SQUARE ENIX

2014
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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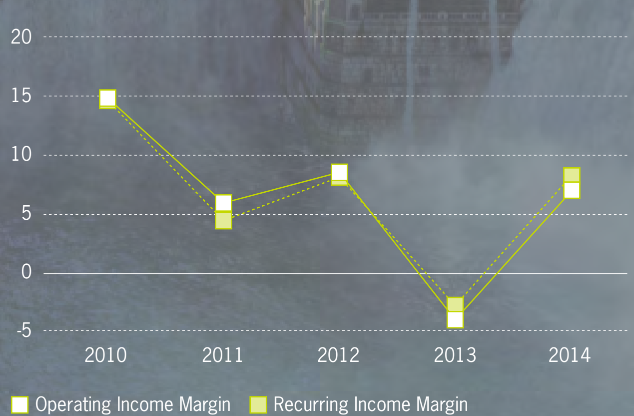
Financial Highlights

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

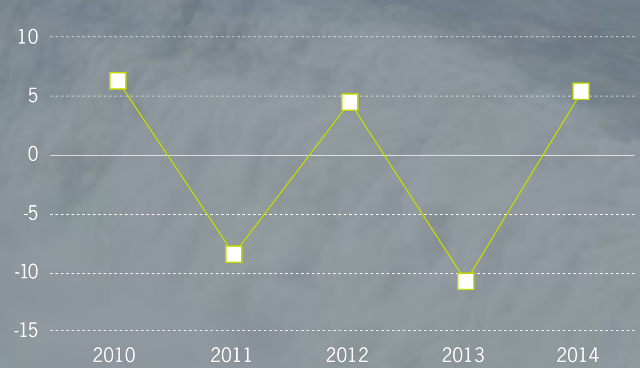
					Millions of Yen	Thousands of U.S. Dollars
	2010	2011	2012	2013	2014	2014
For the Year						
Net sales	¥192,257	¥125,271	¥127,896	¥147,981	¥155,023	$1,506,254
Operating income (loss)	28,235	7,325	10,713	(6,081)	10,543	102,441
Recurring income (loss)	27,822	5,390	10,297	(4,378)	12,534	121,786
Net income (loss)	9,509	(12,043)	6,060	(13,714)	6,598	64,112
At Year-end						
Total assets	¥270,529	¥206,336	¥213,981	¥202,509	¥216,617	$2,104,714
Total net assets	154,258	135,143	137,297	121,636	127,676	1,240,540
					Yen	U.S. Dollars
Per Share of Common Stock						
Net income (loss)	¥ 82.65	¥ (104.66)	¥ 52.66	¥ (119.19)	¥ 57.28	$ 0.56
Total net assets	1,326.82	1,160.66	1,177.87	1,043.62	1,095.78	10.65
					%	
Key Ratios						
Operating income margin	14.7%	5.8%	8.4%	(4.1)%	6.8%	
Recurring income margin	14.5	4.3	8.0	(2.9)	8.1	
Return on equity	6.3	(8.4)	4.5	(10.7)	5.4	
Equity ratio	56.4	64.7	63.3	59.3	58.3	

Note: For the convenience of readers, amounts in U.S. dollars have been translated using the currency exchange rate at March 31, 2014 of ¥102.92=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.
President and Director, SQUARE ENIX OF AMERICA HOLDINGS, INC.
(the Group's intermediate holding company in the Americas)
Director, SQUARE ENIX OF EUROPE HOLDINGS LTD.
(the Group's intermediate holding company in Europe and other regions)
Deputy Chairman of the Board, SQUARE ENIX (China) CO., LTD.
(the Group's operating company in China)

Let me extend my sincere gratitude for your continued understanding and support for the management of the Square Enix Group. It's been one year since I was appointed to the position of President and Representative Director last June. In addition to reporting on the recent progress, I would like to take this opportunity to report to our shareholders on the Group's progress of our businesses during the period, and outline our future strategic directions.

On a consolidated basis, net sales during the fiscal year ended March 2014 totaled ¥155 billion, while operating income was ¥10.5 billion and net income amounted to ¥6.5 billion. In response to our inferior financial results in the fiscal year ended March 2013, the Group made concentrated efforts together for financial recovery to achieve these figures as a result. This achievement is entirely owing to your support. Again, I would like to express my thanks for your help.

The Digital Entertainment segment, our Group's core business, is currently undergoing a business reform, which I will discuss in detail later on. For the fiscal year ended March 2014, we actively reformed our development policy and organization system, focusing on our European and North American studios, and simultaneously worked on earnings recovery through our existing lineup. Sales of console game titles, including "FINAL FANTASY X/X-2 HD Remaster," "Thief" (Europe and North America only) and "TOMB RAIDER: DEFINITIVE EDITION," were better than our original plan.

In the category of content for smart devices and PC browser platforms, "SENGOKU IXA," a browser game, continued to contribute to earnings. Meanwhile, the smartphone game "Kaku-San-Sei Million Arthur" was expanding across platforms and regions: the game became an instant hit in Korea, Taiwan and mainland China, and a PlayStation Vita edition of the game was released. "DRAGON QUEST MONSTERS SUPER LIGHT," which was launched domestically in January 2014, also made an encouraging start.

"FINAL FANTASY X/X-2 HD Remaster"

CHARACTER DESIGN: TETSUYA NOMURA

"TOMB RAIDER: DEFINITIVE EDITION"

Three major MMO titles—"FINAL FANTASY XIV: A REALM REBORN," which began operation last August, "DRAGON QUEST X," which was launched in August 2012, and "FINAL FANTASY XI," which has entered its thirteenth year of operation—maintain nearly 1,000,000 paying subscribers all together, and have established a solid revenue base.

In the Amusement segment, as a result of streamlining arcade store operations, our amusement facility business was showing steady performance compared to existing store sales in the previous period. In addition, with regard to the development and sales of amusement equipment, we released brand-new machines such as "LORD of VERMILION III," "GROOVE COASTER" (arcade version), "GUNSLINGER STRATOS 2" and others, which obtained favorable results. In this manner, the Amusement segment has begun to generate stable revenues, and we shall maintain that ongoing momentum.

The Publication segment's results for the fiscal year ended March 2014 were slightly down from the previous period, due in part to several popular manga titles having ended their runs. The fiscal year ending March 2015 will be a time for us to stock up on titles in preparation for our next leap, and we should begin to see results from that stock in the latter half of the fiscal year ending March 2015.

The Merchandising segment is steadily generating sales and profit. While its sales are relatively small, this segment is considered important from the perspective of enhancing our IP offerings, which include original pieces. We therefore shall maintain this steady profit-generation.

Next, I would like to cover the strategic issues of the Digital Entertainment segment, our Group's core business.

Since I was appointed to the position of President last year, I have been running the Group with emphasis on three major strategic issues: **1) revisiting long-term, large-scale development, 2) focusing on smart devices as game**

"SENGOKU IXA"

"DRAGON QUEST X"

consoles, and 3) developing product portfolios tailored to local requirements. I will explain each item.

1) Revisiting Long-term, Large-scale Development

HD (high definition) games are the Square Enix Group's DNA and a showcase for our creativity. HD game development will continue to be an integral part of our businesses. However, as I mentioned in last year's annual report, there are serious structural flaws in the disc sales model that defines the current HD game business, and the question of how to deal with the issue is a significant managerial challenge. One major approach we are currently taking is to apply variable pricing models, such as F2P (free to play) games, to the HD games area. We are already introducing such models and have achieved success in several cases.

Last year, platform providers began to promote content delivery services based on the F2P model, in addition to conventional paid content sales, for newly-released home game consoles. Promotion of online HD games based on this new business model is an important pillar of structural reform for us as well, and we conducted a large-scale review of both our HD games development and our European and American studios, in preparation for this course of action. The list of titles that have been announced is still limited at present, but we will be introducing new HD game titles featuring variable pricing models.

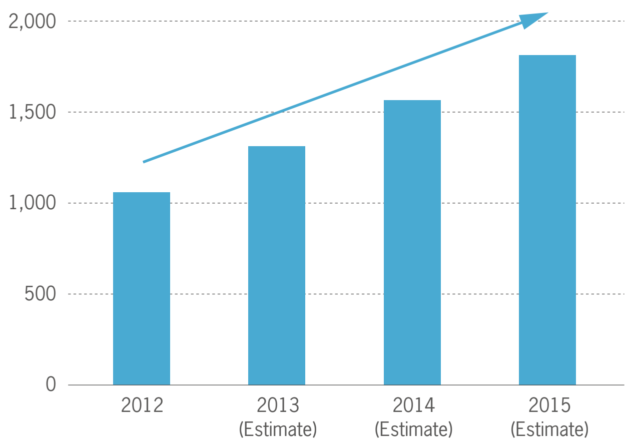
In the previous year's annual report, I mentioned that low asset turnover is another major issue for HD game development. The question is how to properly deal with increasingly protracted development periods. In addition, we have a number of challenges to tackle: to say nothing of research into technological aspects such as game engines and development tools. We are facing several business model issues of how to provide customers with additional content both before and after game launch, and how to introduce new development initiatives such as derivative product and episodic models. We are diligently undertaking these tasks, and will report the results of our efforts at a future date.

Next, cloud gaming holds new potential on both technological and business model aspects. We have launched a new development project for cloud game technology, and are currently working on the business development to apply the technology to commercial opportunities. It is still fresh in our minds that the innovations in our technology received high acclaim from the media at the E3 trade show held in June. In addition, with the help of Taiwan's Ubitus Inc., we have started a game streaming service of "DRAGON QUEST X" for smartphone and tablet, which will become available on the Nintendo 3DS platform from this September. Cloud gaming is already close to practical use, and we will be able to report several achievements in this area during and after the fiscal year ending March 2015.

"DRAGON QUEST X"

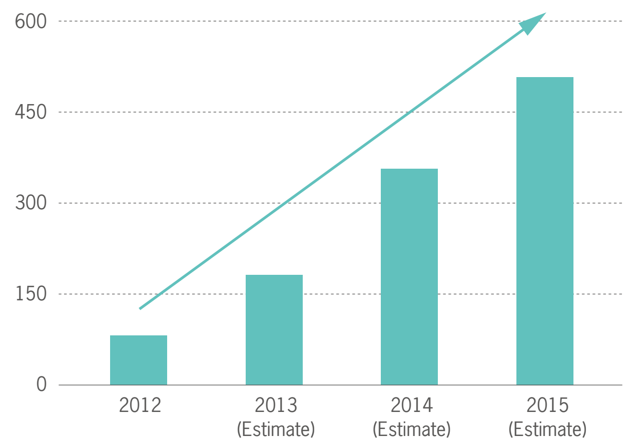
Figure 1 **Online Game Market in Mainland China**

(including the mobile game market, such as games for smartphones)



(The Company’s forecast based on various sources)

Figure 1 **Mobile Game Market in Mainland China**



(The Company’s forecast based on various sources)

As you can see, the HD game business is showing signs of evolving away from the conventional disc-based sellout model for game consoles. The sellout model itself is rapidly shifting from disc-sales to full game downloads, and game sales are entering into an era of full-scale digital distribution. We see this change as a huge opportunity for us, and will endeavor to further expand the HD game business.

2) Smart Devices as Game Consoles

Smart devices such as smartphones and tablets are not game consoles. However, smart devices have rapidly spread to gain an important position as a type of gaming device. It has become a common sight to see people playing games on these devices, which leads us to a strategically important theme of how to encourage customers to play our content on smart devices. Based on this understanding, we have focused our methods for accelerating game development and services for smart devices during the fiscal year ended March 2014. Our efforts have been producing noticeable results such as big hits of “DRAGON QUEST MONSTERS SUPER LIGHT” and “SCHOOLGIRL STRIKERS” since the second half of this fiscal year. While our Japanese studios have been taking a lead in this area, Square Enix Montréal, a studio specializing in game development for smart devices, launched a game called “Hitman GO” in April, which was highly acclaimed around the world. It hasn’t proved to be a major hit yet, but I think it is a significant achievement in that the originality of its gameplay and art style won high praise. We are working hard to connect this achievement to future big hits in Europe and North America.

“DRAGON QUEST MONSTERS SUPER LIGHT”

Developed by Cygames, Inc.

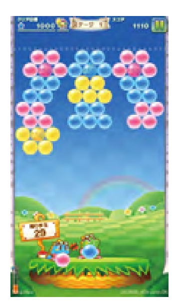
“SCHOOLGIRL STRIKERS”

The global market for smart device games is showing remarkable growth, and the growth of the Asian market, centered on mainland China, deserves special mention (see Figure 1). In the fiscal year ended March 2014, we released “Kaku-San-Sei Million Arthur” for Korea, Taiwan and mainland China, and achieved satisfactory results. In addition, while it is not a game for smart devices, “FINAL FANTASY XIV” was successfully launched in Japan, North America and Europe last August, and won high acclaim worldwide. This summer, the service territory for the MMO game has expanded to mainland China with the intent of entering the Chinese market on a full-scale basis, and we will also work to further grow our revenues from the Asian market by actively releasing mobile titles such as “Sangokushi Ranbu.”

