SQUARE ENIX

# 2016
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.

## CONTENTS



**Disclaimer Regarding Forward-Looking Statements**

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

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

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

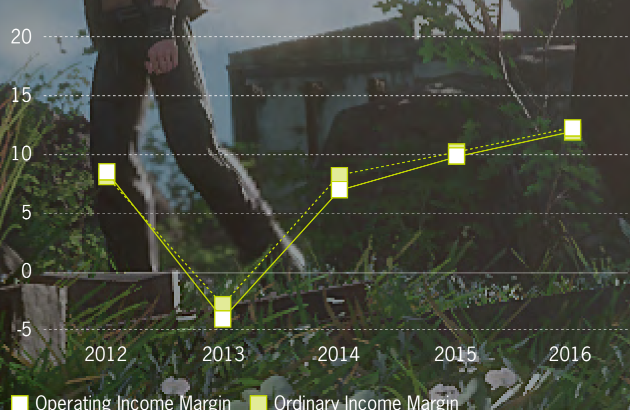
# Financial Highlights

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

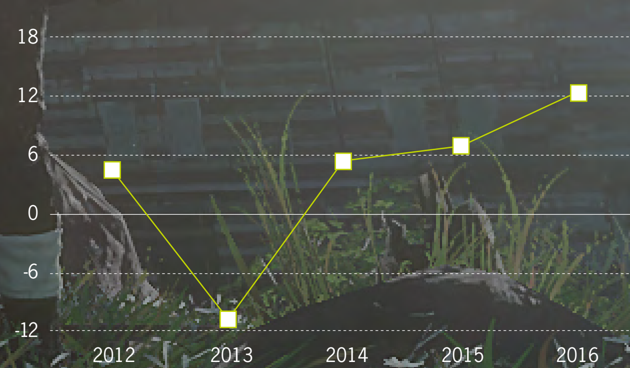
| | 2012 | 2013 | 2014 | 2015 | 2016 | 2016 |
|---|---|---|---|---|---|---|
| | | | | | Millions of Yen | Thousands of U.S. Dollars |
| **For the Year** | | | | | | |
| Net sales | ¥ 127,896 | ¥ 147,981 | ¥ 155,023 | ¥ 167,891 | ¥ 214,101 | $1,900,081 |
| Operating income (loss) | 10,713 | (6,081) | 10,543 | 16,426 | 26,018 | 230,905 |
| Ordinary income (loss) | 10,297 | (4,378) | 12,534 | 16,984 | 25,322 | 224,726 |
| Profit (loss) attributable to owners of parent | 6,060 | (13,714) | 6,598 | 9,831 | 19,884 | 176,467 |
| **At Year-end** | | | | | | |
| Total assets | ¥ 213,981 | ¥ 202,509 | ¥ 216,617 | ¥ 211,938 | ¥ 232,731 | $2,065,422 |
| Total net assets | 137,297 | 121,636 | 127,676 | 155,314 | 168,783 | 1,497,903 |
| | | | | | Yen | U.S. Dollars |
| **Per Share of Common Stock** | | | | | | |
| Earnings (loss) | ¥ 52.66 | ¥ (119.19) | ¥ 57.28 | ¥ 84.34 | ¥ 163.04 | $ 1.45 |
| Total net assets | 1,177.87 | 1,043.62 | 1,095.78 | 1,267.24 | 1,376.93 | 12.22 |
| | | | | | % | |
| **Key Ratios** | | | | | | |
| Operating income margin | 8.4% | (4.1)% | 6.8% | 9.8% | 12.2% | |
| Ordinary income margin | 8.0 | (2.9) | 8.1 | 10.1 | 11.8 | |
| Return on equity | 4.5 | (10.7) | 5.4 | 7.0 | 12.3 | |
| Equity ratio | 63.3 | 59.3 | 58.3 | 72.9 | 72.2 | |

Note: For the convenience of readers, amounts in U.S. dollars have been translated using the currency exchange rate at March 31, 2016 of ¥112.68=US$1.

### Operating Income Margin/Ordinary Income Margin (%)




### Return on Equity (%)



# A Message to Our Shareholders

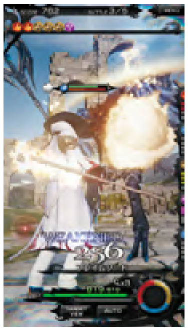

Yosuke Matsuda
President and Representative Director

Thank you for your continued support of the Square Enix Group. With your support, we made the fiscal year ended March 2016 one of record net sales and profit attributable to owners of parent as the structural reforms and content investments we have engaged in since I assumed the role of CEO have gradually begun to produce benefits. The past fiscal year was also one in which we launched new initiatives designed to take our Group to further growth. I am pleased to take this opportunity to present this review of our achievements and progress in each of our business segments and to describe the strategies and direction we plan to take going forward.

## Business Segment Overview

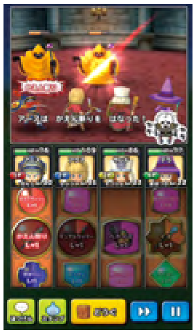
### Digital Entertainment Business Segment

In the fiscal year ended March 2016, games for smart devices continued to demonstrate strong growth in the Japanese market, driving overall Group earnings. New titles released in the first half of the fiscal year ended March 2016, such as "MOBIUS FINAL FANTASY" and "KINGDOM HEARTS Unchained χ," which leverage key IP (intellectual property), delivered brisk performances throughout the fiscal year. Titles such as "HOSHI NO DRAGON QUEST," "FINAL FANTASY BRAVE EXVIUS," and "Grimms Notes" released in the second half of the fiscal year were also strong performers right out of the gate. With this accumulation of new titles, the percentage of total Digital Entertainment Business Segment sales accounted for by games for smart devices saw significant year-on-year growth in the fiscal year ended March 2016. Some are quick to point out slowing growth and increased competition in Japan's smartphone game market, but it remains a market in which new titles can succeed by delivering new gaming experiences, and new titles frequently make their way to the upper end of the sales rankings. As device technology advances at a furious pace and consumers grow increasingly discerning, how companies go about delivering new gaming experiences has become the key determinant of success in a market where the true value of content is evaluated. We will also target further growth by rolling out titles that offer a variety of gaming styles and that run the gamut from derivatives of big franchises to brand new IP.

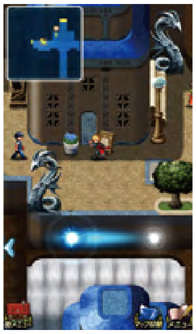


**MOBIUS FINAL FANTASY**

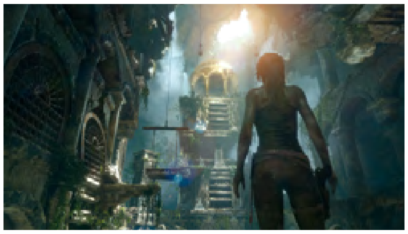

**KINGDOM HEARTS Unchained χ**

**HOSHI NO DRAGON QUEST**

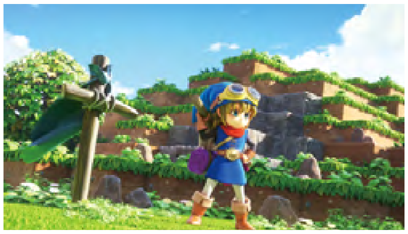



**FINAL FANTASY BRAVE EXVIUS**



**Rise of the Tomb Raider**


**JUST CAUSE 3**

**DRAGON QUEST BUILDERS**


We also released a wide range of HD (high-definition) games in the fiscal year ended March 2016. These included the latest installments in the major franchises from our Western studios such as "Rise of the Tomb Raider," "JUST CAUSE 3," and "HITMAN"; "DRAGON QUEST BUILDERS," which offers a new way to enjoy the world of "Dragon Quest"; and "I Am Setsuna," which leverages newly developed IP to bring a fresh sensibility to the turn-based JRPG (Japanese-style role-playing game) genre. All of these offerings serve to make our Group's game portfolio richer.

HD games are at the heart of our Group's content portfolio, and we believe that continued investment in this domain bolsters our Group's enterprise value in a variety of ways, including by helping us to acquire the latest technology and enhance our brand value. Moreover, leveraging the IP assets derived from our HD games in a diversity of ways provides us with further earnings opportunities, which is another reason why we see continued investment in HD game development as vital.

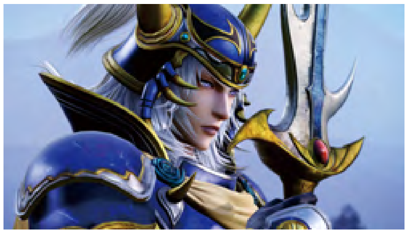
In the MMO (massively multiplayer online game) domain, "DRAGON QUEST X" and "FINAL FANTASY XIV" continued to help generate stable earnings. We released new content for both of those titles in the fiscal year ended March 2016 via the launch of expansion packs. Player retention is a key earnings indicator in the MMO business, and the release of these expansion packs played a significant part in helping us not only retain existing players but also attract returning players and new players. We have no plans for expansion pack releases in the fiscal year ending March 2017, but we intend to continue to strive for customer satisfaction in the operation of our MMO games, with the aim of retaining existing players and welcoming new ones.

## Amusement Business Segment

Performance at our arcades remained brisk, with year-on-year existing revenue figures topping 100% in the fiscal year. Demand from foreign tourists held strong, with arcade patronage by visitors from Asia especially helping to grow earnings. The e-money system we began rolling out in 2015 has made payment much more convenient for our customers and generated significant benefits for the arcades where it is available. We also garnered considerable attention in the field of game machine development, thanks in part to the release of "DISSIDIA FINAL FANTASY."

The consumption tax hike in Japan that had been planned for the fiscal year ending March 2017 has been postponed, but the Brexit vote has resulted in greater global economic uncertainty, and following a period of weakness, the yen is now appreciating against other currencies, raising questions about the future of inbound tourism to Japan. Against this backdrop, we intend to continue contributing to earnings through lean arcade operations and services that satisfy our customers.

In the virtual world age, physical spaces are all the more meaningful. We need to create up-to-date arcade facilities by offering new real-world experiences that are not merely an extension of things that have come before. In doing so, we intend to create an amusement business that will even further enrich our Group's content portfolio.




**DISSIDIA FINAL FANTASY**

CHARACTER DESIGN: TETSUYA NOMURA

## Publication Business Segment

Publication Business Segment sales and profits declined on a year-on-year basis in the fiscal year ended March 2016. The declines owe to a high hurdle set by television anime adaptations of our properties, which had been a major earnings driver in the fiscal year ended March 2015. Our mixed-media strategy of growing comic sales by developing anime adaptations has proven effective, so we will continue it going forward, but the fiscal years 2016 and 2017 represent a preparatory period between anime adaptations, thus a bit more time will be required before benefits appear. As such, we see the fact that we were able to maintain a certain profit level by creating an earnings base that does not rely on anime adaptations as a significant achievement. We will strive to move to our next stage of growth starting in the fiscal year ending March 2018 as we renew our commitment to the basic cycle

of identifying high-quality titles and growing them into major properties.

We also see our Publication Business Segment as a fertile ground for cultivating new IP. It serves as an effective IP platform that allows us to continuously identify new properties and test the waters with them. How to further develop the new IP born here is a very important strategic question for us. Comic content is increasingly digitized, and our anime adaptations are very popular overseas, especially in Asia. As such, we frequently receive licensing requests. In the fiscal year ended March 2016, we entered into a licensing arrangement with the major Chinese game publisher NetEase to launch the digital distribution of our Group's comic content in China. This content is very popular in China, and our titles have been particularly well received in the Chinese market. By further heightening brand recognition through digital distribution, we hope to significantly increase our capacity to monetize them via future game deployments and other initiatives.

As the above illustrates, the Publication Business Segment offers the promise of developing a major cross-border content business liberated from the bonds of traditional paper media by digitization. We place great value on this business for this reason and intend to develop it into a key growth driver.

## Merchandising Business Segment

The Merchandising Business Segment delivered a stable performance again in the fiscal year ended March 2016. The segment is vital in that it leverages our original products to further enhance their brand value. The segment also naturally offers some products based on properties licensed in from other companies, but that reflects such parties' high regard for our Group's ability to create products based on external IP, and it has helped us significantly enhance those skills. The fiscal year ending March 2017 and subsequent years will see us continue to add to our portfolio of original content and expand our lineup of products that meet our customers' diverse needs.

