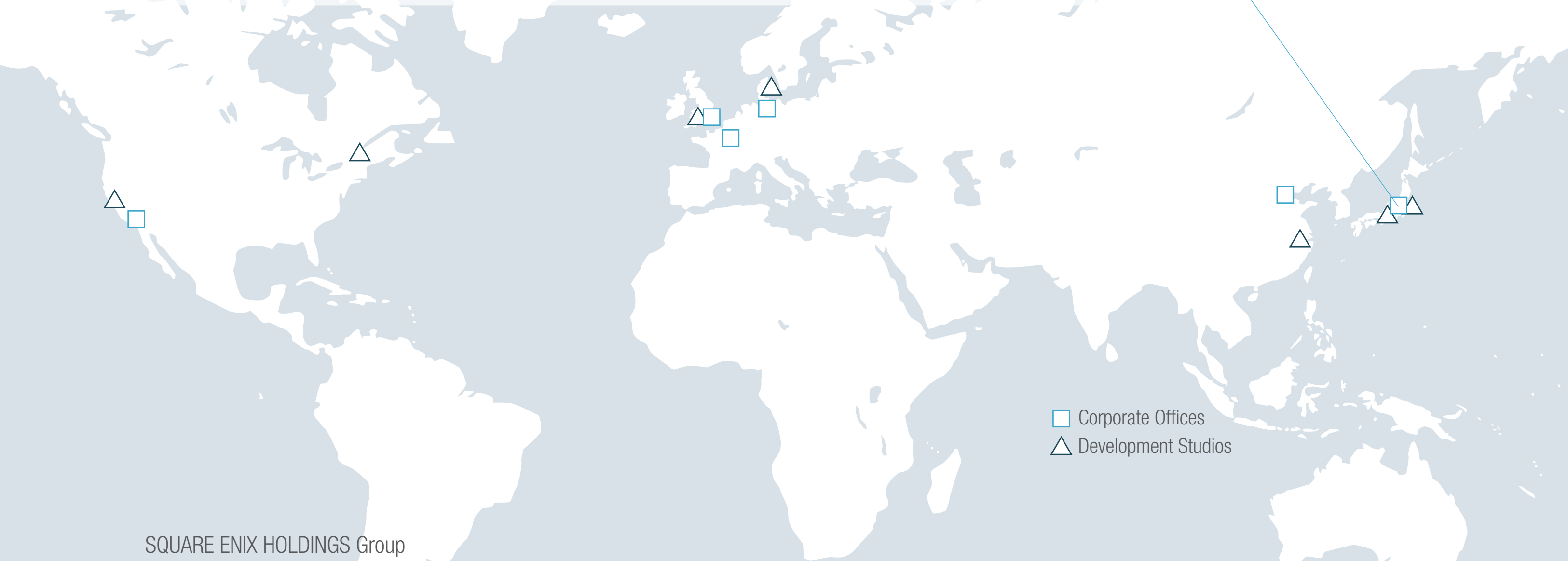
Corporate Data

(As of March 31, 2013)

Company Profile

Headquarters:	SHINJUKU EASTSIDE SQUARE 6-27-30 Shinjuku, Shinjuku-ku, Tokyo 160-8430, Japan Tel.: +81-3-5292-8000	Established: September 22, 1975	
		Common stock:	¥15,204,474,100
		Number of employees:	3,782 (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, 2013)

Share Information

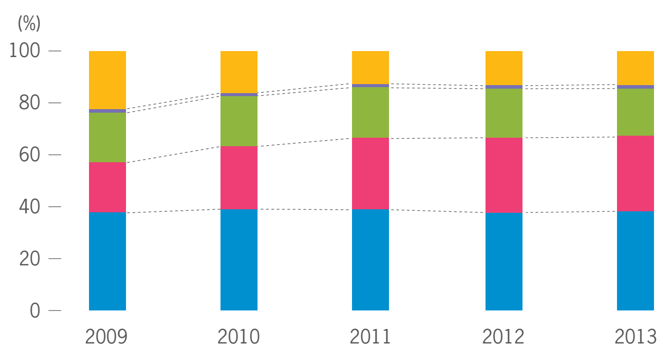
Number of shares issued: 115,370,596

Number of shareholders: 33,614

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	State Street Bank and Trust Company 505223	7,047	6.10
5	Masafumi Miyamoto	7,167	6.21
6	Royal Bank of Canada Trust Company (Cayman) Limited	5,039	4.36
7	The Master Trust Bank of Japan, Ltd. (Trust Account)	3,339	2.89
8	Japan Trustee Services Bank, Ltd. (Trust Account)	2,998	2.59
9	S System Co., Ltd.	2,045	1.77
10	State Street Bank and Trust Company 505103	1,347	1.16

Share Ownership (Thousands of shares)



	2009		2010		2011		2012		2013	
Financial Institutions	25,770	(22.4%)	18,643	(16.2%)	15,711	(13.6%)	15,485	(13.4%)	14,700	(12.7%)
Financial Instruments Companies	1,558	(1.4%)	1,479	(1.3%)	981	(0.9%)	995	(0.9%)	995	(0.9%)
Other Companies	22,190	(19.2%)	22,161	(19.2%)	22,122	(19.2%)	22,089	(19.2%)	22,092	(19.1%)
Foreign Companies and Individuals	22,271	(19.3%)	28,029	(24.3%)	31,668	(27.4%)	33,268	(28.8%)	32,251	(28.0%)
Individuals and Other	43,514	(37.7%)	45,055	(39.0%)	44,884	(38.9%)	43,530	(37.7%)	45,329	(39.3%)
Total	115,305	(100.0%)	115,370	(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.hd.square-enix.com/

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