Asia isn’t the only region to demonstrate remarkable growth. The Indian and South American game markets are also growing at astounding rates, and smart device games hold the key to capturing these growth markets. It’s quite true that, as the economies of developing regions grow, demands for entertainment grow as well. In such regions, people use smartphones or tablets as the device for enjoying entertainment content. Making our content available on these devices will create huge business opportunities for us. We shall establish a foothold of entry into those fast-growing markets through the fiscal year ending March 2015.

“Kaku-San-Sei Million Arthur”

“Sangokushi Ranbu”



“LINE Puzzle Bobble”

3) Product Portfolios Tailored to Regions

Our conventional product sales strategy has been to sell one product worldwide, and we have been developing games for the global market. However, each region holds different cultures and lifestyles, and our customers in those regions have different tastes in games and playing styles. In addition, the gaming environment has become diversified; various options are offered from conventional special-purpose game consoles to smart devices, and other general-purpose devices to cloud streaming. Alongside this trend, the process of game development and distribution are also expanding at an exponential rate. The series of activities in the games business process—procure funding, prepare the development environment, develop games, distribute and sell the finished games—has previously been possible only for major publishers with large-scale funding. However, the shift to "open source, low-cost game development tools," "fundraising through crowd funding" and "direct sales via download" have created an ecosystem in which large-scale funding is no longer necessary. This has created a situation where independent developers are appearing one after another, and a large number of new games are being produced all over the world. As seen above, not only the gaming environments, but also the games themselves are increasingly becoming more diverse and decentralized on a world-wide basis, and we therefore recognize that it has become difficult to simply lump the game market together under the term "global."

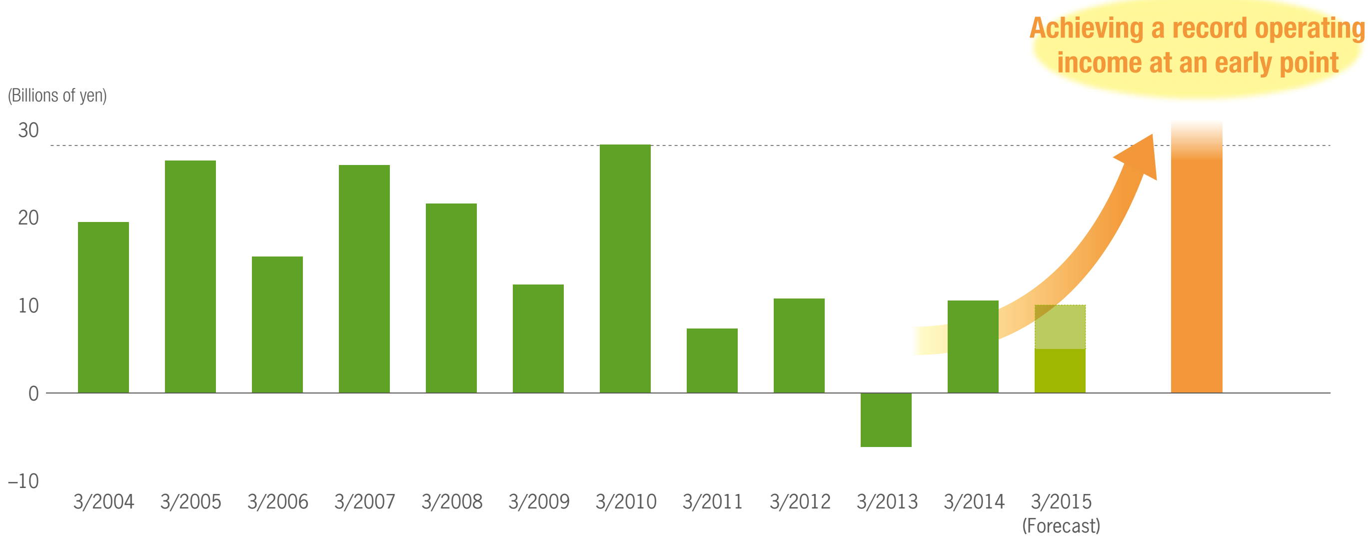
How should our content development deal with such circumstances? I think the key lies in "focus." Precisely because customer tastes are diversifying and decentralizing, we will be able to create quality content that attains higher customer reviews if we focus on the strengths and specialties that our creators are best at. The regions I mean here are not physical regions. In the current world of digital entertainment, physical borders and boundaries are no longer meaningful. The world is fully connected by the Internet, and content is disseminated to the whole world simultaneously. In this context, "regional" refers to customer diversity, not physical regions.

The fields in which our creators excel are also diverse. Therefore, creators can provide customers with the ultimate experience by focusing on their specialized areas. For example, there are many customers loving JRPGs (Japanese Role Playing Games) worldwide. By focusing on JRPGs tailored to these customers and offering the ultimate games, we will win acclaim from the world. I think that is a reality of the modern digital content business.

This concludes my summary of the fiscal year ended March 2014, and my outline of our future initiatives.

In light of the extremely disappointing results from the fiscal year ended March 2013, we performed a vast review of our domestic and overseas development systems, and developed content with a conscious focus on areas in which we excel. Such efforts will enable us to produce diverse content for a variety of genres in the future. The important value underlying all of this diversity is "fun." By letting our creators focus on the fields in which they are

Figure 2 Trends in Operating Income



best, and work on delivering their perfect “fun,” we will provide customers with the ultimate content. That is what our Group’s content development strategy should be, and it is also our raison d’etre.

Through realizing these principles, we will endeavor to achieve a record operating income at an early point (see Figure 2), and we intend to establish a business base on which we can generate a stable profit at that level.

The content industry, particularly the games industry, is right in the middle of a major transformation. Although such a transformation is a threat, it’s also a tremendous opportunity for us. By resolutely pressing forward, we shall seize the opportunity through an aggressive approach in order to make the next leap forward as the content industry’s leading company. I would like to ask your continued support.

Yosuke Matsuda
President and Representative Director

Directors and Auditors

(As of June 25, 2014)

Board of Directors

President and Representative Director
Yosuke Matsuda

Director
Philip Timo Rogers

Director
Keiji Honda

Director
Yukinobu Chida

Director *1
Yukihiro Yamamura

Director *1
Yuji Nishiura

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

Message from the New Director

Yuji Nishiura, Director

There is a word which means to change shape through undergoing *ecdysis* in the growth process, as insects do. Figuratively speaking, I think the Square Enix Group may be right in the middle of metamorphosis.

I feel honored to have been appointed director during such an important time, and I am also keenly aware of the weight of my responsibilities. The world of game software is an unfamiliar territory for me. That said, I have experienced many other industries in the past, including finance, energy, transportation and electronics, and I have had the privilege of witnessing the "rebirth" of many corporations.

Based on this experience, I consider it my duty to introduce new perspectives to the management of the Square Enix Group. I would be grateful if I could make a contribution to the Square Enix Group's efforts to "create the future" in any way.

Brief Personal History

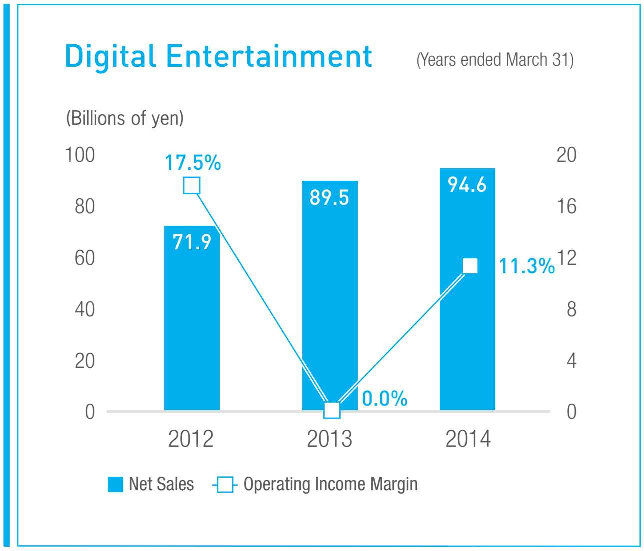
April 1993	Director, Executive Vice President and Partner
	Booz Allen Hamilton Inc. (currently PwC Strategy & (Japan) Inc.)
February 2000	Representative Director, President and Partner
October 2002	Representative Director, CEO and Managing Partner
	Roland Berger and Partner Japan Ltd. (currently Roland Berger Ltd.)
January 2006	Japan Representative and Managing Director
	AlixPartners Asia, LLC
January 2011	Vice Chairman and Managing Director
	AlixPartners, LLP
December 2012	Director
	AXA Japan Holding Co., Ltd. (incumbent)
	Chairman and Director
	AXA Life Insurance Co., Ltd. (incumbent)
March 2013	Chairman and Director
	AXA General Insurance Co., Ltd. (incumbent)

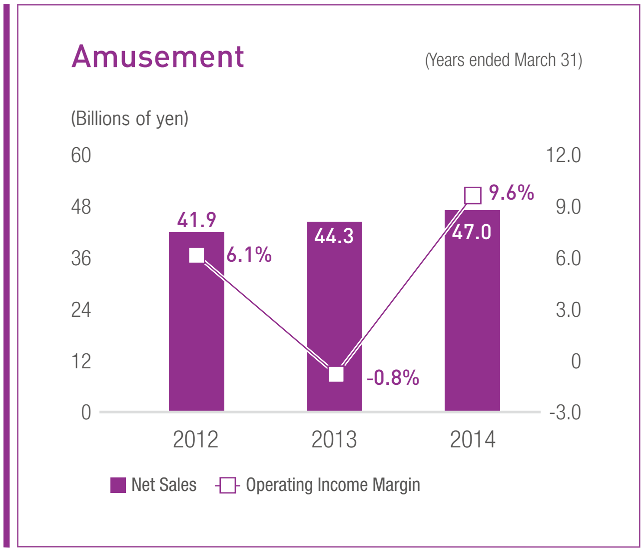
The Square Enix Group (the "Group") is continuing determined efforts to strengthen the competitiveness and profitability of its business segments of Digital Entertainment, Amusement, Publication and Merchandising.

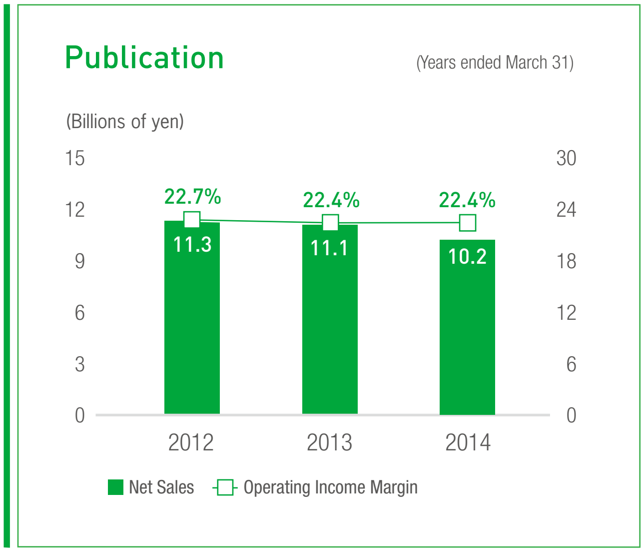
Net sales for the fiscal year ended March 31, 2014 totaled ¥155,023 million (an increase of 4.8% from the prior fiscal year); operating income amounted to ¥10,543 million (an operating loss of ¥6,081 million in the prior fiscal year); and recurring income amounted to ¥12,534 million (a recurring loss of ¥4,378 million in the prior fiscal year).

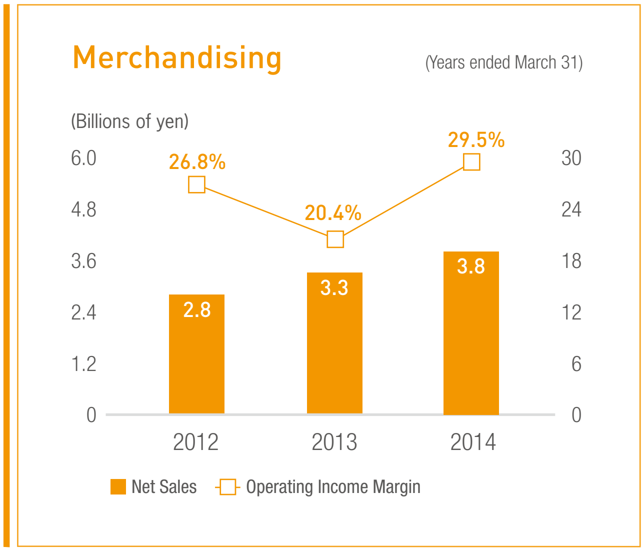
The compensation income (¥351 million) for the closure of an amusement facility was booked as an extraordinary gain, and a loss on evaluation of content (¥1,725 million) was booked as an extraordinary loss as a result of a comprehensive review on work-in-progress game titles.