## Key Business Development Initiatives

The business environment that surrounds our Group undergoes major changes on a daily basis. However, what we strive for remains unchanged: providing our customers around the world with the ultimate in content-based experiences. That and that alone is where our importance to society and our enterprise value lie. Working flexibly to achieve that goal in an ever-changing business environment is the duty with which you, our shareholders, have entrusted us, the management of this Group. With this in mind, we intend to pursue the following three key business development initiatives going forward: 1) enhancing our offering of premium apps for smart devices; 2) developing VR (virtual reality) and AR (augmented reality) offerings; and 3) expanding into emerging markets, especially India, the Middle East, and Latin America.

### 1) Enhancing our offering of premium apps for smart devices

Currently, the global market for smart device games is dominated by F2P (free to play) games, and the market for premium games that players pay to purchase is practically nonexistent. However, our Group has for some time been offering premium games for smart devices, including brand new titles. When viewed across the Group, these offerings represent a considerable volume of earnings.

F2P games have achieved remarkable growth thanks to their massive download numbers and significant active user bases that generate fee revenues. Many companies entered the market because of the perception that F2P games cost less to develop than traditional console games while also offering the potential for significant earnings. As a result, the market as a whole saw major growth, but competition reached excessive levels. Meanwhile, marked advancements were made in smart device performance, and consumers of F2P games grew more demanding. As such, the market ceased to provide major returns for low-budget development.

However, the picture for premium games is different. Initial development costs for both F2P and premium games are roughly the same as or even higher than those for new games for dedicated handheld game machines. In other words, the level of investment required cannot be considered low risk. The risk involved in F2P games is even higher than for premium games because of the need to spend on ongoing operational and additional development efforts.

F2P games generate massive download numbers because basic play is free. They thereby establish significant active user bases and present major earnings potential. Premium games, meanwhile, offer the advantage of generating purchases over a long period of time after their initial development costs have been fully depreciated.

Premium games naturally need to be modified to keep pace with frequent OS updates and require ongoing marketing spending to generate user awareness. However, smart devices still provide a better platform for playing greatly loved games for many years than dedicated game consoles do because of the latter's issues with backward compatibility.

Continuing the comparison with dedicated handheld game machines, we note that significant advances have been made in both the specs and operability of smart devices and that this evolution is likely to continue unabated. Moreover, smart devices have a much greater installed base globally than dedicated handheld game machines. The smartphone-native generation already sees smart devices as all-in-one game consoles.

For these reasons, it makes sense for game manufacturers such as ourselves to supply games that we have traditionally developed for dedicated handheld game machines not only for such consoles but also for multipurpose smart devices.

We believe that the operability of smart devices makes them a good match for turn- and simulation-based RPGs, among other games. We see turn-based RPGs as a style or format of game and do not believe them to be outdated at all. The development of such RPGs is something that our Group has exceled at for some time.

By releasing new RPGs not only for dedicated handheld game machines but also for smart devices, we hope to develop the premium game market into a pillar of our business on a par with the F2P market. In so doing, we believe that we can enrich the portable game market in the broader sense in order to respond to a variety of customer needs.

**SCHOOLGIRL STRIKERS**


**Kai-ri-Sei Million Arthur**


### 2) VR/AR

2016 is being referred to as "year zero" for VR as VR machines, peripherals, and content are finally making their way to the market in significant volumes. Our Group is also extremely interested in this domain and already working on developing VR content for some of our projects. That said, consumers cannot grasp the appeal of VR without having experienced it, so the spread of VR is currently being driven by supply-side entities such as hardware manufacturers and game developers. While equipment and other purchases currently demand a significant upfront investment on the part of users, VR offers never-before-experienced surprises and the possibility for a variety of applications that extend beyond the world of gaming. We therefore look for VR to grow into a major market.

Effectively leveraging VR and AR will enrich our Group's content portfolio, and we also plan to develop unique VR and AR content. We provide content in a wide range of formats, including not only consumer game consoles and smart devices but also amusement machines, publications, and even tangible objects like figurines. We look forward to our creators applying their talents to generate new chemical reactions by combining new VR and AR technologies with such content.

We note also that VR and AR are catchall terms for technologies that can take on a variety of forms, and we believe that our Group should offer content that leverages our unique strengths. In our view, gamers are likely to come to expect a “VR mode” as a standard feature on HD game consoles. Incorporating VR content into HD games enables us to create a more immersive gaming experience. We believe this represents the very domain that will enable us to further demonstrate our Group’s strengths.

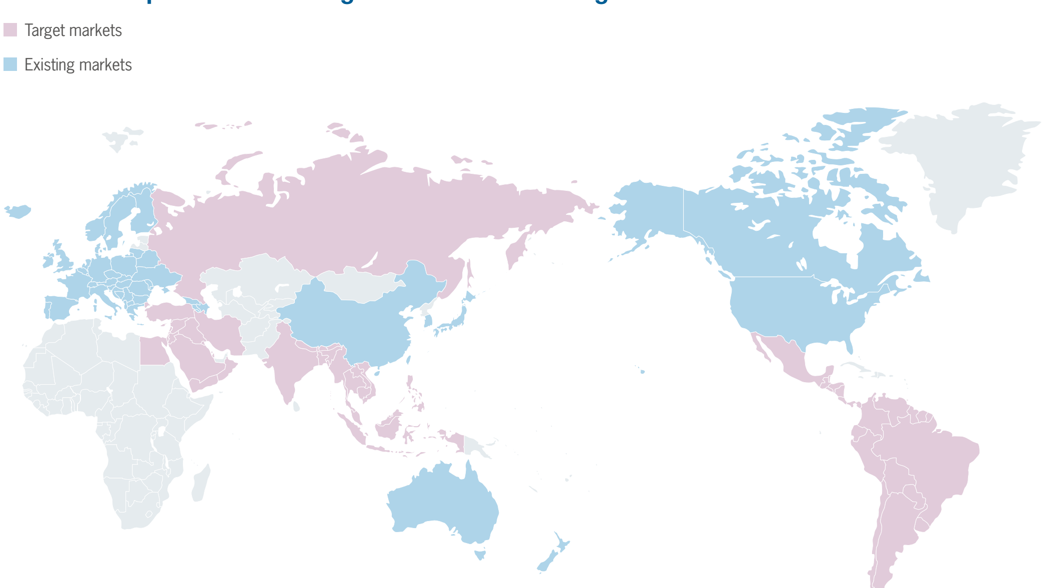
AI (artificial intelligence) is another field undergoing significant innovation. We intend to leverage our advanced research in the realm of gaming AI and believe that gaming AI technology we have developed in entertainment contexts will likely be applied in fields such as the development of robots. We feel certain that once robots expand from the B2B realm to the B2C realm, consumers will expect their robots to be entertaining. Our gaming AI technology and insights may help in that realm. We intend to look for ways to become involved in robot AI technology from the perspective of entertainment.

### 3) Expanding into emerging markets

We have cited expansion into emerging markets as a target for the past several years, but unfortunately have not produced sufficient results. During that time, emerging markets have continued their steady growth, and it goes without saying that taking advantage of the growth in those markets needs to be a key focus under our Group’s growth strategy.

China is a leading country in terms of gaming and online and mobile gaming, in particular.

### Overseas Expansion of the Digital Entertainment Segment



As such, it is a key market on a par with those of Japan and the West. We believe that partnerships with local companies will prove effective in developing our content business there and intend to continue to collaborate with key players.

The Middle East and Latin America (especially Mexico and Brazil) are growing rapidly as consumer markets. Language localization is critical to supplying our games to these countries. To date, our localization efforts have focused primarily on the so-called EFIGS languages (English, French, Italian, German and Spanish). However, to improve access to our games for large populations, we believe that we also need to localize into Chinese (simplified), Arabic and Portuguese.

Our Western studios have produced multilingual offerings for some time, but we believe that our Japanese studios urgently need to develop the capacity to localize into these major languages at any given time and are working to ensure that at the moment. We also believe that by localizing our globally strategic titles, we should be able to enhance our presence in the relevant regions, thus laying the groundwork for our emerging markets strategy.

This is how our businesses performed in the fiscal year ended March 2016 and what we expect for the fiscal year ending March 2017 and beyond. In the fiscal year ended March 2016, our net sales exceeded ¥200 billion for the first time, and we set a new record at the profit attributable to owners of parent line as well. By implementing the aforementioned initiatives, we intend to strive for further growth in our sales and profits.

Dividends will serve as the centerpiece of our shareholder return policy, and we will target a consolidated payout ratio of 30% while giving consideration to the appropriate balance between investing and distributing our profits. From VR through AR to AI, we are seeing a constant stream of new investment and business opportunities. We believe that such opportunities should not be missed and that investments in future growth should be made in a timely fashion.

We look forward to your continued support.

Yosuke Matsuda
President and Representative Director

# Directors and Audit & Supervisory Board Members

As of June 24, 2016

## 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

SPECIAL FEATURE

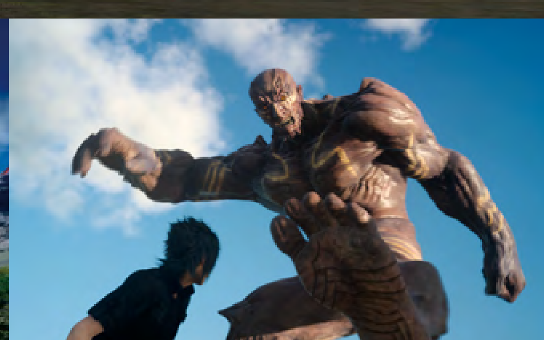
# ENTERTAINMENT THAT INSPIRES

## FINAL FANTASY

### "FINAL FANTASY" Series

"FINAL FANTASY" has established a reputation among players around the globe with its cutting-edge graphics, unique world view and rich, in-depth storylines. Since the launch of the series in 1987, a total of over 115 million units have been shipped worldwide. The newest entry in the series, "FINAL FANTASY XV," supports 12 languages, the most of any game in the series, and its epic story and huge open world have formed the basis of a full CG movie, anime, and smartphone game, among other content.



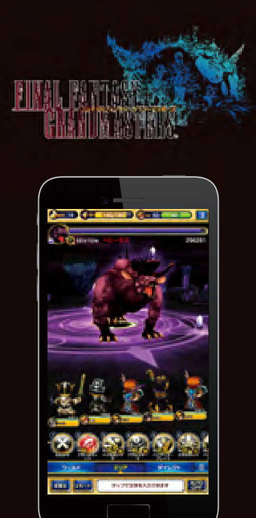




JUSTICE MONSTERS FIVE
ジャスティス モンスターズ ファイブ

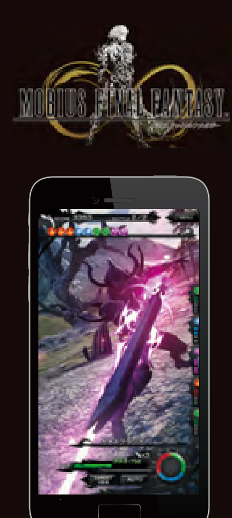



ファイナルファンタジーXIV
FINAL FANTASY XIV
ONLINE

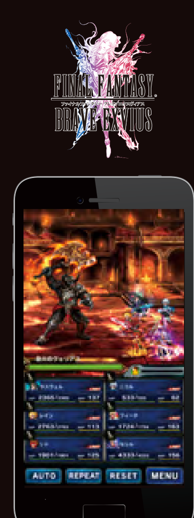



FINAL FANTASY GRANDMASTERS




MOBIUS FINAL FANTASY




FINAL FANTASY
BRAVE EXVIUS
AUTO
REPEAT
RESET
MENU




KINGSGLAIVE
FINAL FANTASY XV

# ENTERTAINMENT THAT INSPIRES

## "DRAGON QUEST" Series

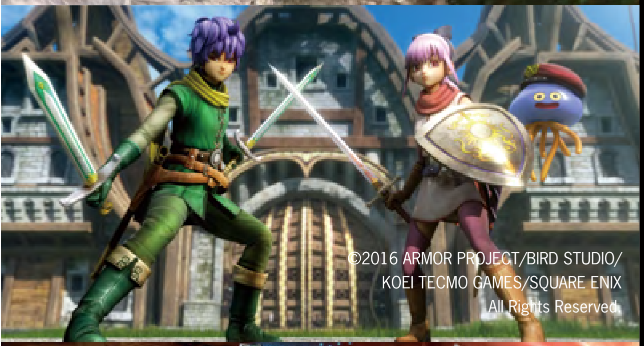
In 2016, the "DRAGON QUEST" series celebrates its 30th anniversary. Since the launch of "DRAGON QUEST" for the Nintendo Entertainment System in 1986, over 80 "DRAGON QUEST" titles have been released. The popular role-playing game series has sold a total of over 68 million units of packaged software worldwide. The series keeps creating new gaming experiences by actively utilizing advanced technologies such as 3D maps, StreetPass wireless communication, and cloud gaming.