These factors resulted in net income amounting to ¥6,598 million (a net loss of ¥13,714 million in the prior fiscal year).

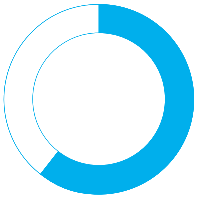








››› Digital Entertainment



Share of Net Sales (FY ended March 2014)

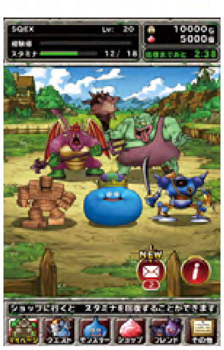
60.8%

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 smart devices.

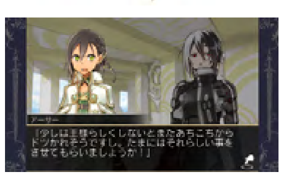
During the fiscal year ended March 31, 2014, the sales of game console software titles, such as "FINAL FANTASY X/X-2 HD Remaster," "Thief" (not in Japan yet), and "TOMB RAIDER: DEFINITIVE EDITION," were favorable. In addition, in the area of content for smart devices and PC browsers, sales of "SENGOKU IXA," a PC browser game, have been steady, and "Kaku-San-Sei Million Arthur," a game for smartphones, has become an instant hit in Taiwan and mainland China, following Korea, while its platform has expanded to include the PlayStation Vita. "DRAGON QUEST MONSTERS SUPER LIGHT," a game for smartphones released in January 2014 (Japan only), made an encouraging start.

The software sales and operation of "FINAL FANTASY XIV: A REALM REBORN," a massively multiplayer online role-playing game released in August 2013, have been making favorable progress.

Net sales and operating income in the Digital Entertainment segment totaled ¥94,571 million (an increase of 5.7% from the prior fiscal year) and ¥10,709 million (operating income of ¥44 million in the prior fiscal year), respectively.



Developed by Cygames, Inc.



 CHARACTER DESIGN: TETSUYA NOMURA

Amusement

Share of Net Sales (FY ended March 2014)

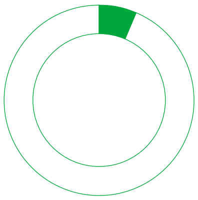
30.2%

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, 2014, amusement machines such as “LORD of VERMILION III,” launched in August 2013, and “GROOVE COASTER” (arcade version), launched in November 2013, achieved favorable sales. With efficient store management efforts, sales from the operation of amusement facilities are performing steadily.

Net sales and operating income in the Amusement segment totaled ¥46,952 million (an increase of 6.0% from the prior fiscal year) and ¥4,517 million (an operating loss of ¥353 million in the prior fiscal year), respectively.

Publication



Share of Net Sales (FY ended March 2014)

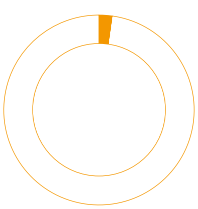
6.6%

The Publication segment includes the planning and publication of comic books, game strategy books and comic magazines.

During the fiscal year ended March 31, 2014, sales of comic books decreased compared to the prior fiscal year, primarily due to a decrease in new publications of some popular comic titles.

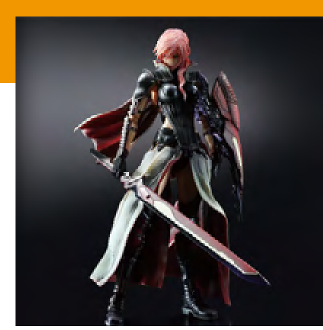
Net sales and operating income in the Publication segment totaled ¥10,228 million (a decrease of 7.7% from the prior fiscal year) and ¥2,293 million (a decrease of 7.7% from the prior fiscal year), respectively.

Merchandising



Share of Net Sales (FY ended March 2014)

2.4%



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, 2014, the Group continued to distribute and license items such as character goods and soundtracks based on the Group's own IPs while also strengthening its product lineup with additional products based on third party IPs and overseas expansions.

Net sales and operating income in the Merchandising segment totaled ¥3,786 million (an increase of 16.0% from the prior fiscal year) and ¥1,115 million (an increase of 67.2% 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.

Sayako Hoshino
Art Director, "FINAL FANTASY AGITO"
Previously Graphic Section Leader of the "KINGDOM HEARTS" series and "FINAL FANTASY TYPE-0," and Graphic Director of "DISSIDIA FINAL FANTASY," Sayako Hoshino is currently serving as Art Director of the smartphone version of "FINAL FANTASY AGITO."

I actually majored in Japanese-style painting in college—entering the gaming world was a big leap from a world focused on mineral pigments.

I was attracted to Square Enix due to the high quality of its fantasy worlds, and I thought I'd like to challenge myself to produce work of the same high standard.

On the development front, it is imaginative power that makes it possible to reach, and even surpass, this attractiveness and I have felt that the power of expression derives from communication.

Now that I am involved in creating smartphone titles, I am receiving a lot of stimulation from dialogue with players. To capture our customers' hearts in this world overflowing with digital entertainment, we need attractiveness and power to appeal in a straightforward manner.

I want to create titles with the unique sense of atmosphere and imagination I obtained through Japanese traditional paper and mineral pigments, and achieve that attractiveness to meet our customers' expectations.

Chikara Saito

Director, "DRAGON QUEST X: Mezameshi Itsutsu no Shuzoku Online"

Chikara Saito started his career with Square Enix in 2005, after he participated as a Planner in various console game development projects. While engaging in the development of "DRAGON QUEST X," he concurrently served as Director of "CROSS TREASURES." He has been Director of "DRAGON QUEST X" since December 2013.

I would like to create games that enrich players' lives. Naturally, games should provide players with a fun time, but I don't want that to be all. I would like to develop a game that leads players to new discoveries and leaves them with a deep impression, or strengthens players' bonds with friends or family through embarking on adventures together. I would be happy if I could make such a game that leaves great memories in players' minds.

In the case of "DRAGON QUEST X," on which I'm working as the director, some people get together with other players whom they met as adventurers online, or play outside as friends. They say that some have even gotten married. My ambition is to keep creating that sort of happiness for people.

I've always loved the perfect marriage of art and technology that, to me, is what video game development represents. Every year brings with it new and different challenges, possibilities and successes. Never have we reached more people and more hearts than we do today. And being part of bringing joy and outstanding entertainment to the world, together with the smartest people we can find, keeps me both humble and enthusiastic for more, every year.

Hannes Seifert

Studio Head of Io-Interactive

Previously Production Director and Executive Producer of "Hitman: Absolution" at IOI. Before joining Square Enix in 2010, Hannes had already worked on 35 video games since 1987. As an independent developer Hannes was studio head at neo Software (which became Rockstar Vienna) and also studio head at Deep Silver Vienna. His major titles include the "GTA (Grand Theft Auto)," Max Payne, Dead Island and "Hitman" game series. In 2013 he became Studio Head for Io-Interactive.

CREATOR'S VOICE

Takeshi Kuma
Monthly GFantasy Editorial Office

Previously Editor of "ZOMBIE-LOAN" and "Rust Blaster," Takeshi Kuma is currently involved in the "Black Butler" series currently being featured in the magazine *Monthly GFantasy*. He also serves as Supervisor of the animation and musical adaptation of "Black Butler."

Stories that are delivered in manga format appeal to people worldwide, especially if they're stories woven with appealing characters in worlds with real depth. With this as the premise, it is my desire to continue pursuing even greater levels of beauty.

My goal is to fascinate the whole world with comics that are beautiful in every aspect: the visuals, the worldview, the binding…

In addition, the production time and costs for publishing manga are relatively low as compared to the requirements for other entertainment products. Beauty can be added to manga through emotions and ideas.

In order to satisfy a dual purpose, providing the readers with a feeling of happiness, and generating stable, low-risk profit for the long term, I would like to continue delivering "beautiful manga" to the world.

Nobuki Kadoi

Operations Producer, the “LORD of VERMILION” series, Producer, the “GUNSLINGER STRATOS” series

Nobuki Kadoi produces famous Square Enix arcade games such as the “LORD of VERMILION” and “GUNSLINGER STRATOS” series. He also serves as Producer of “PUZZLE & DRAGONS BATTLE TOURNAMENT,” which has been running since April 2014.

In this era where the forms of entertainment available in the world are increasing year after year, I feel that constant change is demanded of the game domain, which represents the entertainment industry.

It is an era in which our customers not only expect us to provide interesting games, but also want games with added value.

In my many years as an amusement game creator, I’ve always placed great importance on enriching the real-life communities of the users who play them. It makes me happy to hear user feedback such as “Playing games has become my hobby!”; “I have more friends now since I started playing games!”; and “I’ve got a girlfriend/boyfriend” or “I’ve got married!”

I believe that these things count as added value for amusement games. From that perspective, it would probably be more accurate to consider myself part of the service industry, like an event organizer, rather than a game creator (LOL).

Tomohiro Hasegawa

Producer, “Sangokushi Ranbu”

After serving as Operations Producer of MMORPGs and other PC game titles, Tomohiro Hasegawa has been taking charge of development and operation of “Sangokushi Ranbu,” a game for smartphones. Currently, he is earnestly working on a new project.

To create an F2P game is to develop a business. The way I see it, in food service industry terms, we aren’t just creating recipes, we’re building a whole restaurant. Since this is a business, we have to make a profit. In order to make a profit, we need to have the creativity that generates surprises; and since there are no goals or formulas for success in this industry, we have to be single-minded in our creation. In the middle of this triangular dilemma, the entire staff, including myself, aspires to be a creator who can elaborate content in great detail, with a panoramic view and with love.

Consequently, I really want to create a game environment where players can enter a world of which they dreamed, find their own place just as in real life, and experience true enjoyment.

CREATOR'S VOICE

When people think "FANTASY sound," they tend to focus on music, but music is just a small part of the many elements of game sound.

These days, the minimum requirements for game sound are sound effects, voices, and music as well as a sound engine that is necessary for generating those elements in an interactive and multichannel way, which must be of better quality than their movie counterparts.

In the game world, gamers travel around at will, engage in battles, communicate with other players and continue a story, with the sound effects of each and every one of the motions converging—and that combination is expected to be of a quality as if one were watching a movie.

The production of game sound differs with the production of sound used for movies, which can ultimately be completed through editing on a timeline. Game sound production requires time and sophisticated technical skill, making it an extremely difficult task. But the end result is sound that creates a sense of immersion which allows for the most brilliant, powerful form of entertainment unlike any other in the world.

Masayoshi Soken
Sound Director, "FINAL FANTASY XIV: A REALM REBORN"

Masayoshi Soken has worked as Sound Director, Sound Designer, Composer, and so on for many titles including "DAWN of MANA," the arcade game series "LORD of VERMILION," and the "Drakengard" series. He currently serves as Sound Director for the latest MMO "FINAL FANTASY XIV: A REALM REBORN."

Stephane Roy

The producer of "Thief"

Executive Producer at Eidos-Montréal

Stephane Roy has worked on several projects and many different platforms. He started on web-based games (at that time it was Shockwave, Flash and Java), GAME BOY ADVANCE, PlayStation, PlayStation 2, PlayStation 3, PlayStation 4, Xbox, Xbox 360, Xbox One, PC. He worked at Ubisoft on the Splinter Cell franchise (Chaos Theory and Double Agent) and Rainbow Six, also for Behaviour on Wet and has just completed "Thief" as the producer at Eidos-Montréal.

The Games Industry is constantly finding new ways to deliver fun and exciting experiences to consumers. Yet, despite all the new offerings—tablets, mobiles, etc.—I'm still in love with Triple A games. When done well, their ability to immerse players is unparalleled. Unfortunately, some people think doing them well means increased costs and ballooning budgets. For me, I believe it's possible to make amazing, engaging and high-quality Triple A games without gargantuan expenses and my ambition is to prove it...!

Tomoya Asano

General Producer, the "BRAVELY DEFAULT" series, Producer, the "FULLMETAL ALCHEMIST" game series, "FINAL FANTASY III" and "FINAL FANTASY IV" for Nintendo DS, and more.

In recent years, Tomoya Asano has served as Producer of new RPG titles such as "FINAL FANTASY: THE 4 HEROES OF LIGHT" and "BRAVELY DEFAULT: FLYING FAIRY."

Dear valued shareholders, it's a pleasure to meet you. I'm Tomoya Asano, producer of "BRAVELY DEFAULT: FLYING FAIRY."

This title was released on Nintendo 3DS in 2012 and has become a hit, with sales exceeding 300,000 copies. Worldwide, it has reached 1,000,000.

Through producing this title, I have relearned many things—such as what Square Enix's strengths are and what game fans expect from us. *Square Enix's games have to be special.*

I was born in 1978, which puts me smack in the middle of the Famicom (or Nintendo Entertainment System) generation. I've learned that there are lots of other game fans who feel just like I do, and that they're all over the world!

I want to make games that meet, and slightly exceed, their expectations.

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 six directors, including two outside directors. 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 directors, 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 who 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). Mr. Tomiyama offers his opinions at meetings of the Board of Directors and Audit & Supervisory Board as appropriate.

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 directors or audit & supervisory board members (external), and links between supervision or audits by the outside directors 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 two outside directors and three audit & supervisory board members (external), and no conflict-of-interest relationships exist between the Company and its outside directors 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. Mr. Yamamura offers his opinions at meetings of the Board of Directors as appropriate.

Yuji Nishiura 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.

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 directors and audit & supervisory board members (external)

The Company has not established any particular provisions regarding independence in appointing the outside directors 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, Nishiura, 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 directors or audit & supervisory board members (external) and internal audits, audits by audit & supervisory board members and audits by the accounting firm, and relationship with the internal control unit

The outside directors 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 (excluding outside directors)	5	142	142	—
Outside directors	2	10	10	—
Total	7	152	152	—

Note: The Company abolished the retirement benefit plan for directors and audit & supervisory board members at the conclusion of the 28th Annual Shareholders' Meeting held on June 21, 2008. At this meeting, a resolution was also passed to pay retirement benefits to directors and audit & supervisory board members remaining in office after June 21, 2008. The retirement benefits are paid up until the abolishment of the plan, corresponding to the directors' and audit & supervisory board members' terms of office, at the time of their retirement. Based on this resolution, in addition to the compensation indicated above, ¥48 million (including ¥1 million paid to an outside director) of the retirement benefits was paid to two directors who retired during the fiscal year ended March 31, 2014.

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 members (excluding audit & supervisory board members (external))	1	1	1	—
Audit & supervisory board members (external)	4	29	29	—
Total	5	31	31	—

Note: The Company abolished the retirement benefit plan for directors and audit & supervisory board members at the conclusion of the 28th Annual Shareholders' Meeting held on June 21, 2008. At this meeting, a resolution was also passed to pay retirement benefits to directors and audit & supervisory board members remaining in office after June 21, 2008. The retirement benefits are paid up until the abolishment of the plan, corresponding to the directors' and audit & supervisory board members' terms of office, at the time of their retirement. Based on this resolution, in addition to the compensation indicated above, ¥1 million of the retirement benefits was paid to one audit & supervisory board member who retired during the fiscal year ended March 31, 2014.

(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, 2013 and March 31, 2014; and total dividends received, total gain on sale of shares and total gain on revaluation of shares for the fiscal year ended March 31, 2014 for investments in shares for purely investment purposes:

Millions of yen

Category	Previous fiscal year	Fiscal year ended March 31, 2014			
	Total amount presented on balance sheets	Total amount presented on balance sheets	Total dividends received	Total gain on sale of shares	Total gain on revaluation of shares
Unlisted shares	30	30	1	—	(Note 1) (—)*
Shares other than those above	371	636	4	—	328 (—)

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 the amount is not presented in the table above.

2. Figures denoted with an asterisk under "Total gain 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, 2014.

• CPAs performing audits:
  Limited-liability partners: Takashi Nagasaka, Tatsuya Yokouchi and Hiroyoshi Konno
• Personnel providing audit assistance:
  15 CPAs, 9 assistant CPAs

(7) Overview of liability limitation agreements

The Company has liability limitation agreements in place with its outside directors 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 each outside director and audit & supervisory board member (external) to ¥10 million or the legally specified amount, whichever is greater, on condition that the directors 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 not be made by cumulative voting, but 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 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, 2013		Fiscal year ended March 31, 2014	
	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, 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.

Fiscal year ended March 31, 2014

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 ¥103 million for statutory audit operations and ¥6 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, 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.

Fiscal year ended March 31, 2014

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

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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, 2014 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, 2014, the Group's balance of interest-bearing debt was ¥6,898 million. The net assets ratio stood at 58.3%. Cash and cash equivalents at the end of the year totaled ¥113,507 million, an increase of ¥14,684 million from the previous fiscal year-end.

Cash flows in the fiscal year ended March 31, 2014, 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 ¥21,698 million, compared with ¥110 million in the previous fiscal year. This position is primarily due to income before income taxes and minority interests of ¥10,137 million, increase in inventories of ¥2,601 million, decrease in notes and accounts receivable of ¥10,779 million, and depreciation and amortization of ¥6,614 million.

(2) Net cash used in investing activities

Net cash used in investing activities totaled ¥5,962 million, a decrease of 35.1% from the previous fiscal year. The main factors are purchase of property and equipment of ¥4,823 million, and purchase of intangible assets of ¥566 million.

(3) Net cash used in financing activities

Net cash used in financing activities totaled ¥3,438 million, a decrease of 1.3% from the previous fiscal year. The primary application of funds was for cash dividends paid of ¥3,446 million.

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

3. Analysis of Business Performance in the Fiscal Year Ended March 31, 2014

■ Assets

Total Assets

Millions of yen

March 31	2014	2013	Change
	¥216,617	¥202,509	¥14,108

Total assets as of March 31, 2014, amounted to ¥216,617 million, an increase of ¥14,108 million from the previous fiscal year. The main factors contributing to the change were as follows:

Cash and Deposits

Millions of yen

March 31	2014	2013	Change
	¥115,367	¥100,418	¥14,949

Cash and deposits as of March 31, 2014, increased ¥14,949 million, to ¥115,367 million, mainly reflecting an increase in cash flows from operating activities, due to factors such as income before income taxes and minority interests of ¥10,137 million as well as a decrease in notes and accounts receivable of ¥10,779 million, among other factors.

Notes and Accounts Receivable

Millions of yen

March 31	2014	2013	Change
	¥22,110	¥30,226	¥(8,116)

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, 2014, notes and accounts receivable decreased ¥8,116 million, to ¥22,110 million, mainly due to no releases of major titles in March, while March of the previous fiscal year saw the release of a big title, "Tomb Raider," in Europe and North America.

Content Production Account

Millions of yen

March 31	2014	2013	Change
	¥20,556	¥15,805	¥4,751

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

As of March 31, 2014, the content production account totaled ¥20,556 million, an increase of ¥4,751 million from the previous fiscal year.

Property and Equipment

Millions of yen

March 31	2014	2013	Change
	¥19,917	¥20,169	¥(252)

Total property and equipment totaled ¥19,917 million, down ¥252 million from the previous fiscal year, primarily due to a decrease in buildings and structures (net) from ¥6,256 million to ¥5,719 million.

Intangible Assets

Millions of yen

March 31	2014	2013	Change
	¥10,835	¥10,940	¥(105)

Total intangible assets as of March 31, 2014, amounted to ¥10,835 million, a decrease of ¥105 million from the previous fiscal year.

Investments and Other Assets

Millions of yen

March 31	2014	2013	Change
	¥12,259	¥12,363	¥(104)

Total investments and other assets decreased ¥104 million, to ¥12,259 million, as of March 31, 2014.

■ Liabilities

Millions of yen

March 31	2014	2013	Change
	¥88,940	¥80,872	¥8,068

As of March 31, 2014, total liabilities amounted to ¥88,940 million, an increase of ¥8,068 million from the previous fiscal year. The main factors contributing to the change were as follows:

Current Liabilities

Millions of yen

March 31	2014	2013	Change
	¥80,508	¥37,414	¥43,094

Total current liabilities increased ¥43,094 million, to ¥80,508 million as of March 31, 2014. This was mainly due to an increase in current portion of bonds to ¥35,000 million in euro yen zero convertible bonds resulting from a classification change for bonds, which now have less than one year until maturity.

Non-Current Liabilities

Millions of yen

March 31	2014	2013	Change
	¥8,432	¥43,457	¥(35,025)

Total non-current liabilities decreased ¥35,025 million, to ¥8,432 million, as of March 31, 2014, primarily due to the aforementioned ¥35,000 million in euro yen zero convertible bonds reaching maturity in less than one year.

■ Shareholders' Equity/Net Assets

Millions of yen

March 31	2014	2013	Change
Common stock	¥ 15,368	¥ 15,204	¥ 164
Capital surplus	44,607	44,444	163
Retained earnings	71,298	68,153	3,145
Treasury stock	(870)	(862)	(8)
Total shareholders' equity	130,404	126,940	3,464
Unrealized gain on revaluation of other investment securities	253	57	196
Foreign currency translation adjustments	(4,780)	(6,911)	2,131
Remeasurements of defined benefit plans	432	—	432
Total accumulated other comprehensive gain (loss)	(4,094)	(6,853)	2,759
Stock acquisition rights	348	652	(304)
Minority interests in consolidated subsidiaries	1,018	897	121
Total net assets	¥127,676	¥121,636	¥6,040

As of March 31, 2014, total net assets amounted to ¥127,676 million, up ¥6,040 million from the previous fiscal year-end, mainly due to factors such as the recording of net income, payments of year-end dividends (¥20 per share) for the previous fiscal year and interim dividends (¥10 per share) for the fiscal year, and an increase in foreign currency translation adjustments.

■ Consolidated Statement of Income

Net Sales and Operating Income

Millions of yen

Years ended March 31	2014	Composition	2013	Composition	Amount change	Percent change
Net sales	¥155,023	100.0%	¥147,981	100.0%	¥ 7,042	4.8%
Gross profit	60,542	39.1%	49,192	33.2%	11,350	23.1%
Reversal of allowance for sales returns	4,672	3.0%	1,551	1.0%	3,121	201.2%
Provision for allowance for sales returns	4,458	2.9%	3,927	2.7%	531	13.5%
Net gross profit	60,756	39.2%	46,817	31.6%	13,939	29.8%
Selling, general and administrative expenses	50,213	32.4%	52,899	35.7%	(2,686)	(5.1)%
Operating income (loss)	¥ 10,543	6.8%	¥ (6,081)	—	¥16,624	—

Comparisons by segment with the previous fiscal year are provided on pages 12–15.

Non-Operating Income and Expenses

Millions of yen

Years ended March 31	2014	2013	Change
Non-operating income	¥2,150	¥1,858	¥292
Non-operating expenses	159	155	4

Total non-operating income was ¥2,150 million, up ¥292 million from the previous fiscal year, mainly reflecting ¥1,798 million in foreign exchange gain, which also occurred in the previous fiscal year. Total non-operating expenses amounted to ¥159 million, up ¥4 million.

Extraordinary Gain and Loss

Millions of yen

Years ended March 31	2014	2013	Change
Extraordinary gain	¥ 413	¥ 653	¥ (240)
Extraordinary loss	2,783	11,210	(8,427)

Total extraordinary gain was ¥413 million, mainly due to a booking of approximately ¥350 million in compensation income for the closure of an amusement facility.

Total extraordinary loss was ¥2,783 million, mainly due to a loss on evaluation of content of approximately ¥1.7 billion as a result of a comprehensive review on work-in-progress game titles.

■ Capital Expenditures and Depreciation and Amortization

Millions of yen

Years ended March 31	2014	2013	Change
Capital expenditures	¥5,376	¥12,508	¥(7,132)
Depreciation and amortization	6,614	7,301	(687)

Capital expenditures for the fiscal year ended March 31, 2014, amounted to ¥5,376 million, a decrease of ¥7,132 million from the previous fiscal year, mainly due to an absence of expenditures associated with the relocation of Company headquarters incurred in the previous fiscal year.

Depreciation and amortization totaled ¥6,614 million, a decrease of ¥687 million from the previous fiscal year, primarily due to a decrease in depreciation and amortization in the Amusement business from ¥4,384 million in the previous fiscal year to ¥2,713 million.

4. Strategic Outlook, Issues Facing Management and Future Direction

Management's key task is to create advanced, high-quality content and services that allow the Group to grow in the medium and long term while maintaining profitability. As the development and popularization of information technology (IT) and network environments rapidly advance, the Group anticipates a major transformation in the structure of the digital entertainment industry. The Group believes that this will be driven by factors such as increased consumer needs in the area of network-compliant entertainment and growing access to a diverse range of content by users of multi-function devices. The Group strives 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.

In order to achieve the Group's medium- to long-term strategy, it is imperative to expand its global business and meet customers' diverse needs for entertainment content/services. It is critically important that the Group acquires and develops ideally suited human resources to that end.

The Group's operating forecast for the fiscal year ending March 31, 2015, is as follows (as of June 30, 2014).

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 actual	2015 forecast
Net sales	¥63,202	¥73,864	¥124,473	¥163,472	¥147,516	¥135,693	¥192,257	¥125,271	¥127,896	¥147,981	¥155,023	¥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)	10,543	5,000–10,000
Recurring income (loss)	18,248	25,901	15,547	26,241	18,864	11,261	27,822	5,390	10,297	(4,378)	12,534	5,000–10,000
Net income (loss)	10,993	14,932	17,076	11,619	9,196	6,333	9,509	(12,043)	6,060	(13,714)	6,598	3,500–6,500

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. The amount of dividends is determined by setting a consolidated payout ratio target of approximately 30%, paying attention to stable payment of dividends.