PlayStation®4 version


Nintendo 3DS™ version (upper screen)

Nintendo 3DS™ version (bottom screen)























## 30 Years of DRAGON QUEST

1986
**DRAGON QUEST**
The memorable first title

1987
**DRAGON QUEST II: Luminaries of the Legendary Line**
Adopted a party system

1988
**DRAGON QUEST III: The Seeds of Salvation**
Became an explosively popular phenomenon and introduced a job change system

1990
**DRAGON QUEST IV: Chapters of the Chosen**
Featured an AI-based battle system

1992
**DRAGON QUEST V: Hand of the Heavenly Bride**
Introduced a monster companion system

1995
**DRAGON QUEST VI: Realms of Revelation**
Final chapter of the Zenithian trilogy

2000
**DRAGON QUEST VII: Fragments of the Forgotten Past**
Introduced 3D maps

2004
**DRAGON QUEST VIII: Journey of the Cursed King**
Realized a 3D world full of polygons

2009
**DRAGON QUEST IX: Sentinels of the Starry Skies**
The StreetPass function boom

2012
**DRAGON QUEST X**
The series' first online game

Coming soon
**DRAGON QUEST XI**

**Total of over**
**68 million units**
**of packaged software shipped worldwide**
(as of March 31, 2016)

SPECIAL FEATURE

# ENTERTAINMENT THAT INSPIRES

## DEUS EX

"DEUS EX: MANKIND DIVIDED" is the newest installment of the multi-million selling videogame series that debuted in 2000, as well as the sequel to the critically acclaimed "DEUS EX: HUMAN REVOLUTION." "DEUS EX: MANKIND DIVIDED" builds on the franchise's trademark choice and consequence, action-RPG-based gameplay to create both a memorable and highly immersive experience. The year is 2029, and Adam Jensen, an elite covert agent armed with state-of-the-art weapons and augmentations, is back in action, unravelling a global conspiracy in a world that now despises and segregates mechanically augmented humans.

"DEUS EX: MANKIND DIVIDED" was launched in August 2016 in the Western market and is due to be released in Japan in early 2017.



## HITMAN

"HITMAN" is the sixth major game in the blockbuster series and is the culmination of a journey started by Io-Interactive more than 17 years ago. It builds on the critically acclaimed and commercially successful foundation of games like "HITMAN 2: SILENT ASSASSIN," "HITMAN: BLOOD MONEY" and the recent "HITMAN: ABSOLUTION." "HITMAN" is the first game in the series to be released in a digital and episodic format, for which it received wide acclaim. Season one was launched on March 11th and will conclude in 2016.


I am Setsuna.
©2016 SQUARE ENIX CO., LTD. All Rights Reserved. Developed by Tokyo RPG Factory


NieR:Automata
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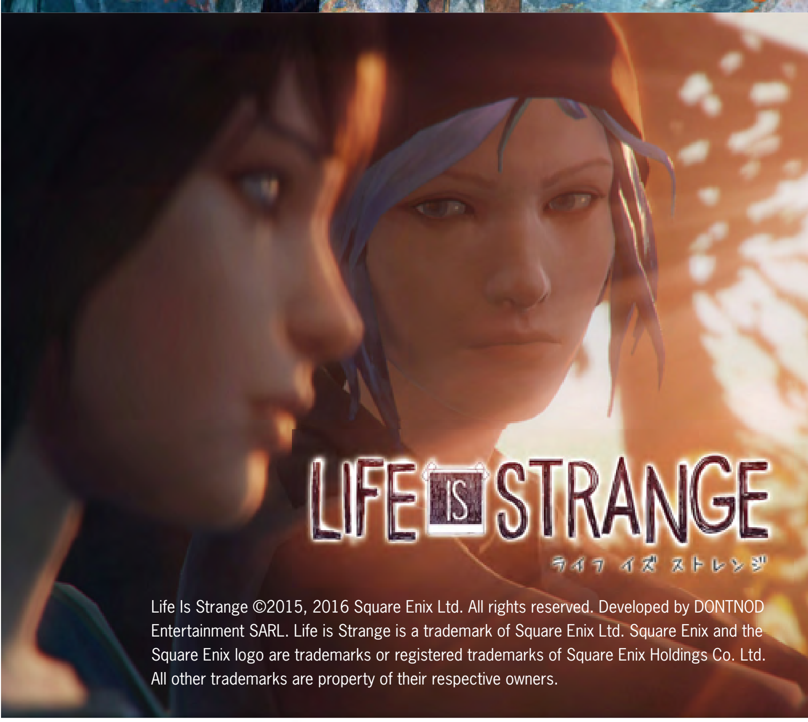
LIFE IS STRANGE
ライフ イズ ストレンジ
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グリムノーツ
Grimms Notes
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ほんだくん
I-SYO
TAI-SYO
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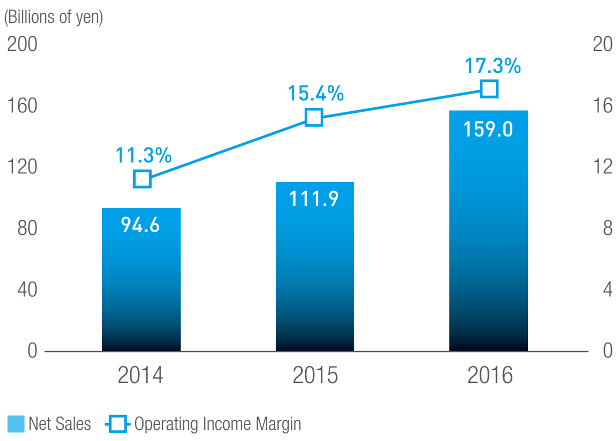
GROOVE COASTER 3
LINK FEVER
グルーヴコースター3 リンクフィーバー

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.

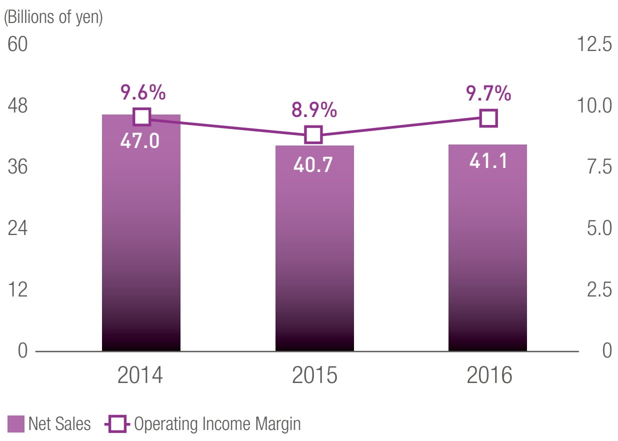
Net sales for the fiscal year ended March 31, 2016 totaled ¥214,101 million (an increase of 27.5% from the prior fiscal year), operating income amounted to ¥26,018 million (an increase of 58.4% from the prior fiscal year), and ordinary income amounted to ¥25,322 million (an increase of 49.1% from the prior fiscal year).

These factors resulted in profit attributable to owners of parent of ¥19,884 million (an increase of 102.3% from the prior fiscal year).

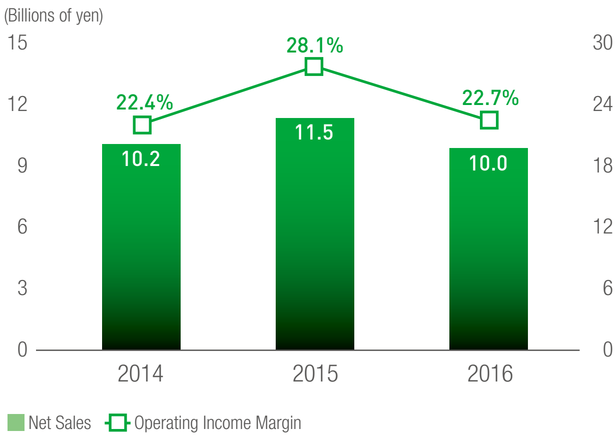
## Digital Entertainment



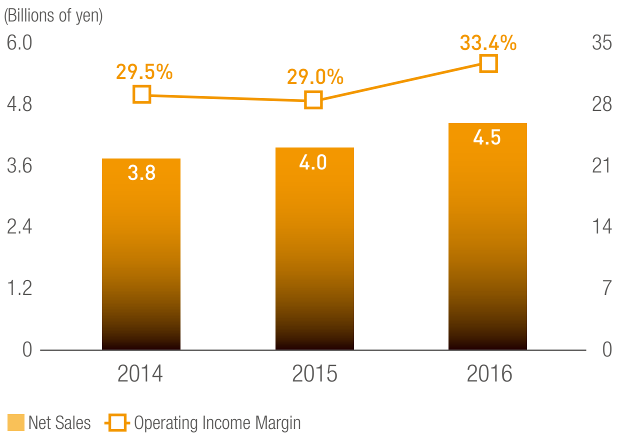

## Amusement



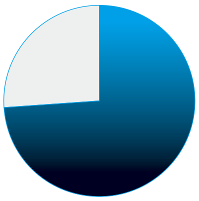

## Publication




## Merchandising



# Digital Entertainment



Share of Net Sales (FY ended March 2016)

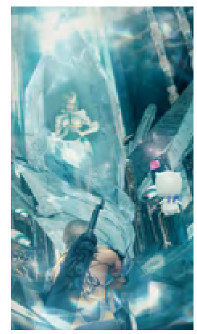
**74.1%**

The Digital Entertainment segment consists of planning, development, distribution, and operation of 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.

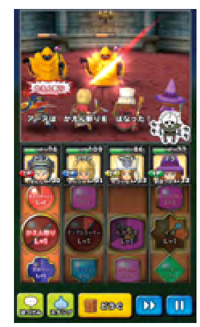
During the fiscal year ended March 31, 2016, in the area of content for platforms such as smart devices and PC browsers, existing games are continuing to show strong performances, coupled with successful launches of new game titles for smartphones such as “MOBIUS FINAL FANTASY,” “HOSHI NO DRAGON QUEST,” “FINAL FANTASY BRAVE EXVIUS” and “Grimms Notes.”

Among console game titles, “JUST CAUSE 3” and “Rise of the Tomb Raider” made solid starts. Revenues from operation and expansion disc sales of massively multiplayer online role-playing games such as “FINAL FANTASY XIV” and “DRAGON QUEST X” are sustaining their strong performances.

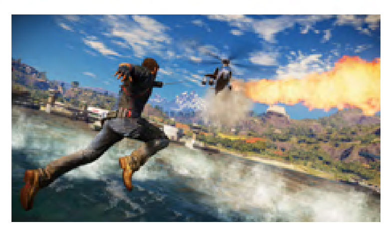
Net sales and operating income in the Digital Entertainment segment totaled ¥158,964 million (an increase of 42.0% from the prior fiscal year) and ¥27,456 million (an increase of 58.9% from the prior fiscal year), respectively.





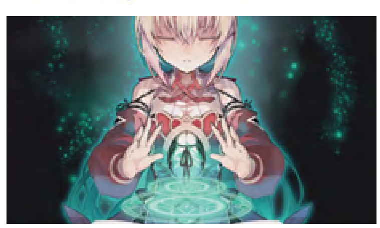




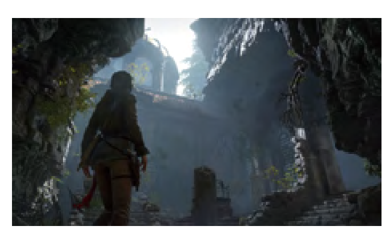




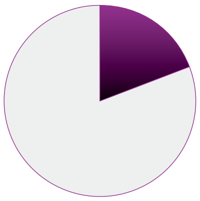








# Amusement



Share of Net Sales (FY ended March 2016)

19.2%

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, 2016, sales of amusement machines such as “DISSIDIA FINAL FANTASY” have gained favorable results, and the operation of amusement facilities has been showing a steady performance through efficient store management efforts.

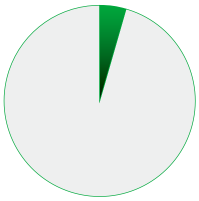
Net sales and operating income in the Amusement segment totaled ¥41,135 million (an increase of 1.0% from the prior fiscal year) and ¥3,988 million (an increase of 10.3% from the prior fiscal year), respectively.