It is the Company's basic policy for profit distribution to pay dividends from retained earnings twice a year (interim dividends and year-end dividends), and for the fiscal year ended March 31, 2014, the Company paid an interim dividend of ¥10 per share and a year-end dividend of ¥20 per share for an annual dividend of ¥30 per share.

The distribution of surplus for the fiscal year ended March 31, 2014 is determined by the shareholders' meeting or the Company's Board of Directors for year-end dividends, and by the Board of Directors for interim dividends.

The Company has set forth in its Articles of Incorporation that it may, pursuant to Article 454 of the Companies Act, pay interim dividends, with the record date of September 30 of each year, upon resolution of the Board of Directors.

In addition, the Company has set forth in its Articles of Incorporation that it may, pursuant to Article 459 of the Companies Act, pay dividends from surplus upon resolution of the Board of Directors.

The dividends from surplus for the fiscal year ended March 31, 2014 are as follows:

Date of resolution	Total dividends (Millions of yen)	Dividends per share (Yen)
November 6, 2013 Resolution by the Board of Directors	¥1,152	¥10
May 16, 2014 Resolution by the Board of Directors	¥2,305	¥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, 2014.

(1) Changes in the economic environment

In the event of a harsh downturn in the economy causing consumer demand to decline, consumer expenditure for the Group's products and services in the entertainment field may fall. 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 undergo major changes in the forms by which the Group offers content and in its business model as a result of diversification, the trend toward increasingly advanced functions and the general transition of platforms for home-use video game consoles, smartphones and tablet devices. Such circumstances may lead to an adverse impact on the Group's business performance.

(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's business structure is undergoing major changes. 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) Information and network systems

The Group appropriately develops and manages the information and network systems necessary for its operations. However, operations could be disrupted as a result of system failures and operational errors, which, in turn, could result in the Group incurring opportunity losses and additional expenses. In addition, the Group has developed and implemented solid preventive and defensive measures against so-called security incidents, including unauthorized access to the systems and infection by a computer virus. However, in the event that a security incident of such magnitude occurs that cannot be prevented by the above measures, operations could be disrupted and the Group could incur opportunity losses and additional expenses, as well as suffer a loss in the Group's social credibility as a result of leakage of trade secrets, including the personal information of the Group's customers and employees, to third parties, and the occurrence of opportunity loss and additional expenses.

(7) Management of personal information

In conjunction with the enactment of the Personal Information Protection Law, the Group has established a rigorous internal system for the management of personal information, in addition to conducting training on the protection of personal information, as necessary, for its directors and audit & supervisory board members and employees. However, in the event that a security incident, as described in (6) above, occurs, and personal information is leaked to third parties, the Group's business performance may be affected.

(8) 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.

(9) 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, age restrictions, area restrictions on outlet opening, and regulations concerning facility structures, interiors, lighting and noise. The Group operates its facilities appropriately in strict compliance with these laws and regulations. However, if the regulations were to be reinforced, the Group's business performance may be affected.

(10) Accidents and disasters

The Group periodically carries out accident prevention checks, facility inspections and emergency drills to minimize the impact of earthquakes and other major natural disasters, fires, blackouts, system and network failures, terrorist attacks, outbreaks of infectious diseases, and other accidents and disasters. However, should devastating accidents or disasters occur, the Group's business performance may be affected.

(11) Litigation and other claims

The Group thoroughly complies with laws and regulations and maintains full respect for third parties' rights while carrying out its operations. However, in the course of its business development in the global arena, the Group is inevitably open to the risk of becoming a party of dispute, in particular, patent litigation in the United States. Should a litigation in which the Group is named as the defendant or other dispute occur, despite the Group's efforts for early settlement under conditions that are favorable for the Group, the outcome thereof may lead to an adverse impact on the Group's business performance.

Consolidated Balance Sheet (JPNGAAP)

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

Millions of yen

	2014	2013
Assets		
Current assets		
Cash and deposits	¥115,367	¥100,418
Notes and accounts receivable	22,110	30,226
Merchandise and finished goods	2,013	2,376
Work in progress	700	47
Raw materials and supplies	433	357
Content production account	20,556	15,805
Deferred tax assets	4,819	5,438
Income taxes receivable	288	2,223
Other	7,465	2,279
Allowance for doubtful accounts	(151)	(136)
Total current assets	173,604	159,035
Non-current assets		
Property and equipment		
Buildings and structures	18,016	17,875
Accumulated depreciation	(12,296)	(11,619)
Buildings and structures (net)	5,719	6,256
Tools and fixtures	13,062	12,558
Accumulated depreciation	(9,240)	(8,885)
Tools and fixtures (net)	3,822	3,672
Amusement equipment	20,222	20,014
Accumulated depreciation	(17,830)	(17,804)
Amusement equipment (net)	2,392	2,209
Other	129	169
Accumulated depreciation	(87)	(109)
Other (net)	41	59
Land	7,939	7,964
Construction in progress	1	5
Total property and equipment	19,917	20,169
Intangible assets		
Other	10,835	10,940
Total intangible assets	10,835	10,940
Investments and other assets		
Investment securities	701	493
Guarantee deposits	9,746	10,121
Deferred tax assets	1,125	1,229
Other	*1 1,495	*1 1,150
Allowance for doubtful accounts	(809)	(631)
Total investments and other assets	12,259	12,363
Total non-current assets	43,012	43,473
Total assets	¥216,617	¥202,509

The accompanying notes are an integral part of these statements.

	2014	2013
Liabilities		
Current liabilities		
Notes and accounts payable	¥ 11,563	¥ 8,653
Short-term loans	6,852	5,726
Current portion of bonds	35,000	—
Accrued income taxes	2,980	1,499
Provision for bonuses	1,771	966
Provision for sales returns	4,609	4,319
Provision for game arcade closings	251	256
Deferred tax liabilities	3	—
Asset retirement obligations	3	3
Other	17,472	15,989
Total current liabilities	80,508	37,414
Non-current liabilities		
Corporate bonds	—	35,000
Provision for employees' retirement benefits	—	4,714
Provision for directors' retirement benefits	178	244
Provision for game arcade closings	383	468
Net defined benefit liabilities	4,425	—
Deferred tax liabilities	1,978	1,655
Asset retirement obligations	807	800
Other	658	574
Total non-current liabilities	8,432	43,457
Total liabilities	88,940	80,872
Net Assets		
Shareholders' equity		
Common stock	15,368	15,204
Capital surplus	44,607	44,444
Retained earnings	71,298	68,153
Treasury stock	(870)	(862)
Total shareholders' equity	130,404	126,940
Accumulated other comprehensive income (loss)		
Valuation difference on available-for-sale securities	253	57
Foreign currency translation adjustments	(4,780)	(6,911)
Remeasurements of defined benefit plans	432	—
Total accumulated other comprehensive income (loss)	(4,094)	(6,853)
Stock acquisition rights	348	652
Minority interests in consolidated subsidiaries	1,018	897
Total net assets	127,676	121,636
Total liabilities and net assets	¥216,617	¥202,509

Millions of yen

The accompanying notes are an integral part of these statements.

Consolidated Statement of Income (JPNGAAP)

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

Millions of yen

	2014	2013
Net sales	¥155,023	¥147,981
Cost of sales	*1 94,481	*1 98,788
Gross profit	60,542	49,192
Reversal of provision for sales returns	4,672	1,551
Provision for sales returns	4,458	3,927
Net gross profit	60,756	46,817
Selling, general and administrative expenses		
Packaging freight charge	1,848	1,867
Advertising expense	7,913	12,309
Sales promotion expense	59	100
Allowance for doubtful accounts	36	—
Compensation for directors	572	607
Salaries	14,148	14,105
Provision for bonuses	2,193	1,483
Net periodic pension costs	1,088	1,484
Provision for directors' retirement benefits	17	12
Welfare expense	1,846	1,710
Rental expense	1,652	1,554
Commission fee	9,596	7,588
Depreciation and amortization	2,512	2,091
Other	*2 6,726	*2 7,984
Total selling, general and administrative expenses	50,213	52,899
Operating income (loss)	10,543	(6,081)
Non-operating income		
Interest income	116	100
Dividends received	6	9
Rental income	18	14
Foreign exchange gain	1,798	1,620
Miscellaneous income	210	114
Total non-operating income	2,150	1,858
Non-operating expenses		
Interest expenses	93	98
Commission fee	52	53
Miscellaneous loss	13	3
Total non-operating expenses	159	155
Recurring income (loss)	12,534	(4,378)
Extraordinary gain		
Gain on sale of property and equipment	*3 2	*3 2
Gain on sale of investment securities	24	8
Gain on liquidation of subsidiaries and affiliates	—	76
Gain on reversal of subscription rights to shares	35	445
Compensation income	351	—
Other	—	120
Total extraordinary gain	413	653
Extraordinary loss		
Loss on sale of property and equipment	*4 7	*4 58
Loss on disposal of property and equipment	*5 130	*5 213
Impairment loss	*6 158	*6 939
Provision for game arcade closings	153	60
Loss on disposal of content	—	*7 3,696
Loss on evaluation of content	*8 1,725	*8 4,834
Other	607	1,407
Total extraordinary loss	2,783	11,210
Income (loss) before dividends distribution from silent partnership, income taxes (*tokumei-kumiai*)	10,164	(14,934)
Dividends distribution from silent partnership (*tokumei-kumiai*)	26	13
Income (loss) before income taxes and minority interests	10,137	(14,948)
Income taxes–current	2,807	957
Income taxes–deferred	715	(2,208)
Total income taxes	3,522	(1,250)
Income (loss) before minority interests	6,615	(13,697)
Minority interests income	16	17
Net income (loss)	¥ 6,598	¥ (13,714)

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	
	2014	2013
Income (loss) before minority interests	¥6,615	¥(13,697)
Other comprehensive income (loss)		
Unrealized gain (loss) on revaluation of available-for-sale securities	195	(66)
Foreign currency translation adjustments	2,234	1,882
Other comprehensive income	*1 2,430	*1 1,815
Comprehensive income (loss)	9,045	(11,881)
(Breakdown)		
Comprehensive income (loss) attributable to owners of the Company	8,924	(11,995)
Comprehensive income attributable to minority interests	¥ 121	¥ 113

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

■ 2014

Millions of yen

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at the beginning of the year	¥15,204	¥44,444	¥68,153	¥(862)	¥126,940
Changes during the year					
Issuance of new stocks	163	163			327
Dividends from retained earnings			(3,453)		(3,453)
Net income			6,598		6,598
Purchase of treasury stock				(8)	(8)
Disposal of treasury stock		(0)		0	0
Net changes in items other than shareholders' equity					
Total changes during the year	163	163	3,144	(7)	3,464
Balance at the end of the year	¥15,368	¥44,607	¥71,298	¥(870)	¥130,404

Millions of yen

	Accumulated other comprehensive income				Stock acquisition rights	Minority interests in consolidated subsidiaries	Total net assets
	Unrealized gain on revaluation of other investment securities	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total accumulated other comprehensive income (loss)			
Balance at the beginning of the year	¥ 57	¥(6,911)	¥ —	¥(6,853)	¥ 652	¥ 897	¥121,636
Changes during the year							
Issuance of new stocks							327
Dividends from retained earnings							(3,453)
Net income							6,598
Purchase of treasury stock							(8)
Disposal of treasury stock							0
Net changes in items other than shareholders' equity	195	2,130	432	2,758	(303)	121	2,575
Total changes during the year	195	2,130	432	2,758	(303)	121	6,039
Balance at the end of the year	¥253	¥(4,780)	¥432	¥(4,094)	¥ 348	¥1,018	¥127,676

The accompanying notes are an integral part of these statements.