## Publication



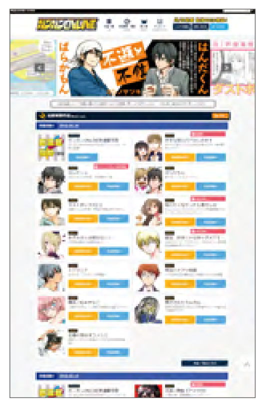
Share of Net Sales (FY ended March 2016)

**4.6%**











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

During the fiscal year ended March 31, 2016, sales of comic books were sluggish compared with the prior fiscal year.

Net sales and operating income in the Publication segment totaled ¥9,970 million (a decrease of 13.7% from the prior fiscal year) and ¥2,267 million (a decrease of 30.0% from the prior fiscal year), respectively.

## Merchandising

Share of Net Sales (FY ended March 2016)

**2.1%**


CHARACTER DESIGN: Akihiko Yoshida



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

During the fiscal year ended March 31, 2016, sales of character goods derived from the Group's own IPs increased, primarily thanks to the release of the first expansion disc of "FINAL FANTASY XIV." The Group continued to distribute and license items such as character goods and soundtracks based on its IPs while also strengthening its character goods lineup with additional products from third party IPs and diversifying revenue opportunities through overseas expansions.

Net sales and operating income in the Merchandising segment totaled ¥4,547 million (an increase of 13.8 % from the prior fiscal year) and ¥1,517 million (an increase of 30.7% from the prior fiscal year), respectively.

## 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 as well as basic policy on the criteria for nominating candidates for directors and audit & supervisory board members, the Company has voluntarily established the Compensation and Nominating 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.

To ensure its subsidiaries properly execute business activities, the Company has set forth the "Group Company Management Rules," under which it carries out administration and supervision of each company in the Square Enix Group in a manner suited to their size and level of importance. Based on the Rule, the Company requests Group companies to submit reports on their business conditions and other significant information. Furthermore, by holding monthly and ad hoc briefings of major Group companies, among other means, the Company continuously assesses the business conditions of Group companies, and takes necessary measures in an appropriate and timely fashion.

### (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 does not have experience in corporate management excluding duties as an outside director or audit & supervisory board member (external) at several companies. However, he holds a qualification as an attorney and has extensive expertise in finance and accounting-related matters. Based on this expertise, he was appointed as an audit & supervisory board member (external). 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 an outside director or audit & supervisory board member (external) at several companies. However, he holds a qualification as a certified public accountant (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 the 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 and Yuji Nishiura were appointed as outside directors in the expectation that they would supervise and oversee the execution of duties by the Company's standing directors, based on their abundant experience and broad insight as senior corporate executives. Messrs. Yamamura and Nishiura offer their opinions at meetings of the Board of Directors as appropriate.

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 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) | 4 | 280 | 226 | 54 |
| Outside directors | 2 | 29 | 24 | 5 |
| Total | 6 | 310 | 250 | 60 |

Notes: 1. Non-monetary compensation for the fiscal year ended March 31, 2016 was paid in the form of stock options.
2. The Company abolished the retirement benefit plan for directors and audit & supervisory board members.
3. A director who received ¥100 million or more in total compensation was Yosuke Matsuda, the president and representative director. His compensation amounted to ¥166 million and was paid by the parent company (comprising ¥138 million in monetary compensation and ¥28 million in non-monetary compensation).

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)) | — | — | — | — |
| Audit & supervisory board members (external) | 3 | 29 | 29 | — |
| Total | 3 | 29 | 29 | — |

Note: The Company abolished the retirement benefit plan for directors and audit & supervisory board members.

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

The Company has voluntarily established the Compensation and Nominating Committee, which consists of outside directors and the president, as an advisory body to the Board of Directors. The committee aims to ensure the objectivity and transparency of the system of compensation for directors and audit & supervisory board members by conducting deliberations on the basic policy on the system of compensation for directors and audit & supervisory board members and submitting reports to the Board of Directors.

The remuneration for directors consists of monetary compensation as a basic consideration and non-monetary compensation such as subscription rights to shares issued as stock options. 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 and Nominating Committee, an advisory body, by taking into account the business performance of the Company for the fiscal year concerned and directors' contribution to the business performance.

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. 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, 2015 and March 31, 2016; and total dividends received, total gain on sale of shares and total gain on revaluation of shares for the fiscal year ended March 31, 2016 for investments in shares for purely investment purposes:

Millions of yen

| Category | Previous fiscal year | Fiscal year ended March 31, 2016 | | | |
|---|---|---|---|---|---|
| | 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 | 16 | 16 | 0 | 0 | (Note 1) (—)*1 |
| Shares other than those above | 1,120 | 694 | 8 | — | 404 (—) |

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, 2016.

- CPAs performing audits:
  Limited-liability partners: Takashi Nagasaka, Kenichi Shibata and Hiroyoshi Konno
- Personnel providing audit assistance:
  13 CPAs, 15 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.

### (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, 2015 | | Fiscal year ended March 31, 2016 | |
|---|---|---|---|---|
| | 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 | 2 |
| Consolidated subsidiaries | 72 | — | 70 | — |
| Total | 119 | 1 | 118 | 2 |

### (2) Other significant compensation

**Fiscal year ended March 31, 2015**

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 ¥122 million for statutory audit operations and ¥3 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, 2016**

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 ¥127 million for statutory audit operations and ¥4 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, 2015**

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, 2016**

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

### (4) Policy on determining audit compensation

The Company's policy on determining compensation for audits conducted by the statutory audit firm takes into account such factors as the scale of the Company's business operations, the number of days required to conduct audits and the characteristics of the operations performed.

# Financial Section

CONTENTS



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

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

The following statements are based on management's view on SQUARE ENIX HOLDINGS CO., LTD. (the "Company") as of June 30, 2016 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 invested companies may require the recording of revaluation losses in the event that losses are not reflected in the 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 borrowings from financial institutions. As of March 31, 2016, the Group's balance of interest-bearing debt was ¥9,765 million. The equity ratio stood at 72.2%. Cash and cash equivalents at the end of the year totaled ¥115,375 million, an increase of ¥12,228 million from the previous fiscal year-end.

Cash flows in the fiscal year ended March 31, 2016, 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 ¥20,184 million, an increase of 148.2% from the previous fiscal year. This position was primarily due to profit before income taxes of ¥21,436 million, an increase in inventories of ¥7,630 million, depreciation and amortization of ¥6,317 million, and income taxes paid of ¥6,213 million.

### (2) Net cash used in investing activities

Net cash used in investing activities totaled ¥4,773 million, an increase of 154.3% from the previous fiscal year. The main factors were purchases of property and equipment of ¥4,053 million, and proceeds from collection of guarantee deposits of ¥992 million.

### (3) Net cash used in financing activities

Net cash used in financing activities totaled ¥141 million, a decrease of 99.4% from the previous fiscal year. The main factors were cash dividends paid of ¥3,654 million, and a net increase in short-term loans payable of ¥3,428 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, 2016

### ■ Assets

#### Total Assets

Millions of yen

| March 31 | 2016 | 2015 | Change |
|---|---|---|---|
| | ¥232,731 | ¥211,938 | ¥20,793 |

Total assets as of March 31, 2016 amounted to ¥232,731 million, an increase of ¥20,793 million from the previous fiscal year. The main factors contributing to the change were as follows:

#### Cash and Deposits

Millions of yen

| March 31 | 2016 | 2015 | Change |
|---|---|---|---|
| | ¥117,306 | ¥103,631 | ¥13,675 |

Cash and deposits as of March 31, 2016 increased ¥13,675 million, to ¥117,306 million, mainly reflecting an increase in inventories of ¥7,630 million and cash dividends paid of ¥3,654 million as well as profit before income taxes of ¥21,436 million, among other factors.

#### Content Production Account

Millions of yen

| March 31 | 2016 | 2015 | Change |
|---|---|---|---|
| | ¥41,419 | ¥35,113 | ¥6,306 |

As a rule, content development costs incurred during the period from a title's formal development authorization 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, 2016, the content production account totaled ¥41,419 million, an increase of ¥6,306 million from the previous fiscal year.

#### Property and Equipment

Millions of yen

| March 31 | 2016 | 2015 | Change |
|---|---|---|---|
| | ¥13,748 | ¥13,620 | ¥128 |

Total property and equipment as of March 31, 2016 amounted to ¥13,748 million, an increase of ¥128 million from the previous fiscal year, as there were no significant capital expenditures or sale of property and equipment.

#### Intangible Assets

Millions of yen

| March 31 | 2016 | 2015 | Change |
|---|---|---|---|
| | ¥6,447 | ¥10,192 | ¥(3,745) |

Total intangible assets as of March 31, 2016 amounted to ¥6,447 million, a decrease of ¥3,745 million from the previous fiscal year, primarily due to amortization of intangible assets and an impairment loss.

#### Investments and Other Assets

Millions of yen

| March 31 | 2016 | 2015 | Change |
|---|---|---|---|
| | ¥17,856 | ¥17,309 | ¥547 |

Total investments and other assets increased ¥547 million, to ¥17,856 million, as of March 31, 2016.

### ■ Liabilities

Millions of yen

| March 31 | 2016 | 2015 | Change |
|---|---|---|---|
| | ¥63,948 | ¥56,623 | ¥7,325 |

As of March 31, 2016, total liabilities amounted to ¥63,948 million, an increase of ¥7,325 million from the previous fiscal year. The main factors contributing to the change were as follows:

#### Current Liabilities

Millions of yen

| March 31 | 2016 | 2015 | Change |
|---|---|---|---|
| | ¥55,737 | ¥49,931 | ¥5,806 |

Total current liabilities increased ¥5,806 million, to ¥55,737 million, as of March 31, 2016. This was mainly due to increases in notes and accounts payable of ¥2,851 million and short-term loans of ¥2,600 million.

#### Non-Current Liabilities

Millions of yen

| March 31 | 2016 | 2015 | Change |
|---|---|---|---|
| | ¥8,210 | ¥6,692 | ¥1,518 |

With respect to asset retirement obligations recorded as restoration costs based on real estate leases, as a result of obtaining new information such as recent actual restoration costs, the Company and a consolidated subsidiary changed estimates in relation to restoration costs required at the time of moving offices at headquarters and the closing of amusement arcades.

Due mainly to the impact of changing estimates, total non-current liabilities increased ¥1,518 million, to ¥8,210 million, as of March 31, 2016.

### ■ Shareholders' Equity/Net Assets

Millions of yen

| March 31 | 2016 | 2015 | Change |
|---|---|---|---|
| Common stock | ¥ 23,753 | ¥ 23,680 | ¥ 73 |
| Capital surplus | 52,993 | 52,920 | 73 |
| Retained earnings | 95,581 | 79,355 | 16,226 |
| Treasury stock | (888) | (876) | (12) |
| Total shareholders' equity | 171,439 | 155,079 | 16,360 |
| Valuation difference on available-for-sale securities | 341 | 618 | (277) |
| Foreign currency translation adjustments | (3,207) | (1,292) | (1,915) |
| Remeasurements of defined benefit plans | (607) | 99 | (706) |
| Total accumulated other comprehensive income (loss) | (3,474) | (574) | (2,900) |
| Stock acquisition rights | 374 | 327 | 47 |
| Non-controlling interests | 443 | 482 | (39) |
| Total net assets | ¥168,783 | ¥155,314 | ¥13,469 |

As of March 31, 2016, total net assets amounted to ¥168,783 million, up ¥13,469 million from the previous fiscal year-end, mainly due to factors such as the recording of profit attributable to owners of parent, payments of year-end dividends (¥20 per share) for the previous fiscal year and interim dividends (¥10 per share) for the fiscal year under review, and a decrease in foreign currency translation adjustments.

## ■ Consolidated Statement of Income

### Net Sales and Operating Income

Millions of yen

| Years ended March 31 | 2016 | Composition | 2015 | Composition | Amount change | Percent change |
|---|---|---|---|---|---|---|
| Net sales | ¥214,101 | 100.0% | ¥167,891 | 100.0% | ¥ 46,210 | 27.5% |
| Gross profit | 98,784 | 46.1% | 73,096 | 43.5% | 25,688 | 35.1% |
| Reversal of provision for sales returns | 4,867 | 2.3% | 4,877 | 2.9% | (10) | (0.2)% |
| Provision for sales returns | 3,534 | 1.7% | 4,579 | 2.7% | (1,045) | (22.8)% |
| Net gross profit | 100,116 | 46.8% | 73,394 | 43.7% | 26,722 | 36.4% |
| Selling, general and administrative expenses | 74,097 | 34.6% | 56,967 | 33.9% | 17,130 | 30.1% |
| Operating income | ¥ 26,018 | 12.2% | ¥ 16,426 | 9.8% | ¥ 9,592 | 58.4% |

Comparisons by segment with the previous fiscal year are provided on pages 18–21.