■ 2013

Millions of yen

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at the beginning of the year	¥15,204	¥44,444	¥85,320	¥(861)	¥144,108
Changes during the year					
Dividends from retained earnings			(3,452)		(3,452)
Net loss			(13,714)		(13,714)
Purchase of treasury stock				(1)	(1)
Disposal of treasury stock		(0)		0	0
Net changes in items other than shareholders' equity					
Total changes during the year	—	(0)	(17,166)	(0)	(17,168)
Balance at the end of the year	¥15,204	¥44,444	¥68,153	¥(862)	¥126,940

Millions of yen

	Accumulated other comprehensive income						
	Unrealized gain (loss) on revaluation of other investment securities	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total accumulated other comprehensive income (loss)	Stock acquisition rights	Minority interests in consolidated subsidiaries	Total net assets
Balance at the beginning of the year	¥124	¥(8,696)	¥—	¥(8,572)	¥977	¥783	¥137,297
Changes during the year							
Dividends from retained earnings							(3,452)
Net loss							(13,714)
Purchase of treasury stock							(1)
Disposal of treasury stock							0
Net changes in items other than shareholders' equity	(66)	1,785	—	1,719	(325)	113	1,507
Total changes during the year	(66)	1,785	—	1,719	(325)	113	(15,660)
Balance at the end of the year	¥ 57	¥(6,911)	¥—	¥(6,853)	¥652	¥897	¥121,636

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

	2014	2013
Cash flows from operating activities		
Income (loss) before income taxes and minority interests	¥10,137	¥(14,948)
Depreciation and amortization	6,614	7,301
Impairment loss	158	939
Increase (decrease) in allowance for doubtful accounts	182	(38)
Increase (decrease) in provision for bonuses	760	(245)
Increase (decrease) in provision for sales returns	(214)	2,375
Increase (decrease) in provision for retirement benefits	—	905
Increase (decrease) in provision for directors' retirement benefits	(66)	10
Increase (decrease) in provision for game arcade closing	(66)	(84)
Increase (decrease) in net defined benefit liabilities	160	—
Interest and dividends income	(123)	(110)
Interest expenses paid	93	98
Foreign exchange losses (gains)	(1,263)	(780)
Loss (gain) on sales of investment securities	(24)	(8)
Loss on disposal of property and equipment	126	213
Loss on sales of property and equipment	7	58
Decrease (increase) in notes and accounts receivable	10,779	(9,903)
Decrease (increase) in inventories	(2,601)	10,933
Increase (decrease) in notes and accounts payable–trade	317	(927)
Decrease (increase) in other current assets	(4,484)	(599)
Decrease (increase) in other noncurrent assets	93	36
Increase (decrease) in other current liabilities	969	2,213
Other, net	106	1,151
Subtotal	21,663	(1,409)
Interest and dividends income received	154	691
Interest expenses paid	(102)	(109)
Payments for extra retirement payments	(1,066)	—
Proceeds from compensation	351	—
Income taxes paid	(1,502)	(3,617)
Income taxes refund	2,200	4,555
Net cash provided by operating activities	¥21,698	¥ 110

The accompanying notes are an integral part of these statements.

Millions of yen

	2014	2013
Cash flows from investing activities		
Payments into time deposits	¥ (2,971)	¥ (2,366)
Proceeds from withdrawal of time deposits	2,922	2,353
Proceeds from sales of investment securities	53	10
Purchase of property and equipment	(4,823)	(10,626)
Proceeds from sales of property and equipment	29	157
Purchase of intangible assets	(566)	(1,392)
Purchase of investments in subsidiaries	(223)	(73)
Proceeds from the liquidation of subsidiaries and affiliates	—	113
Payments for guarantee deposits	(354)	(152)
Proceeds from collection of guarantee deposits	643	2,928
Other, net	(671)	(139)
Net cash used in investing activities	(5,962)	(9,189)
Cash flows from financing activities		
Proceeds from issuance of new stocks	47	—
Purchase of treasury stock	(8)	(1)
Cash dividends paid	(3,446)	(3,444)
Other, net	(31)	(35)
Net cash used in financing activities	(3,438)	(3,481)
Effect of exchange rate change on cash and cash equivalents	2,386	1,267
Net increase (decrease) in cash and cash equivalents	14,684	(11,293)
Cash and cash equivalents at the beginning of the year	98,822	110,116
Cash and cash equivalents at end of the year	*1 ¥113,507	*1 ¥ 98,822

The accompanying notes are an integral part of these statements.

Notes to Consolidated Financial Statements (JPNGAAP)

SQUARE ENIX HOLDINGS CO., LTD. and Consolidated Subsidiaries

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, 33 in total

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

(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 the 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., whose fiscal year-end 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) Derivatives

Stated at fair value

C) 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, 2014, 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 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) Accounting treatment methods for retirement benefits:

1) Periodic attribution method for projected retirement benefits

In the calculation of retirement benefit obligations, the Company and certain consolidated subsidiaries apply the straight-line basis in attributing projected benefits to the service period until the end of the fiscal year.

2) Amortization method of actuarial gains and losses and prior service costs

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 eligible employees when the differences are recognized, commencing from the year after the year in which they occur.

Unrecognized prior service costs are amortized over a certain period (one year or five years) within the average remaining service period of eligible employees.

(5) 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.

(6) 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.

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

Accounting treatment of consumption taxes and local consumption taxes

Statement of income items are presented exclusive of consumption taxes and local consumption taxes.

Non-deductible consumption taxes charged on assets and local consumption taxes are recognized as expenses for the year when the related transactions have occurred.

Changes in Accounting Policy

(Application of accounting standard for retirement benefits, etc.)
The Accounting Standard for Retirement Benefits (Accounting Standards Board of Japan [ASBJ] Statement No. 26, issued May 17, 2012, the "Retirement Benefits Accounting Standard") and the Guidance on Accounting Standard for Retirement Benefits (ASBJ Guidance No. 25, issued May 17, 2012, the "Guidance on Retirement Benefits") were applied from the end of the fiscal year (provided, however, that they are not applied for the provisions specified in the main clause of Paragraph 35 of the Retirement Benefits Accounting Standard and the main clause of Paragraph 67 of the Guidance on Retirement Benefits). The accounting treatment method has been changed so that the amount of retirement benefit obligations less the fair value of plan assets is recognized as net defined benefit liability, and the unrecognized actuarial gains and losses are also recognized as net defined benefit liability.

The application of the Retirement Benefits Accounting Standards is subject to the transitional treatment provided for in Paragraph 37 of the Retirement Benefits Accounting Standard. Consequently, the impact of this change has been recognized as increases or decreases to remeasurements of defined benefit plans under accumulated other comprehensive income at the end of the fiscal year.

As a result, as of March 31, 2014, a net defined benefit liability of ¥4,425 million was posted, while accumulated other comprehensive income increased ¥432 million.

The impact of this change on net assets per share was insignificant.

Accounting Standards Issued but Not Yet Applied

- Accounting Standard for Retirement Benefits (ASBJ Statement No. 26, issued May 17, 2012)
- Guidance on Accounting Standard for Retirement Benefits (ASBJ Guidance No. 25, issued May 17, 2012)

(1) Overview

The standards provide guidance for the accounting methods for unrecognized actuarial gains and losses and unrecognized prior service costs, the calculation method of retirement benefit obligations and service costs, and the enhancement of disclosures.

(2) Effective dates

The Company will apply the revised calculation method of retirement benefit obligations and service costs from the beginning of the fiscal year ending March 31, 2015.

These accounting standards will not be applied retroactively to the consolidated financial statements of prior years since transitional measures are provided for in said accounting standards.

(3) Impact from application of new accounting standard

The impact from application of the new accounting standard is expected to be insignificant.

Change in the Method of Presentation

(Consolidated Statement of Income)
"Loss on evaluation of investment securities" was presented separately under "Extraordinary loss" in the fiscal year ended March 31, 2013, but is included in "Other" as of the fiscal year ended March 31, 2014, due to reduced significance as the amount is not greater than 10 percent of total extraordinary loss. To reflect this change in the method of presentation, the consolidated financial statement for the fiscal year ended March 31, 2013 has been reclassified.

Consequently, the ¥0 million in "Loss on evaluation of investment securities" recorded under "Extraordinary loss" on the consolidated statement of income for the fiscal year ended March 31, 2013 has been incorporated into "Other."

(Consolidated Statement of Cash Flows)
"Loss (gain) on valuation of investment securities" was presented separately under "Cash flows from operating activities" in the fiscal year ended March 31, 2013, but is included in "Other, net" as of the fiscal year ended March 31, 2014, due to reduced significance. To reflect this change in the method of presentation, the consolidated financial statement for the fiscal year ended March 31, 2013 has been reclassified.

Consequently, the ¥0 million in "Loss (gain) on valuation of investment securities" recorded under "Cash flows from operating activities" on the consolidated statement of cash flows for the fiscal year ended March 31, 2013 has been incorporated into "Other, net."

Notes to Consolidated Balance Sheet

*1 Investments in non-consolidated subsidiaries and affiliates

Millions of yen

	As of March 31, 2014	As of March 31, 2013
Investments and other assets	¥92	¥134

Notes to Consolidated Statement of Income

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

Millions of yen

Fiscal year ended March 31, 2014	Fiscal year ended March 31, 2013
¥5,265	¥7,141

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

Millions of yen

Fiscal year ended March 31, 2014	Fiscal year ended March 31, 2013
¥2,155	¥1,808

*3 Breakdown of gain on sale of property and equipment

Millions of yen

	Fiscal year ended March 31, 2014	Fiscal year ended March 31, 2013
Buildings and structures	¥0	¥0
Tools and fixtures	1	2
Other	0	—
Total	¥2	¥2

*4 Breakdown of loss on sale of property and equipment

Millions of yen

	Fiscal year ended March 31, 2014	Fiscal year ended March 31, 2013
Buildings and structures	¥—	¥ 4
Tools and fixtures	0	53
Land	7	—
Other	0	—
Total	¥ 7	¥58

*5 Breakdown of loss on disposal of property and equipment

Millions of yen

	Fiscal year ended March 31, 2014	Fiscal year ended March 31, 2013
Buildings and structures	¥ 3	¥ 24
Tools and fixtures	13	56
Amusement equipment	109	132
Construction in progress	2	—
Software	2	0
Other	0	0
Total	¥130	¥213

*6 Impairment loss

In the fiscal year ended March 31, 2014, the Group posted an impairment loss on the following groups of assets.

Millions of yen

Location	Usage	Category	Impairment amount
Shinjuku-ku, Tokyo	Idle assets	Other (Intangible assets)	¥ 2
Shinjuku-ku, Tokyo	Idle assets	Amusement equipment	128
	Assets planned for disposal	Amusement equipment	7
	Prize production and sale	Finance lease that does not transfer ownership of rental transactions	1
Ebina, Kanagawa Prefecture	Idle assets	Other (Property and equipment)	4
	Prize production and sale	Amusement equipment	0
		Other (Property and equipment)	11
Shibuya-ku, Tokyo	DARTS machine sales and facility operation	Finance lease that does not transfer ownership of rental transactions	0
		Other (Investments and other assets)	1
Total			¥158

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

Millions of yen

Location	Usage	Category	Impairment amount
Shinjuku-ku, Tokyo	Idle assets	Other (Intangible assets)	¥ 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 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.

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*7 Loss on disposal of content and equipment

Fiscal year ended March 31, 2014	Fiscal year ended March 31, 2013
—	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.

*8 Loss on revaluation of content

Fiscal year ended March 31, 2014	Fiscal year ended March 31, 2013
Same as right	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, 2014	Fiscal year ended March 31, 2013
Net unrealized gain (loss) on revaluation of other investment securities:		
Gains (Losses) arising during the year	¥ 263	¥ (104)
Reclassification adjustments	(23)	0
Total amount before tax-effect	239	(103)
Tax-effect	(44)	37
Net unrealized gain (loss) on revaluation of other investment securities	195	(66)
Foreign currency translation adjustments:		
Exchange differences arising during the year	2,234	1,882
Reclassification adjustments relating to foreign operations	—	—
Total amount before tax-effect	2,234	1,882
Tax-effect	—	—
Foreign currency translation adjustments	2,234	1,882
Total other comprehensive income	¥2,430	¥1,815

Items Pertaining to the Consolidated Statement of Changes in Net Assets

■ Year ended March 31, 2014

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, 2013	Share increases during the year	Share decreases during the year	Shares as of March 31, 2014
Shares issued and outstanding				
Common stock *1	115,370	205	—	115,575
Total	115,370	205	—	115,575
Treasury stock *2, 3				
Common stock	302	4	0	306
Total	302	4	0	306

Notes: 1 The increase of 205 thousand shares in the number of shares of common stock issued is due to the issuance of new stocks resulting from the exercise of stock acquisition rights as stock options.

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

3 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, 2013	Increase during the year	Decrease during the year	As of March 31, 2014	Balance as of March 31, 2014 (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	—	—	—	—	—	¥348
	Total	—	—	—	—	—	¥348

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 17, 2013 (Board of Directors' Meeting)	Common stock	¥2,301	¥20	March 31, 2013	June 4, 2013
November 6, 2013 (Board of Directors' Meeting)	Common stock	1,152	10	September 30, 2013	December 5, 2013

(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 16, 2014 (Board of Directors' Meeting)	Common stock	¥2,305	Retained earnings	¥20	March 31, 2014	June 4, 2014

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

Notes to Consolidated Statement of Cash Flows

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

Millions of yen

	Fiscal year ended March 31, 2014	Fiscal year ended March 31, 2013
Cash and deposits	¥115,367	¥100,418
Time deposits with maturity periods over three months	(1,860)	(1,595)
Cash and cash equivalents	¥113,507	¥ 98,822

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 which do not transfer ownership, commenced on or before March 31, 2008, are accounted for in a similar manner to the accounting treatment for ordinary operating lease transactions, but detailed information for these finance lease transactions is not presented because it is insignificant.