### Non-Operating Income and Expenses

Millions of yen

| Years ended March 31 | 2016 | 2015 | Change |
|---|---|---|---|
| Non-operating income | ¥ 980 | ¥890 | ¥ 90 |
| Non-operating expenses | 1,676 | 332 | 1,344 |

### Extraordinary Gain and Loss

Millions of yen

| Years ended March 31 | 2016 | 2015 | Change |
|---|---|---|---|
| Extraordinary gain | ¥ 40 | ¥1,520 | ¥(1,480) |
| Extraordinary loss | 3,925 | 3,062 | 863 |

Total extraordinary gain was ¥40 million. Total extraordinary loss was ¥3,925 million, mainly due to an impairment loss primarily with regard to intangible assets of ¥1,961 million, and loss on valuation of shares of subsidiaries and associates of ¥1,702 million.

## ■ Capital Expenditures and Depreciation and Amortization

Millions of yen

| Years ended March 31 | 2016 | 2015 | Change |
|---|---|---|---|
| Capital expenditures | ¥5,872 | ¥6,048 | ¥(176) |
| Depreciation and amortization | 6,317 | 6,934 | (617) |

Capital expenditures for the fiscal year ended March 31, 2016 amounted to ¥5,872 million, a decrease of ¥176 million from the previous fiscal year, mainly due to the relocation of subsidiaries' offices and other factors.

Depreciation and amortization totaled ¥6,317 million, a decrease of ¥617 million from the previous fiscal year, primarily due to a decrease in investment in new property and equipment in the Amusement business.

## 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. Due to advancements in the development and popularization of information technology (IT) and network environments, the digital entertainment industry is currently experiencing a major transformation in its structure. This has been driven by factors such as increased consumer needs in the area of digital-compliant entertainment with multi-function devices and networks, and the diversification of methods for the delivery of content as well as the accompanying business models. 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 for the Group to achieve its medium- to long-term strategy, it is imperative that it develops its global business and meets customers' diverse needs for entertainment content and 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, 2017 is as follows (as of June 30, 2016).

Millions of yen

| Years ended/ ending March 31 | 2007 actual | 2008 actual | 2009 actual | 2010 actual | 2011 actual | 2012 actual | 2013 actual | 2014 actual | 2015 actual | 2016 actual | 2017 forecast |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Net sales | ¥163,472 | ¥147,516 | ¥135,693 | ¥192,257 | ¥125,271 | ¥127,896 | ¥147,981 | ¥155,023 | ¥167,891 | ¥214,101 | ¥250,000–270,000 |
| Operating income (loss) | 25,916 | 21,520 | 12,277 | 28,235 | 7,325 | 10,713 | (6,081) | 10,543 | 16,426 | 26,018 | 27,000–33,000 |
| Ordinary income (loss) | 26,241 | 18,864 | 11,261 | 27,822 | 5,390 | 10,297 | (4,378) | 12,534 | 16,984 | 25,322 | 27,000–33,000 |
| Profit (loss) attributable to owners of parent | 11,619 | 9,196 | 6,333 | 9,509 | (12,043) | 6,060 | (13,714) | 6,598 | 9,831 | 19,884 | 17,000–21,000 |

## 5. Basic Policy for Profit Distribution and Dividends

The Group has made the return of profits to shareholders one of its most important management tasks. The Group prioritizes investments that will enhance the value of the Group and toward this end maintains internal reserves to finance efforts that include expanding existing businesses, developing new businesses and restructuring business segments. Funds remaining after the allocation of retained earnings are appropriated for dividends, keeping in mind returns to shareholders and seeking an optimal balance of stable returns linked to operating performance. The amount of dividends is determined by setting a consolidated payout ratio target of approximately 30%, comprehensively considering the balance between investments and shareholder returns.

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, 2016, the Company paid an interim dividend of ¥10 per share and a year-end dividend of ¥38 per share for an annual dividend of ¥48 per share.

The distribution of surplus for the fiscal year ended March 31, 2016 is determined at the shareholders' meeting or by 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, 2016 are as follows:

| Date of resolution | Total dividends (Millions of yen) | Dividends per share (Yen) |
|---|---|---|
| November 6, 2015 Resolution by the Board of Directors | ¥1,219 | ¥10 |
| May 18, 2016 Resolution by the Board of Directors | ¥4,635 | ¥38 |

## 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, 2016.

### (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 entertainment 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 changes 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 environment is undergoing major changes. Delays in securing human resources who are ideally suited to respond to these changes may adversely affect the Group's business performance.

### (5) The Group's international business operations

Regarding the Group's 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 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 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 openings, 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 laws and 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

| | 2016 | 2015 |
|---|---|---|
| **Assets** | | |
| Current assets | | |
| Cash and deposits | ¥117,306 | ¥103,631 |
| Notes and accounts receivable | 21,487 | 20,973 |
| Merchandise and finished goods | 2,428 | 1,881 |
| Work in progress | 109 | 4 |
| Raw materials and supplies | 233 | 314 |
| Content production account | 41,419 | 35,113 |
| Deferred tax assets | 6,561 | 4,818 |
| Other | 5,275 | 4,201 |
| Allowance for doubtful accounts | (143) | (122) |
| Total current assets | 194,679 | 170,815 |
| | | |
| Non-current assets | | |
| Property and equipment | | |
| Buildings and structures | 13,779 | 13,212 |
| Accumulated depreciation | (8,654) | (8,611) |
| Buildings and structures (net) | 5,124 | 4,601 |
| Tools and fixtures | 13,312 | 13,074 |
| Accumulated depreciation | (10,047) | (9,699) |
| Tools and fixtures (net) | 3,265 | 3,375 |
| Amusement equipment | 15,457 | 16,559 |
| Accumulated depreciation | (14,012) | (15,105) |
| Amusement equipment (net) | 1,445 | 1,454 |
| Other | 101 | 127 |
| Accumulated depreciation | (47) | (83) |
| Other (net) | 54 | 43 |
| Land | 3,798 | 4,008 |
| Construction in progress | 61 | 136 |
| Total property and equipment | 13,748 | 13,620 |
| Intangible assets | | |
| Other | 6,447 | 10,192 |
| Total intangible assets | 6,447 | 10,192 |
| Investments and other assets | | |
| Investment securities | 749 | 1,172 |
| Guarantee deposits | 9,173 | 10,167 |
| Deferred tax assets | 4,972 | 1,198 |
| Other | *1 3,185 | *1 5,192 |
| Allowance for doubtful accounts | (224) | (420) |
| Total investments and other assets | 17,856 | 17,309 |
| Total non-current assets | 38,052 | 41,122 |
| Total assets | ¥232,731 | ¥211,938 |

The accompanying notes are an integral part of these statements.

Millions of yen

| | 2016 | 2015 |
|---|---|---|
| **Liabilities** | | |
| Current liabilities | | |
| Notes and accounts payable | ¥ 14,671 | ¥ 11,820 |
| Short-term loans | 9,722 | 7,122 |
| Accrued income taxes | 5,726 | 3,974 |
| Provision for bonuses | 2,672 | 1,696 |
| Provision for sales returns | 3,334 | 4,865 |
| Provision for game arcade closings | 75 | 379 |
| Asset retirement obligations | 5 | 9 |
| Other | 19,529 | 20,062 |
| Total current liabilities | 55,737 | 49,931 |
| Non-current liabilities | | |
| Provision for directors' retirement benefits | 162 | 151 |
| Provision for game arcade closings | 127 | 423 |
| Net defined benefit liabilities | 2,747 | 2,200 |
| Deferred tax liabilities | 2,153 | 2,371 |
| Asset retirement obligations | 2,355 | 953 |
| Other | 665 | 591 |
| Total non-current liabilities | 8,210 | 6,692 |
| Total liabilities | 63,948 | 56,623 |
| **Net Assets** | | |
| Shareholders' equity | | |
| Common stock | 23,753 | 23,680 |
| Capital surplus | 52,993 | 52,920 |
| Retained earnings | 95,581 | 79,355 |
| Treasury stock | (888) | (876) |
| Total shareholders' equity | 171,439 | 155,079 |
| Accumulated other comprehensive income (loss) | | |
| Valuation difference on available-for-sale securities | 341 | 618 |
| Foreign currency translation adjustments | (3,207) | (1,292) |
| Remeasurements of defined benefit plans | (607) | 99 |
| Total accumulated other comprehensive income (loss) | (3,474) | (574) |
| Stock acquisition rights | 374 | 327 |
| Non-controlling interests | 443 | 482 |
| Total net assets | 168,783 | 155,314 |
| Total liabilities and net assets | ¥232,731 | ¥211,938 |

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

| | 2016 | 2015 |
|---|---|---|
| Net sales | ¥ 214,101 | ¥ 167,891 |
| Cost of sales | *1 115,316 | *1 94,794 |
| Gross profit | 98,784 | 73,096 |
| Reversal of provision for sales returns | 4,867 | 4,877 |
| Provision for sales returns | 3,534 | 4,579 |
| Net gross profit | 100,116 | 73,394 |
| Selling, general and administrative expenses | | |
| Packaging freight charge | 1,751 | 2,014 |
| Advertising expense | 20,270 | 10,386 |
| Sales promotion expense | 66 | 66 |
| Allowance for doubtful accounts | 54 | 69 |
| Compensation for directors | 565 | 435 |
| Salaries | 14,465 | 14,207 |
| Provision for bonuses | 2,916 | 1,936 |
| Net periodic pension costs | 539 | 323 |
| Provision for directors' retirement benefits | 10 | 11 |
| Welfare expense | 2,092 | 1,838 |
| Rental expense | 2,118 | 1,739 |
| Commission fee | 18,996 | 13,734 |
| Depreciation and amortization | 2,476 | 2,460 |
| Other | *2 7,772 | *2 7,742 |
| Total selling, general and administrative expenses | 74,097 | 56,967 |
| Operating income | 26,018 | 16,426 |
| Non-operating income | | |
| Interest income | 85 | 139 |
| Dividends received | 9 | 9 |
| Rental income | 16 | 20 |
| Reversal of allowance for doubtful accounts | 213 | — |
| Subsidy income | 495 | 17 |
| Foreign exchange gain | — | 484 |
| Miscellaneous income | 158 | 219 |
| Total non-operating income | 980 | 890 |
| Non-operating expenses | | |
| Interest expenses | 67 | 68 |
| Commission fee | 14 | 74 |
| Office transfer-related expenses | 44 | 173 |
| Foreign exchange loss | 1,545 | — |
| Miscellaneous loss | 4 | 15 |
| Total non-operating expenses | 1,676 | 332 |
| Ordinary income | 25,322 | 16,984 |
| Extraordinary gain | | |
| Gain on sale of property and equipment | *3 18 | *3 1,394 |
| Gain on sale of investment securities | 1 | 82 |
| Gain on reversal of stock acquisition rights | 19 | 44 |
| Total extraordinary gain | 40 | 1,520 |
| Extraordinary loss | | |
| Loss on sale of property and equipment | *4 36 | *4 741 |
| Loss on disposal of property and equipment | *5 194 | *5 258 |
| Impairment loss | *6 1,961 | *6 640 |
| Provision for game arcade closings | 15 | 402 |
| Loss on liquidation of subsidiaries and associates | — | 313 |
| Loss on valuation of shares of subsidiaries and associates | 1,702 | 41 |
| Other | 14 | 664 |
| Total extraordinary loss | 3,925 | 3,062 |
| Income before dividends distribution from silent partnership, income taxes (*tokumei-kumiai*) | 21,436 | 15,442 |
| Dividends distribution from silent partnership (*tokumei-kumiai*) | — | 132 |
| Profit before income taxes | 21,436 | 15,310 |
| Income taxes–current | 6,690 | 5,136 |
| Income taxes–deferred | (5,146) | 353 |
| Total income taxes | 1,544 | 5,489 |
| Profit | 19,892 | 9,820 |
| Profit (loss) attributable to non-controlling interests | 8 | (11) |
| Profit attributable to owners of parent | ¥ 19,884 | ¥ 9,831 |

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

| | 2016 | 2015 |
|---|---|---|
| Profit | ¥19,892 | ¥ 9,820 |
| Other comprehensive income (loss) | | |
| Valuation difference on available-for-sale securities | (277) | 364 |
| Foreign currency translation adjustments | (1,956) | 3,575 |
| Remeasurements of defined benefit plans | (707) | (332) |
| Other comprehensive income (loss) | *1 (2,941) | *1 3,607 |
| Comprehensive income | 16,951 | 13,427 |
| (Breakdown) | | |
| Comprehensive income attributable to owners of parent | 16,984 | 13,351 |
| Comprehensive income (loss) attributable to non-controlling interests | ¥ (33) | ¥ 75 |

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

## 2016

Millions of yen

| | Shareholders' equity | | | | |
|---|---|---|---|---|---|
| | Common stock | Capital surplus | Retained earnings | Treasury stock | Total shareholders' equity |
| Balance at the beginning of the year | ¥23,680 | ¥52,920 | ¥79,355 | ¥(876) | ¥155,079 |
| Cumulative effects of changes in accounting policies | | | | | |
| Restated balance | 23,680 | 52,920 | 79,355 | (876) | 155,079 |
| Changes during the year | | | | | |
| Issuance of new stocks | 72 | 72 | | | 145 |
| Dividends from retained earnings | | | (3,658) | | (3,658) |
| Profit attributable to owners of parent | | | 19,884 | | 19,884 |
| Purchase of treasury stock | | | | (11) | (11) |
| Disposal of treasury stock | | 0 | | 0 | 0 |
| Net changes in items other than shareholders' equity | | | | | |
| Total changes during the year | 72 | 72 | 16,226 | (11) | 16,359 |
| Balance at the end of the year | ¥23,753 | ¥52,993 | ¥95,581 | ¥(888) | ¥171,439 |

Millions of yen

| | Accumulated other comprehensive income (loss) | | | | | | |
|---|---|---|---|---|---|---|---|
| | Valuation difference on available-for-sale securities | Foreign currency translation adjustments | Remeasurements of defined benefit plans | Total accumulated other comprehensive income (loss) | Stock acquisition rights | Non-controlling interests | Total net assets |
| Balance at the beginning of the year | ¥ 618 | ¥(1,292) | ¥ 99 | ¥ (574) | ¥327 | ¥482 | ¥155,314 |
| Cumulative effects of changes in accounting policies | | | | | | | |
| Restated balance | 618 | (1,292) | 99 | (574) | 327 | 482 | 155,314 |
| Changes during the year | | | | | | | |
| Issuance of new stocks | | | | | | | 145 |
| Dividends from retained earnings | | | | | | | (3,658) |
| Profit attributable to owners of parent | | | | | | | 19,884 |
| Purchase of treasury stock | | | | | | | (11) |
| Disposal of treasury stock | | | | | | | 0 |
| Net changes in items other than shareholders' equity | (277) | (1,915) | (707) | (2,899) | 47 | (38) | (2,890) |
| Total changes during the year | (277) | (1,915) | (707) | (2,899) | 47 | (38) | 13,468 |
| Balance at the end of the year | ¥ 341 | ¥(3,207) | ¥(607) | ¥(3,474) | ¥374 | ¥443 | ¥168,783 |

The accompanying notes are an integral part of these statements.

■ 2015

Millions of yen

| | Shareholders' equity | | | | |
|---|---|---|---|---|---|
| | Common stock | Capital surplus | Retained earnings | Treasury stock | Total shareholders' equity |
| Balance at the beginning of the year | ¥15,368 | ¥44,607 | ¥71,298 | ¥(870) | ¥130,404 |
| Cumulative effects of changes in accounting policies | | | 1,683 | | 1,683 |
| Restated balance | 15,368 | 44,607 | 72,982 | (870) | 132,087 |
| Changes during the year | | | | | |
| Issuance of new stocks | 8,312 | 8,312 | | | 16,625 |
| Dividends from retained earnings | | | (3,458) | | (3,458) |
| Profit attributable to owners of parent | | | 9,831 | | 9,831 |
| Purchase of treasury stock | | | | (6) | (6) |
| Disposal of treasury stock | | (0) | | 0 | 0 |
| Net changes in items other than shareholders' equity | | | | | |
| Total changes during the year | 8,312 | 8,312 | 6,372 | (6) | 22,991 |
| Balance at the end of the year | ¥23,680 | ¥52,920 | ¥79,355 | ¥(876) | ¥155,079 |

Millions of yen

| | Accumulated other comprehensive income (loss) | | | | | | |
|---|---|---|---|---|---|---|---|
| | Valuation difference on available-for-sale securities | Foreign currency translation adjustments | Remeasurements of defined benefit plans | Total accumulated other comprehensive income (loss) | Stock acquisition rights | Non-controlling interests | Total net assets |
| Balance at the beginning of the year | ¥253 | ¥(4,780) | ¥ 432 | ¥(4,094) | ¥348 | ¥1,018 | ¥127,676 |
| Cumulative effects of changes in accounting policies | | | | | | | 1,683 |
| Restated balance | 253 | (4,780) | 432 | (4,094) | 348 | 1,018 | 129,359 |
| Changes during the year | | | | | | | |
| Issuance of new stocks | | | | | | | 16,625 |
| Dividends from retained earnings | | | | | | | (3,458) |
| Profit attributable to owners of parent | | | | | | | 9,831 |
| Purchase of treasury stock | | | | | | | (6) |
| Disposal of treasury stock | | | | | | | 0 |
| Net changes in items other than shareholders' equity | 364 | 3,488 | (332) | 3,520 | (21) | (536) | 2,962 |
| Total changes during the year | 364 | 3,488 | (332) | 3,520 | (21) | (536) | 25,954 |
| Balance at the end of the year | ¥618 | ¥(1,292) | ¥ 99 | ¥ (574) | ¥327 | ¥ 482 | ¥155,314 |

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

| | 2016 | 2015 |
|---|---|---|
| Cash flows from operating activities | | |
| Profit before income taxes | ¥ 21,436 | ¥ 15,310 |
| Depreciation and amortization | 6,317 | 6,934 |
| Impairment loss | 1,961 | 640 |
| Increase (decrease) in allowance for doubtful accounts | (169) | (297) |
| Increase (decrease) in provision for bonuses | 1,138 | (92) |
| Increase (decrease) in provision for sales returns | (1,332) | (298) |
| Increase (decrease) in provision for directors' retirement benefits | 10 | (27) |
| Increase (decrease) in provision for game arcade closing | (328) | 208 |
| Increase (decrease) in net defined benefit liabilities | (476) | (715) |
| Interest and dividends income | (95) | (148) |
| Interest expenses paid | 67 | 68 |
| Foreign exchange loss (gain) | 1,749 | (2,127) |
| Loss (gain) on sales of investment securities | (1) | (82) |
| Loss on disposal of property and equipment | 194 | 258 |
| Gain on sales of non-current assets | (18) | (1,394) |
| Loss on sales of property and equipment | 36 | 741 |
| Loss on valuation of shares of subsidiaries and associates | 1,702 | 41 |
| Decrease (increase) in notes and accounts receivable | (910) | 1,973 |
| Decrease (increase) in inventories | (7,630) | (12,799) |
| Increase (decrease) in notes and accounts payable–trade | 2,735 | (2) |
| Decrease (increase) in other current assets | (552) | 3,360 |
| Decrease (increase) in other non-current assets | (527) | (607) |
| Increase (decrease) in other current liabilities | 320 | 1,634 |
| Other, net | 210 | (335) |
| Subtotal | 25,838 | 12,241 |
| Interest and dividends income received | 95 | 161 |
| Interest expenses paid | (65) | (78) |
| Income taxes paid | (6,213) | (4,530) |
| Income taxes refund | 530 | 340 |
| Net cash provided by operating activities | ¥ 20,184 | ¥ 8,132 |

The accompanying notes are an integral part of these statements.

| | 2016 | 2015 |
|---|---|---|
| | Millions of yen | |
| Cash flows from investing activities | | |
| Payments into time deposits | ¥ (1,671) | ¥ (2,765) |
| Proceeds from withdrawal of time deposits | 1,153 | 3,252 |
| Proceeds from sales of investment securities | 1 | 112 |
| Purchases of property and equipment | (4,053) | (4,767) |
| Proceeds from sales of property and equipment | 200 | 5,884 |
| Purchases of intangible assets | (461) | (875) |
| Purchases of investments in subsidiaries | (330) | (1,872) |
| Payments for guarantee deposits | (398) | (1,007) |
| Proceeds from collection of guarantee deposits | 992 | 312 |
| Other, net | (206) | (150) |
| Net cash used in investing activities | (4,773) | (1,876) |
| Cash flows from financing activities | | |
| Net increase (decrease) in short-term loans payable | 3,428 | — |
| Proceeds from issuance of new stocks | 121 | 74 |
| Redemption of bonds | — | (18,462) |
| Purchase of treasury stock | (11) | (6) |
| Cash dividends paid | (3,654) | (3,450) |
| Other, net | (24) | (261) |
| Net cash used in financing activities | (141) | (22,105) |
| Effect of exchange rate change on cash and cash equivalents | (3,041) | 5,572 |
| Net increase (decrease) in cash and cash equivalents | 12,228 | (10,277) |
| Cash and cash equivalents at the beginning of the year | 103,147 | 113,507 |
| Decrease in cash and cash equivalents resulting from exclusion of subsidiaries from consolidation | — | (82) |
| Cash and cash equivalents at end of the year | *1 ¥115,375 | *1 ¥103,147 |

The accompanying notes are an integral part of these statements.

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

### 1. Scope of Consolidation

(1) Number of consolidated subsidiaries: 30 companies

Names of principal consolidated subsidiaries

SQUARE ENIX OF AMERICA HOLDINGS, INC.
SQUARE ENIX OF EUROPE HOLDINGS LTD.
SQUARE ENIX CO., LTD.
TAITO CORPORATION
SMILE-LAB Co., Ltd.
SQUARE ENIX, INC.
SQUARE ENIX LTD.
SQUARE ENIX (China) CO., LTD.
CRYSTAL DYNAMICS, INC.
EIDOS INTERACTIVE CORP.
IO INTERACTIVE A/S

During the fiscal year ended March 31, 2016, Eidos Ltd. and EIDOPT AS completed liquidation procedures, and consequently, they were excluded from the Company's scope of consolidation.

(2) Names of principal non-consolidated subsidiaries:

SHINRA TECHNOLOGIES, INC.
Shinra Technologies Japan Co., Ltd.
Tokyo RPG Factory 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 profit (loss), and equity in retained earnings (deficit) are deemed to have an immaterial effect on the Company's financial performance and consolidated financial statements.

### 2. Application of the Equity Method of Accounting

(1) There are no non-consolidated subsidiaries or affiliates that are accounted for under the equity method.
(2) Non-consolidated subsidiaries that were not accounted for under the equity method, including SHINRA TECHNOLOGIES, INC., Shinra Technologies Japan Co., Ltd., Tokyo RPG Factory 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 profit (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., and SQUARE PICTURES, INC. end on December 31.

In the preparation of the accompanying consolidated financial statements, such financial statements that 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 | 3–60 years |
| Tools, furniture 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.

(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, 2016, 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, etc.

D) Provision for game arcade closings

For closures of game arcades, etc., 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:

A) Periodic attribution method for projected retirement benefits

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

B) 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 non-controlling interests.

(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 that 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:

A) Accounting treatment of consumption taxes and local consumption taxes

Statements 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.

B) Application of consolidated taxation system

The Company has applied the consolidated taxation system from the fiscal year ended March 31, 2016.

## Changes in Accounting Policy

**(Application of accounting standard for business combinations, etc.)**

Effective from the fiscal year ended March 31, 2016, the Company has adopted the "Accounting Standard for Business Combinations" (Accounting Standards Board of Japan (ASBJ) Statement No. 21, revised September 13, 2013; the "Business Combinations Accounting Standard"), the "Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No. 22, revised September 13, 2013; the "Consolidation Accounting Standard") and the "Accounting Standard for Business Divestitures" (ASBJ Statement No. 7, revised September 13, 2013; the "Business Divestitures Accounting Standard") and other standards. As a result, differences arising from changes in the Company's equity interests in subsidiaries under its control on a continuous basis are recognized, and acquisition-related costs are recorded as expenses for the fiscal year in which they are incurred. For business combinations implemented on or after April 1, 2015, adjustments to the allocated amount of acquisition cost as a result of the finalization of provisional accounting treatment are reflected in the consolidated financial statements for the fiscal year in which the business combination occurs. In addition, the presentation method of net income was changed, and "Minority interests" changed to "Non-controlling interests." To reflect these changes in the presentation of the consolidated financial statements, the Company has reclassified the consolidated financial statements for the fiscal year ended March 31, 2015.