2. Operating lease transactions

Not applicable

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, are 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.

Current portion of 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.

In terms of derivative transactions, the Group mainly uses forward foreign exchange contracts as hedging instruments in order to hedge the risk of fluctuations in foreign exchange rates relating primarily to business transactions denominated in foreign currencies.

(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. The contract amounts, etc., of derivative transactions discussed in "Derivative Transactions" of the Notes do not indicate the market risk associated with derivative transactions.

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, 2014 and 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, 2014

Millions of yen

Assets:	Book value	Fair value	Difference
(1) Cash and deposits	¥115,367	¥115,367	¥ —
(2) Notes and accounts receivable	22,110		
Allowance for doubtful accounts	(151)		
Notes and accounts receivable, net	21,959	21,959	—
(3) Income taxes receivable	288	288	—
(4) Investment securities	655	655	—
(5) Guarantee deposits	9,746		
Allowance for doubtful deposits paid	(500)		
Guarantee deposits, net	9,246	9,055	(191)
Total assets	147,517	147,325	(191)
Liabilities:			
(1) Notes and accounts payable	11,563	11,563	—
(2) Short-term loans	6,852	6,852	—
(3) Current portion of bonds	35,000	37,692	2,692
(4) Accrued income taxes	2,980	2,980	—
Total liabilities	¥ 56,396	¥ 59,088	¥2,692
Derivative transactions *1	¥ 2	¥ 2	¥ —

*1 Assets and liabilities arising from derivative transactions are shown at net value.

■ 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) Guarantee deposits	10,121		
Allowance for doubtful deposits paid	(500)		
Guarantee 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	¥ —	¥ —	¥ —

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 (4) 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.

(3) Current portion of bonds

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

Derivative transactions

Please refer to the information on “Derivative Transactions.”

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

Millions of yen

Item	As of March 31, 2014	As of March 31, 2013
Unlisted shares	¥45	¥48

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, 2014				As of March 31, 2013			
	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	¥113,737	¥ —	¥ —	¥—	¥ 98,827	¥ —	¥ —	¥—
Notes and accounts receivable	22,110	—	—	—	30,226	—	—	—
Income taxes receivable	288	—	—	—	2,223	—	—	—
Guarantee deposits	4,764	2,709	2,235	37	4,114	3,246	2,759	—
Total	¥140,901	¥2,709	¥2,235	¥37	¥135,392	¥3,246	¥2,759	¥—

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, 2014						As of March 31, 2013					
	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	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 loans	¥ 6,852	¥—	¥—	¥—	¥—	¥—	¥5,726	¥ —	¥—	¥—	¥—	¥—
Corporate bond	35,000	—	—	—	—	—	—	35,000	—	—	—	—
Total	¥41,852	¥—	¥—	¥—	¥—	¥—	¥5,726	¥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, 2014 Book value	Acquisition cost	Difference	As of March 31, 2013 Book value	Acquisition cost	Difference
Securities with book value exceeding acquisition cost	(1) Stocks	¥604	¥250	¥354	¥334	¥228	¥105
	(2) Bonds						
	a. Government bonds and municipal bonds	—	—	—	—	—	—
	b. Corporate bonds	—	—	—	—	—	—
	c. Other	—	—	—	—	—	—
	(3) Other	—	—	—	—	—	—
	Subtotal	604	250	354	334	228	105
Securities with acquisition cost exceeding book value	(1) Stocks	51	75	(24)	110	126	(15)
	(2) Bonds						
	a. Government bonds and municipal bonds	—	—	—	—	—	—
	b. Corporate bonds	—	—	—	—	—	—
	c. Other	—	—	—	—	—	—
	(3) Other	—	—	—	—	—	—
	Subtotal	51	75	(24)	110	126	(15)
Total		¥655	¥326	¥329	¥444	¥355	¥ 89

4. Securities sold during the year

Millions of yen

Item	Fiscal year ended March 31, 2014 Proceeds	Aggregate gain on sale	Aggregate loss on sale	Fiscal year ended March 31, 2013 Proceeds	Aggregate gain on sale	Aggregate loss on sale
(1) Stocks	¥53	¥24	¥0	¥10	¥8	¥—
(2) Bonds						
a. Government bonds and municipal bonds	—	—	—	—	—	—
b. Corporate bonds	—	—	—	—	—	—
c. Other	—	—	—	—	—	—
(3) Other	—	—	—	—	—	—
Total	¥53	¥24	¥0	¥10	¥8	¥—

5. Investment securities subject to impairment

In the fiscal year ended March 31, 2014, other investment securities (shares) were subject to impairment amounting to ¥2 million.

In the fiscal year ended March 31, 2013, 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

Currency derivatives

Year ended March 31, 2014

Millions of yen

Category	Type of derivative	Contract amounts	Contract amount due after one year	Fair value	Unrealized gain
Over-the-counter transactions	Foreign exchange forward contracts Buy USD	¥103	¥—	¥2	¥2
Total		¥103	¥—	¥2	¥2

Note: The methods for estimating fair value:
The fair value is calculated by using forward exchange rates.

Year ended March 31, 2013

Not applicable

2. Derivative transactions for which hedge accounting has been applied

Year ended March 31, 2014

Not applicable

Year ended March 31, 2013

Not applicable

Employees' Retirement Benefits

Year ended March 31, 2014

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. In addition, certain of the Company's overseas subsidiaries maintain defined contribution retirement pension plans.

2. Defined benefit plan:

(1) Reconciliation of beginning balance to ending balance of retirement benefit obligations

Millions of yen

Balance of retirement benefit obligations at the beginning of the year	¥12,674
Service cost	514
Interest cost	87
Actuarial gains (losses) arising during the year	(127)
Retirement benefits paid	(847)
Others	(3)
Balance of retirement benefit obligations at the end of the year	¥12,298

(2) Reconciliation of beginning balance to ending balance of plan assets

Millions of yen

Balance of plan assets at the beginning of the year	¥7,282
Expected return on plan assets	44
Actuarial gains (losses) arising during the year	411
Employer contribution	864
Retirement benefits paid	(730)
Balance of plan assets at the end of the year	¥7,872

(3) Reconciliation of the ending balances of retirement benefit obligations and plan assets, and net defined benefit liabilities and net defined benefit assets recorded in the consolidated balance sheet

	Millions of yen
Retirement benefit obligation for funded plans	¥10,054
Plan assets	(7,872)
	2,181
Retirement benefit obligation for unfunded plans	2,244
Net defined benefit liabilities and assets recorded in the consolidated balance sheet	4,425
Net defined benefit liabilities	4,425
Net defined benefit liabilities and assets recorded in the consolidated balance sheet	¥ 4,425

(4) Components and amounts of net periodic pension costs

	Millions of yen
Service cost	¥ 514
Interest cost	87
Expected return on plan assets	(44)
Amortization of net actuarial gain (loss)	588
Net periodic pension costs relating to defined benefit plan	¥1,145

(5) Remeasurements of defined benefit plan

The following items (prior to adjustments for tax effect) have been recorded as components of remeasurements of the defined benefit plan.

	Millions of yen
Unrecognized actuarial gains (losses)	¥(449)
Total	¥(449)

(6) Plan assets

1) Main components of plan assets

The percentage of plan assets by major asset class to total plan assets is as follows:

	Percent
Bonds	45
Stocks	22
General accounts	9
Cash and deposits	7
Others	17
Total	100

Note: Total plan assets include 4% of the retirement benefit trust plan, which has been set up for the corporate pension plan.

2) Method of setting the long-term expected rate of return

The long-term expected rate of return on plan assets is determined by taking into account the current and expected allocation of plan assets, and the long-term return rates, which are expected currently and in the future based on the various assets that comprise the plan assets.

(7) Assumptions used to determine actuarial gains or losses

Major (weighted-average) assumptions used to determine actuarial gains or losses as of March 31, 2014

Discount rate: 0.597% to 0.978%

Long-term expected rate of return on plan assets: 2.000%

3. Defined contribution plan:

The amount of contribution required for the defined contribution plan by the Company and its consolidated subsidiaries was ¥302 million.

Year ended March 31, 2013

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. In addition, certain of the Company's overseas subsidiaries maintain defined contribution retirement pension plans.

2. Retirement benefit obligation:

	Millions of yen
(1) Retirement benefit obligation	¥(12,674)
(2) Fair value of plan assets	7,282
(3) Net unfunded obligation (1)+(2)	(5,392)
(4) Unrecognized actuarial loss	678
(5) Unrecognized amortization of prior service cost	—
(6) Provision for employees' retirement benefits (3)+(4)+(5)	(4,714)
(7) Prepaid pension expenses	—
(8) Provision for employees' retirement benefits, net (6)-(7)	¥ (4,714)

3. Retirement benefit expenses:

	Millions of yen
(1) Service cost	¥ 724
(2) Interest cost	125
(3) Expected return on plan assets	(60)
(4) Amortization of net actuarial gain	971
(5) Amortization of prior service cost	(43)
(6) Retirement benefit expenses (1)+(2)+(3)+(4)+(5)	¥1,717

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

0.636–0.990%

(3) Expected rate of return on plan assets

0.973%

(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, 2014	Fiscal year ended March 31, 2013
Cost of sales	¥ 0	¥ 2
Selling, general and administrative expenses	10	118

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

Millions of yen

	Fiscal year ended March 31, 2014	Fiscal year ended March 31, 2013
Reversal of stock acquisition rights	¥35	¥445

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

(1) Details of 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 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	5	7	5	6	2	5	12	5	8
Number of stock options	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	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
Service period	No service period established	No service period established	No service period established	No service period established	No service period established	No service period established	No service period established	No service period established	No service period established	No service period established
Rights exercise period	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

	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, 2013	—	—	—	—	—	—	—	180,000	—	110,000
Granted	—	—	—	—	—	—	—	—	—	—
Forfeited	—	—	—	—	—	—	—	20,000	—	30,000
Vested	—	—	—	—	—	—	—	—	—	—
Unvested balance	—	—	—	—	—	—	—	160,000	—	80,000
After vesting (shares)										
March 31, 2013	19,800	57,000	130,000	77,000	140,000	20,000	87,000	—	67,000	—
Vested	—	—	—	—	—	—	—	160,000	—	—
Exercised	9,300	30,000	—	45,000	6,300	—	55,000	19,500	40,000	—
Forfeited	—	—	30,000	—	30,000	10,000	—	23,500	—	—
Balance unexercised	10,500	27,000	100,000	32,000	103,700	10,000	32,000	117,000	27,000	—

2) Price information

Yen

	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	¥ 1	¥ 1	¥2,293	¥ 1	¥1,895	¥1,779	¥ 1	¥1,835	¥ 1	¥1,515
Average share price at exercise	1,289	1,289	—	1,289	2,432	—	1,289	2,365	1,289	—
Fair market value on grant date	3,171	2,107	385	1,464	364	250	1,312	435	948	214

4. Method of estimating the fair value of stock options:

There were no stock options granted during the fiscal year ended March 31, 2014.

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, 2014	As of March 31, 2013
Deferred tax assets		
1) Current assets		
Enterprise tax payable	¥ 207	¥ 121
Business office tax payable	39	44
Provision for bonuses	552	344
Accrued expenses	632	547
Provision for sales returns	1,106	780
Non-deductible portion of allowance for doubtful accounts	49	94
Tax credits	9	85
Loss on write-offs of content production account	3,673	4,802
Loss on inventory revaluation	613	711
Provision for game arcade closings	89	97
Loss carried forward	1	—
Other	226	268
Valuation allowance	(2,260)	(1,993)
Offset to deferred tax liabilities (current)	(121)	(466)
Total	4,819	5,438
2) Non-current assets		
Non-deductible portion of provision for employees' retirement benefits	—	1,729
Net defined benefit liabilities	1,716	—
Provision for directors' retirement benefits	62	84
Expense for stock-based compensation	121	232
Non-deductible depreciation expense of property and equipment	299	438
Asset retirement obligations	287	284
Impairment loss	324	290
Loss on evaluation of investments in securities	369	303
Non-deductible portion of allowance for doubtful accounts	94	25
Non-deductible portion of excess expenses on lump-sum depreciable assets	117	182
Loss carried forward, and others, at overseas subsidiaries	1,044	883
Provision for game arcade closings	135	168
Tax credits	29	145
Loss carried forward	58	200
Other	110	325
Valuation allowance	(2,304)	(2,897)
Offset to deferred tax liabilities (non-current)	(1,343)	(1,169)
Total	1,125	1,229
Total deferred tax assets	5,945	6,668
Deferred tax liabilities		
1) Current liabilities		
Accrued expenses and other cost calculation details	115	179
Other	8	286
Offset to deferred tax assets (current)	(121)	(466)
Total	3	—
2) Non-current liabilities		
Non-current assets	1,483	1,006
Tax effects from intangible non-current assets relating to business combinations	1,721	1,779
Other	117	39
Offset to deferred tax assets (non-current)	(1,343)	(1,169)
Total	1,978	1,655
Total deferred tax liabilities	1,981	1,655
Balance: Net deferred tax assets	¥ 3,963	¥ 5,012

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

	As of March 31, 2014	As of March 31, 2013
Statutory tax rate	38.01%	—%
(Adjustments)		
Permanent differences relating to entertainment expense and others excluded from non-taxable expenses	0.77	—
Permanent differences relating to dividends received and others excluded from non-taxable expenses	(0.03)	—
Valuation allowance	(5.25)	—
Taxation on a per capita basis for inhabitants' tax	1.01	—
Tax credit for R&D expenses	(3.08)	—
Reduction of deferred tax assets and liabilities at fiscal year-end due to changes in corporate tax rate	4.88	—
Differences in tax rate from the parent company's statutory tax rate	(0.35)	—
Other	(1.21)	—
Effective tax rate	34.75	—

Note: 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.