In accordance with the transitional treatments as stated in Article 58-2 (4) of the Business Combinations Accounting Standard, Article 44-5 (4) of the Consolidation Accounting Standard and Article 57-4 (4) of the Business Divestitures Accounting Standard, the Company has applied the Business Combinations Accounting Standard and other standards from the beginning of the fiscal year ended March 31, 2016.

There was no impact on the consolidated financial statements for the fiscal year ended March 31, 2016 as a result of these changes.

## Accounting Standards Issued but Not Yet Applied

The "Revised Implementation Guidance on Recoverability of Deferred Tax Assets" (ASBJ Guidance No. 26, issued March 28, 2016)

(1) Outline:

With regard to the "Revised Implementation Guidance on Recoverability of Deferred Tax Assets," when the practical accounting guidance and the practical auditing guidance of tax effect accounting issued by the Japanese Institute of Certified Public Accountants [JICPA] (the portion of accounting treatments) were placed under the authority of the ASBJ, the ASBJ determined that the Implementation Guidance basically follows the guidance regarding recoverability of deferred tax assets prescribed in the "Auditing Treatment Regarding Judgment of the Recoverability of Deferred Tax Assets," JICPA Auditing Committee Report No. 66, that is, a framework for estimating deferred tax assets by classifying entities into five categories and calculating the amount according to those categories. However, the ASBJ has made the necessary revisions to category criteria and accounting treatments for calculating the amount of deferred tax assets. The Implementation Guidance prescribes a guidance to apply "Accounting Standard for Tax Effect Accounting" (Business Accounting Council) with regard to recoverability of deferred tax assets.

**(Revisions to category criteria and accounting treatments for calculating the amount of deferred tax assets)**

- Accounting treatments of entities not satisfying any of the category criteria from (Category 1) to (Category 5)
- Category criteria of (Category 2) and (Category 3)
- Accounting treatments of unscheduled deductible temporary differences for entities in (Category 2)
- Accounting treatments for reasonably estimated period for taxable income before temporary differences for entities in (Category 3)
- Accounting treatments for entities satisfying the category criteria of (Category 4) and also classified as (Category 2) or (Category 3)

(2) Effective date:

The Implementation Guidance is effective from the beginning of the fiscal year starting on April 1, 2016.

(3) Impact of the application of this guidance:

The impact of the application of "Revised Implementation Guidance on Recoverability of Deferred Tax Assets" on the consolidated financial statements is being assessed.

## Change in the Method of Presentation

**(Consolidated Statement of Income)**

"Subsidy income" was included in "Miscellaneous income" under non-operating income in the fiscal year ended March 31, 2015, but it is presented separately from the fiscal year ended March 31, 2016, due to an increase in its monetary significance. To reflect this change in the method of presentation, the consolidated financial statements for the fiscal year ended March 31, 2015 have been reclassified.

Consequently, ¥236 million in "Miscellaneous income" recorded under non-operating income in the consolidated statement of income for the fiscal year ended March 31, 2015 has been reclassified as ¥17 million in "Subsidy income" and ¥219 million in "Miscellaneous income."

"Loss on valuation of shares of subsidiaries and associates" was included in "Other" under extraordinary loss in the fiscal year ended March 31, 2015, but it is presented separately from the fiscal year ended March 31, 2016, due to an increase in its monetary significance. To reflect this change in the method of presentation, the consolidated financial statements for the fiscal year ended March 31, 2015 have been reclassified.

Consequently, ¥706 million in "Other" recorded under extraordinary loss in the consolidated statement of income for the fiscal year ended March 31, 2015 has been reclassified as ¥41 million in "Loss on valuation of shares of subsidiaries and associates" and ¥664 million in "Other."

**(Consolidated Statement of Cash Flows)**

"Loss on valuation of shares of subsidiaries and associates" was included in "Other, net" under "Cash flows from operating activities" in the fiscal year ended March 31, 2015, but it is presented separately from the fiscal year ended March 31, 2016, due to an increase in its monetary significance. To reflect this change in the method of presentation, the consolidated financial statements for the fiscal year ended March 31, 2015 have been reclassified.

Consequently, ¥(293) million in "Other, net" recorded under "Cash flows from operating activities" in the consolidated statement of cash flows for the fiscal year ended March 31, 2015 has been reclassified as ¥41 million in "Loss on valuation of shares of subsidiaries and associates" and ¥(335) million in "Other, net."

## Changes in Accounting Estimates

**(Changes in Estimates of Asset Retirement Obligations)**

With respect to asset retirement obligations recognized for restoration costs based on real estate lease contracts, the Company and its domestic consolidated subsidiaries changed the estimates relating to such restoration costs required at the time of moving the head office and the closing of game arcades, through obtaining new information such as recent actual restoration costs.

As a result, compared with the amounts that would have been recognized under the previous estimates, operating income, ordinary income and profit before income taxes decreased by ¥312 million, respectively, for the fiscal year ended March 31, 2016.

### Notes to Consolidated Balance Sheet

*1 Investments in non-consolidated subsidiaries and affiliates

Millions of yen

| | As of March 31, 2016 | As of March 31, 2015 |
|---|---|---|
| Investments and other assets | ¥550 | ¥1,922 |

### Notes to Consolidated Statement of Income

*1 Inventories at fiscal year-end are stated after writing down based on the 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, 2016 | Fiscal year ended March 31, 2015 |
|---|---|
| ¥6,666 | ¥8,365 |

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

Millions of yen

| Fiscal year ended March 31, 2016 | Fiscal year ended March 31, 2015 |
|---|---|
| ¥1,224 | ¥870 |

*3 Breakdown of gain on sale of property and equipment

Millions of yen

| | Fiscal year ended March 31, 2016 | Fiscal year ended March 31, 2015 |
|---|---|---|
| Buildings, structures and land | ¥ 9 | ¥1,394 |
| Tools, furniture and fixtures | 9 | 0 |
| Total | ¥18 | ¥1,394 |

*4 Breakdown of loss on sale of property and equipment

Millions of yen

| | Fiscal year ended March 31, 2016 | Fiscal year ended March 31, 2015 |
|---|---|---|
| Buildings, structures and land | ¥36 | ¥658 |
| Tools, furniture and fixtures | 0 | 4 |
| Software | — | 77 |
| Total | ¥36 | ¥741 |

*5 Breakdown of loss on disposal of property and equipment

Millions of yen

| | Fiscal year ended March 31, 2016 | Fiscal year ended March 31, 2015 |
|---|---|---|
| Buildings and structures | ¥ 13 | ¥ 35 |
| Tools, furniture and fixtures | 11 | 23 |
| Amusement equipment | 170 | 159 |
| Software | — | 34 |
| Other | — | 5 |
| Total | ¥194 | ¥258 |

*6 Impairment loss

In the fiscal year ended March 31, 2016, 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 | Amusement equipment | ¥ 163 |
| | | Tools, furniture and fixtures | 3 |
| | | Other (Intangible assets) | 4 |
| Shinjuku-ku, Tokyo | Assets planned for disposal | Amusement equipment | 7 |
| | | Land | 47 |
| United Kingdom | Other | Other (Intangible assets) | 1,734 |
| Total | | | ¥ 1,961 |

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 either by net realizable value or by value in use. Net realizable value is based on a reasonable assumption of market price, and value in use is mainly calculated by discounting future cash flows at a rate of 20%.

In the fiscal year ended March 31, 2015, 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 | Amusement equipment | ¥301 |
| Canada | Idle assets | Tools, furniture and fixtures | 246 |
| Shinjuku-ku, Tokyo | Assets planned for disposal | Other (Intangible assets) | 92 |
| Total | | | ¥640 |

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.

## Notes to Consolidated Statement of Comprehensive Income

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

Millions of yen

| | Fiscal year ended March 31, 2016 | Fiscal year ended March 31, 2015 |
|---|---|---|
| Valuation difference on available-for-sale securities: | | |
| Gains (losses) arising during the year | ¥ (422) | ¥ 502 |
| Reclassification adjustments | — | — |
| Total amount before tax-effect | (422) | 502 |
| Tax-effect | 145 | (137) |
| Valuation difference on available-for-sale securities | (277) | 364 |
| Foreign currency translation adjustments: | | |
| Exchange differences arising during the year | (1,956) | 1,115 |
| Reclassification adjustments relating to foreign operations | — | 2,459 |
| Total amount before tax-effect | (1,956) | 3,575 |
| Tax-effect | — | — |
| Foreign currency translation adjustments | (1,956) | 3,575 |
| Remeasurements of defined benefit plans: | | |
| Defined benefit obligations arising during the year | (1,117) | (104) |
| Reclassification adjustments relating to defined benefit plans | 94 | (197) |
| Total amount before tax-effect | (1,022) | (301) |
| Tax-effect | 315 | (31) |
| Remeasurements of defined benefit plans | (707) | (332) |
| Total other comprehensive income (loss) | ¥(2,941) | ¥3,607 |

## Notes to Consolidated Statement of Changes in Net Assets

### ■ Year ended March 31, 2016

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, 2015 | Share increases during the year | Share decreases during the year | Shares as of March 31, 2016 |
|---|---|---|---|---|
| Shares issued and outstanding | | | | |
| Common stock[1] | 122,232 | 66 | — | 122,299 |
| Total | 122,232 | 66 | — | 122,299 |
| Treasury stock | | | | |
| Common stock[2, 3] | 309 | 4 | 0 | 313 |
| Total | 309 | 4 | 0 | 313 |

Notes: 1 The increase of 66 thousand shares in the number of shares of common stock issued was due to 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, 2015 | Increase during the year | Decrease during the year | As of March 31, 2016 | Balance as of March 31, 2016 (Millions of yen) |
|---|---|---|---|---|---|---|---|
| Supplying company (parent company) | Stock acquisition rights as stock options | — | — | — | — | — | ¥374 |
| | Total | — | — | — | — | — | ¥374 |

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, 2015 (Board of Directors' Meeting) | Common stock | ¥2,438 | ¥20 | March 31, 2015 | June 3, 2015 |
| November 6, 2015 (Board of Directors' Meeting) | Common stock | 1,219 | 10 | September 30, 2015 | December 4, 2015 |

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

| Date of approval | Type of shares | Total dividends (Millions of yen) | Source of dividends | Dividends per share (Yen) | Record date | Effective date |
|---|---|---|---|---|---|---|
| May 18, 2016 (Board of Directors' Meeting) | Common stock | ¥4,635 | Retained earnings | ¥38 | March 31, 2016 | June 3, 2016 |

### ■ Year ended March 31, 2015

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, 2014 | Share increases during the year | Share decreases during the year | Shares as of March 31, 2015 |
|---|---|---|---|---|
| Shares issued and outstanding | | | | |
| Common stock[1] | 115,575 | 6,657 | — | 122,232 |
| Total | 115,575 | 6,657 | — | 122,232 |
| Treasury stock | | | | |
| Common stock[2, 3] | 306 | 3 | 0 | 309 |
| Total | 306 | 3 | 0 | 309 |

Notes: 1 The increase of 6,657 thousand shares in the number of shares of common stock issued was due to the issuance of new shares resulting from the exercise of stock acquisition rights as stock options and the conversion of bonds with stock acquisition rights.

2 The increase of 3 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, 2014 | Increase during the year | Decrease during the year | As of March 31, 2015 | Balance as of March 31, 2015 (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[1] | Common stock | 14,000,000 | — | 14,000,000 | — | — |
| | Stock acquisition rights as stock options | — | — | — | — | — | ¥327 |
| | Total | — | — | — | — | — | ¥327 |

Note: 1 The decrease during the fiscal year ended March 31, 2015 in euro yen zero-coupon convertible bonds due 2015, issued pursuant to the resolution of the Board of Directors on January 18, 2010, was attributable to the exercise of stock acquisition rights (6,615,200 shares) and the expiration of the exercise period.

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 16, 2014 (Board of Directors' Meeting) | Common stock | ¥2,305 | ¥20 | March 31, 2014 | June 4, 2014 |
| November 6, 2014 (Board of Directors' Meeting) | Common stock | 1,152 | 10 | September 30, 2014 | December 5, 2014 |

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

| Date of approval | Type of shares | Total dividends (Millions of yen) | Source of dividends | Dividends per share (Yen) | Record date | Effective date |
|---|---|---|---|---|---|---|
| May 18, 2015 (Board of Directors' Meeting) | Common stock | ¥2,438 | Retained earnings | ¥20 | March 31, 2015 | June 3, 2015 |

## 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, 2016 | Fiscal year ended March 31, 2015 |
|---|---|---|
| Cash and deposits | ¥117,306 | ¥103,631 |
| Time deposits with maturity periods over three months | (1,930) | (484) |
| Cash and cash equivalents | ¥115,375 | ¥103,147 |

## 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."

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 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.