3. Revision to the amount of deferred tax assets and deferred tax liabilities due to changes in the income tax rate
The amendments to the Japanese corporate tax law were enacted on March 31, 2014, and the Company will no longer be subject to the Special Corporation Tax for Reconstruction from the fiscal year beginning on April 1, 2014. In accordance with this Act, the statutory tax rate used for the calculation of deferred tax assets and deferred tax liabilities has been changed from the 38.01% applicable hitherto to 35.64%, for the temporary differences likely to be eliminated in the fiscal year beginning on April 1, 2014.

As a result of this change in the tax rate, the net amount of deferred tax assets (after deduction of deferred tax liabilities) decreased ¥189 million, and deferred income taxes increased by the same amount.

Business Combinations

■ Year ended March 31, 2014

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, 2014	Fiscal year ended March 31, 2013
Beginning balance	¥803	¥152
Increase due to procurement of property and equipment	3	647
Accretion expense	6	5
Decrease due to fulfillment of asset retirement obligations	(3)	(1)
Ending balance	¥810	¥803

Matters Relating to Real Estate Leases, Etc.

■ Year ended March 31, 2014

Not applicable

■ Year ended March 31, 2013

Not applicable

Segment Information

[Segment Information]

■ Year ended March 31, 2014

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 environments 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 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	¥94,564	¥46,952	¥10,030	¥3,475	¥155,023	¥ —	¥155,023
(2) Intersegment sales	6	—	197	310	514	(514)	—
Total	94,571	46,952	10,228	3,786	155,538	(514)	155,023
Segment operating income	¥10,709	¥ 4,517	¥ 2,293	¥1,115	¥ 18,635	¥ (8,091)	¥ 10,543
Segment assets	¥60,708	¥17,243	¥ 4,739	¥3,772	¥ 86,463	¥130,153	¥216,617
Other items							
Depreciation and amortization	3,197	2,713	89	27	6,028	585	6,614
Increases in property and equipment and intangible assets	1,839	3,171	2	—	5,014	362	5,376

Notes: 1 (1) Segment adjustments (¥8,091 million) include unallocated corporate operating expenses (¥8,124 million).

(2) Unallocated assets amounting to ¥130,346 million are included in the ¥130,153 million adjustment to segment assets. Most of this amount comprises funds for management of surplus funds (cash and deposits).

(3) The ¥585 million adjustment to depreciation and amortization is associated with unallocated assets that do not belong to any reporting segment.

(4) The ¥362 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 Statement of Income.

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 environments 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 (loss)	¥ 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 deposits).
(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 Statement of Income.

[Related Information]

Year ended March 31, 2014

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
¥111,326	¥21,152	¥19,732	¥2,812	¥155,023

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
¥17,664	¥1,892	¥318	¥42	¥19,917

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 Statement of Income.

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 Statement of Income.

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

Year ended March 31, 2014

Millions of yen

	Digital Entertainment	Amusement	Publication	Merchandising	Eliminations or unallocated (Note)	Total
Impairment losses	¥—	¥155	¥—	¥—	¥2	¥158

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

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: The amount for “Eliminations or unallocated” is 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, 2014

Not applicable

Year ended March 31, 2013

Not applicable

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

Year ended March 31, 2014

Not applicable

Year ended March 31, 2013

Not applicable

[Related party transactions]

Year ended March 31, 2014

Not applicable

Year ended March 31, 2013

Not applicable

Per Share Information

Yen

	Fiscal year ended March 31, 2014	Fiscal year ended March 31, 2013
Net assets per share	¥1,095.78	¥1,043.62
Net income (loss) per share	57.28	(119.19)
Diluted net income per share	57.19	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.

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, 2014	Fiscal year ended March 31, 2013
Net income per share:		
Net income (loss)	¥ 6,598	¥ (13,714)
Income (loss) not available to common shareholders	—	—
Income (loss) available to common shareholders	6,598	(13,714)
Average number of shares of common stock outstanding during the fiscal year (thousands of shares)	115,203	115,069
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)	176	—
(Number of shares reserved for the purpose of new share issuances for exercise of share subscription rights)	(176)	(—)
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 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

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 (35,000)	—	None	February 4, 2015 (UK time)
Total	—	—	¥35,000	¥35,000 (35,000)	—	—	—

Notes: 1 The amounts in parentheses represent the planned redemption amounts within one year.

2 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

3 Amount scheduled to be repaid within five years from March 31, 2014 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, 2013 (Millions of yen)	Balance as of March 31, 2014 (Millions of yen)	Average interest rate (%)	Repayment date
Short-term loans	¥5,726	¥6,852	1.1	—
Long-term borrowings due for repayment within one year	—	—	—	—
Lease obligations due for repayment within one year	30	23	—	—
Long-term borrowings (excluding the amount due for repayment within one year)	—	—	—	—
Lease obligations (excluding the amount due for repayment within one year)	40	22	—	June 2015 to July 2018
Other interest-bearing liabilities	—	—	—	—
Total	¥5,796	¥6,898	—	—

Notes: 1 The average interest rate shown is the weighted average interest rate on the balance of borrowings as of March 31, 2014.

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 “Other” of “Current liabilities,” and lease obligations (excluding due for repayment within one year) are included in “Other” of “Non-current liabilities.”

4 Scheduled repayment amounts during five years subsequent to March 31, 2014 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	¥11	¥7	¥3	¥0

[Asset retirement obligations]

Asset retirement obligations at the end of the fiscal year in review (ended March 31, 2014) 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, 2013 to June 30, 2013	2Q April 1, 2013 to September 30, 2013	3Q April 1, 2013 to December 31, 2013	4Q April 1, 2013 to March 31, 2014
Net sales	¥24,083	¥61,664	¥102,473	¥155,023
Income (loss) before income taxes and minority interests	(187)	4,297	8,521	10,137
Net income (loss)	(493)	2,606	5,179	6,598
Net income (loss) per share (yen)	(4.29)	22.64	44.96	57.28

Quarterly	1Q April 1, 2013 to June 30, 2013	2Q July 1, 2013 to September 30, 2013	3Q October 1, 2013 to December 31, 2013	4Q January 1, 2014 to March 31, 2014
Net income (loss) per share (yen)	¥(4.29)	¥26.90	¥22.32	¥12.31

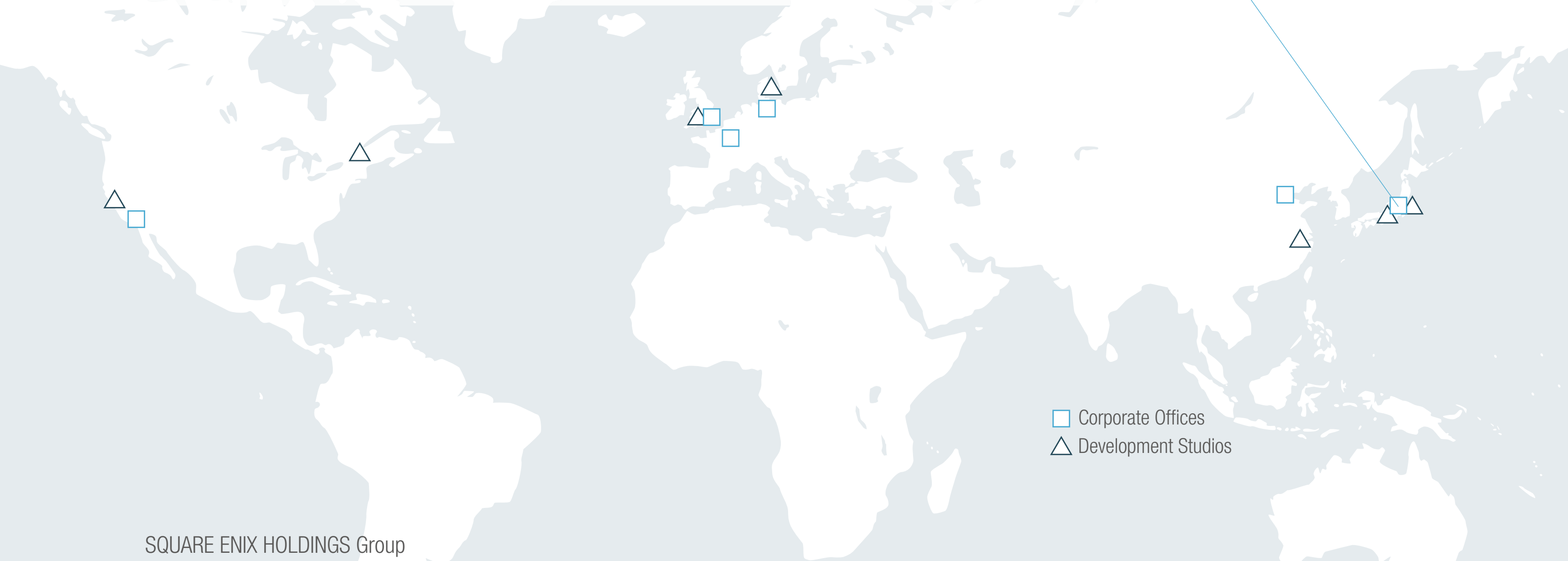
Corporate Data

(As of March 31, 2014)

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: ¥15,368,142,250
Number of employees: 3,581 (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, 2014)

Share Information

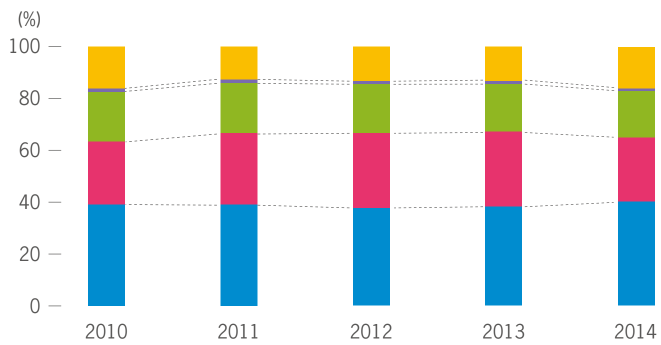
Number of shares issued: 115,575,696

Number of shareholders: 32,925

Principal Shareholders

Rank	Shareholder	Investment in Square Enix (Thousands of shares)	(%)
1	Yasuhiro Fukushima	23,626	20.44
2	Fukushima Planning Co., Ltd.	9,763	8.44
3	Sony Computer Entertainment Inc.	9,520	8.23
4	Masafumi Miyamoto	7,047	6.09
5	The Master Trust Bank of Japan, Ltd. (Trust Account)	5,443	4.70
6	Royal Bank of Canada Trust Company (Cayman) Limited	5,330	4.61
7	Japan Trustee Services Bank, Ltd. (Trust Account)	3,460	2.99
8	Japan Trustee Services Bank, Ltd. (Trust Account 9)	2,662	2.30
9	CHASE MANHATTAN BANK GTS CLIENTS ACCOUNT ESCROW	2,580	2.23
10	BNYML-NON TREATY ACCOUNT	2,447	2.11

Share Ownership (Thousands of shares)



	2010		2011		2012		2013		2014	
Financial Institutions	18,643	(16.2%)	15,711	(13.6%)	15,485	(13.4%)	14,700	(12.7%)	18,722	(16.2%)
Financial Instruments Companies	1,479	(1.3%)	981	(0.9%)	995	(0.9%)	995	(0.9%)	1,114	(1.0%)
Other Companies	22,161	(19.2%)	22,122	(19.2%)	22,089	(19.2%)	22,092	(19.1%)	20,570	(17.8%)
Foreign Companies and Individuals	28,029	(24.3%)	31,668	(27.4%)	33,268	(28.8%)	32,251	(28.0%)	28,817	(24.9%)
Individuals and Other	45,055	(39.0%)	44,884	(38.9%)	43,530	(37.7%)	45,329	(39.3%)	46,350	(40.1%)
Total	115,370	(100.0%)	115,370	(100.0%)	115,370	(100.0%)	115,370	(100.0%)	115,575	(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.: 0120-232-711 (Toll-free number within Japan)

- 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/

VEGETABLE OIL INK

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