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.

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, 2016 and 2015, 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, 2016**

Millions of yen

| Assets: | Book value | Fair value | Difference |
|---|---|---|---|
| (1) Cash and deposits | ¥117,306 | ¥117,306 | ¥ — |
| (2) Notes and accounts receivable | 21,487 | | |
| Allowance for doubtful accounts | (143) | | |
| Notes and accounts receivable, net | 21,343 | 21,343 | — |
| (3) Investment securities | 718 | 718 | — |
| (4) Guarantee deposits | 9,173 | | |
| Allowance for doubtful deposits paid | (137) | | |
| Guarantee deposits, net | 9,035 | 8,957 | (78) |
| Total assets | 148,403 | 148,325 | (78) |
| Liabilities: | | | |
| (1) Notes and accounts payable | 14,671 | 14,671 | — |
| (2) Short-term loans | 9,722 | 9,722 | — |
| (3) Accrued income taxes | 5,726 | 5,726 | — |
| Total liabilities | ¥ 30,119 | ¥ 30,119 | ¥ — |

■ **As of March 31, 2015**

Millions of yen

| Assets: | Book value | Fair value | Difference |
|---|---|---|---|
| (1) Cash and deposits | ¥103,631 | ¥103,631 | ¥ — |
| (2) Notes and accounts receivable | 20,973 | | |
| Allowance for doubtful accounts | (122) | | |
| Notes and accounts receivable, net | 20,851 | 20,851 | — |
| (3) Investment securities | 1,140 | 1,140 | — |
| (4) Guarantee deposits | 10,167 | | |
| Allowance for doubtful deposits paid | (350) | | |
| Guarantee deposits, net | 9,817 | 9,639 | (178) |
| Total assets | 135,441 | 135,263 | (178) |
| Liabilities: | | | |
| (1) Notes and accounts payable | 11,820 | 11,820 | — |
| (2) Short-term loans | 7,122 | 7,122 | — |
| (3) Accrued income taxes | 3,974 | 3,974 | — |
| Total liabilities | ¥ 22,917 | ¥ 22,917 | ¥ — |
| Derivative transactions*1 | ¥ 12 | ¥ 12 | ¥ — |

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

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

Assets

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

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

(3) 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."

(4) Guarantee deposits

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

Liabilities

(1) Notes and accounts payable, (2) Short-term loans and (3) Accrued income 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.

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, 2016 | As of March 31, 2015 |
|---|---|---|
| Unlisted shares | ¥31 | ¥31 |

These items are not included in "(3) 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, 2016 | | | | As of March 31, 2015 | | | |
|---|---|---|---|---|---|---|---|---|
| | 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 | ¥115,647 | ¥ — | ¥ — | ¥— | ¥102,015 | ¥ — | ¥ — | ¥— |
| Notes and accounts receivable | 21,487 | — | — | — | 20,973 | — | — | — |
| Guarantee deposits | 4,698 | 1,762 | 2,674 | 38 | 5,463 | 2,046 | 2,644 | 12 |
| Total | ¥141,833 | ¥1,762 | ¥2,674 | ¥38 | ¥128,453 | ¥2,046 | ¥2,644 | ¥12 |

4 Planned repayment amounts subsequent to the consolidated balance sheet date for short-term loans

Millions of yen

| | As of March 31, 2016 | | | | | | As of March 31, 2015 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 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 | ¥9,722 | ¥— | ¥— | ¥— | ¥— | ¥— | ¥7,122 | ¥— | ¥— | ¥— | ¥— | ¥— |
| Total | ¥9,722 | ¥— | ¥— | ¥— | ¥— | ¥— | ¥7,122 | ¥— | ¥— | ¥— | ¥— | ¥— |

## Securities

1. Held-for-sale securities
Not applicable

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

3. Other investment securities with market value

Millions of yen

| | | As of March 31, 2016 | | | As of March 31, 2015 | | |
|---|---|---|---|---|---|---|---|
| | Type | Book value | Acquisition cost | Difference | Book value | Acquisition cost | Difference |
| Securities with book value exceeding acquisition cost | (1) Stocks | ¥665 | ¥233 | ¥432 | ¥1,081 | ¥233 | ¥847 |
| | (2) Bonds | | | | | | |
| | a. Government bonds and municipal bonds | — | — | — | — | — | — |
| | b. Corporate bonds | — | — | — | — | — | — |
| | c. Other | — | — | — | — | — | — |
| | (3) Other | — | — | — | — | — | — |
| | Subtotal | 665 | 233 | 432 | 1,081 | 233 | 847 |
| Securities with acquisition cost exceeding book value | (1) Stocks | 52 | 75 | (23) | 59 | 75 | (15) |
| | (2) Bonds | | | | | | |
| | a. Government bonds and municipal bonds | — | — | — | — | — | — |
| | b. Corporate bonds | — | — | — | — | — | — |
| | c. Other | — | — | — | — | — | — |
| | (3) Other | — | — | — | — | — | — |
| | Subtotal | 52 | 75 | (23) | 59 | 75 | (15) |
| Total | | ¥718 | ¥308 | ¥409 | ¥1,140 | ¥308 | ¥831 |

4. Securities sold during the year

Millions of yen

| | Fiscal year ended March 31, 2016 | | | Fiscal year ended March 31, 2015 | | |
|---|---|---|---|---|---|---|
| Item | Proceeds | Aggregate gain on sale | Aggregate loss on sale | Proceeds | Aggregate gain on sale | Aggregate loss on sale |
| (1) Stocks | ¥1 | ¥1 | ¥— | ¥114 | ¥82 | ¥— |
| (2) Bonds | | | | | | |
| a. Government bonds and municipal bonds | — | — | — | — | — | — |
| b. Corporate bonds | — | — | — | — | — | — |
| c. Other | — | — | — | — | — | — |
| (3) Other | — | — | — | — | — | — |
| Total | ¥1 | ¥1 | ¥— | ¥114 | ¥82 | ¥— |

5. Investment securities subject to impairment

In the fiscal year ended March 31, 2015, other investment securities (shares) were subject to impairment amounting to ¥1 million.

With regard to the impairment of shares, shares whose fair value has fallen to below 50% of the acquisition price are fully impaired, and shares whose fair value has fallen to between 30% and 50% of the acquisition price are impaired by an appropriate amount after taking into consideration the materiality of the amount involved and the likelihood of recovery.

## Derivative Transactions

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

Currency derivatives

**Year ended March 31, 2016**

Not applicable

**Year ended March 31, 2015**

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<br>Buy<br>USD | ¥220 | ¥— | ¥12 | ¥12 |
| | Total | ¥220 | ¥— | ¥12 | ¥12 |

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

2. Derivative transactions for which hedge accounting has been applied

**Year ended March 31, 2016**

Not applicable

**Year ended March 31, 2015**

Not applicable

## Employees' Retirement Benefits

1. Overview of employees' retirement benefit plans:

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

Certain of the Company's domestic consolidated subsidiaries maintain defined benefit corporate pension plans in addition to the above plan.

Certain of the Company's overseas subsidiaries maintain defined contribution retirement pension plans.

2. Defined benefit plan:

(1) Reconciliation between the beginning and ending balances of retirement benefit obligations

Millions of yen

| | Fiscal year ended March 31, 2016 | Fiscal year ended March 31, 2015 |
|---|---|---|
| Balance of retirement benefit obligations at the beginning of the year | ¥11,105 | ¥12,298 |
| Increase (decrease) in net defined benefit liability | — | (1,811) |
| Restated balance | 11,105 | 10,487 |
| Service cost | 488 | 466 |
| Interest cost | 85 | 113 |
| Actuarial (gains) losses arising during the year | 869 | 440 |
| Retirement benefits paid | (405) | (401) |
| Balance of retirement benefit obligations at the end of the year | ¥12,143 | ¥11,105 |

(2) Reconciliation between the beginning and ending balances of plan assets

Millions of yen

| | Fiscal year ended March 31, 2016 | Fiscal year ended March 31, 2015 |
|---|---|---|
| Balance of plan assets at the beginning of the year | ¥8,904 | ¥7,872 |
| Expected return on plan assets | 171 | 150 |
| Actuarial gains (losses) arising during the year | (247) | 331 |
| Employer contribution | 899 | 892 |
| Retirement benefits paid | (331) | (343) |
| Balance of plan assets at the end of the year | ¥9,396 | ¥8,904 |

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

Millions of yen

| | Fiscal year ended March 31, 2016 | Fiscal year ended March 31, 2015 |
|---|---|---|
| Retirement benefit obligation for funded plans | ¥ 9,771 | ¥ 8,992 |
| Plan assets | (9,396) | (8,904) |
| | 375 | 87 |
| Retirement benefit obligation for unfunded plans | 2,371 | 2,113 |
| Net defined benefit liabilities and assets recorded in the consolidated balance sheet | 2,747 | 2,200 |
| | | |
| Net defined benefit liabilities | 2,747 | 2,200 |
| Net defined benefit liabilities and assets recorded in the consolidated balance sheet | ¥2,747 | ¥ 2,200 |

(4) Components of net periodic pension costs

Millions of yen

| | Fiscal year ended March 31, 2016 | Fiscal year ended March 31, 2015 |
|---|---|---|
| Service cost | ¥ 488 | ¥ 466 |
| Interest cost | 85 | 113 |
| Expected return on plan assets | (171) | (150) |
| Amortization of net actuarial (gains) losses | 94 | (193) |
| Net periodic pension costs relating to defined benefit plan | ¥ 497 | ¥ 235 |

(5) Remeasurements of defined benefit plans in other comprehensive income

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

Millions of yen

| | Fiscal year ended March 31, 2016 | Fiscal year ended March 31, 2015 |
|---|---|---|
| Actuarial gains (losses) | ¥(1,022) | ¥(301) |
| Total | ¥(1,022) | ¥(301) |

(6) Remeasurements of defined benefit plans in accumulated other comprehensive income

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

Millions of yen

| | As of March 31, 2016 | As of March 31, 2015 |
|---|---|---|
| Unrecognized actuarial gains (losses) | ¥875 | ¥(147) |
| Total | ¥875 | ¥(147) |

(7) Plan assets

1) Main components of plan assets

The percentages of plan assets by major asset class to total plan assets are as follows:

Percent

| | As of March 31, 2016 | As of March 31, 2015 |
|---|---|---|
| Bonds | 47 | 7 |
| Stocks | 8 | — |
| General accounts | 31 | 21 |
| Cash and deposits | 5 | 62 |
| Others | 9 | 10 |
| Total | 100 | 100 |

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

2) Method of determining 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.

(8) Assumptions used to determine actuarial gains or losses

Major (weighted-average) assumptions used to determine actuarial gains or losses

Percent

| | As of March 31, 2016 | As of March 31, 2015 |
|---|---|---|
| Discount rate | 0.154 to 0.410 | 0.330 to 0.777 |
| Long-term expected rate of return on plan assets | 2.000 | 2.000 |

3. Defined contribution plan:

The required contributions for the defined contribution plan by consolidated subsidiaries were ¥348 million and ¥348 million for the years ended March 31, 2015 and March 31, 2016, respectively.

## Stock Options

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

Millions of yen

| | Fiscal year ended March 31, 2016 | Fiscal year ended March 31, 2015 |
|---|---|---|
| Selling, general and administrative expenses | ¥90 | ¥35 |

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

Millions of yen

| | Fiscal year ended March 31, 2016 | Fiscal year ended March 31, 2015 |
|---|---|---|
| Reversal of stock acquisition rights | ¥19 | ¥44 |

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

(1) Details of stock options

| | 2008 stock options | 2009 stock options | 2010 stock options | 2010 stock options | 2010 stock options | 2011 stock options |
|---|---|---|---|---|---|---|
| Category of grantees | Company directors | Company directors | Company directors | Company employees | Company employees | Company directors |
| Number of grantees | 5 | 5 | 5 | 6 | 2 | 5 |
| Number of stock options | 19,800 shares of common stock | 57,000 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 |
| Date granted | August 21, 2008 | October 21, 2009 | August 23, 2010 | August 23, 2010 | January 14, 2011 | July 21, 2011 |
| Conditions for vesting of interests | No conditions have been set for vesting interests | No conditions have been set for vesting interests | No conditions have been set for vesting interests | No conditions have been set for vesting interests | No conditions have been set for vesting interests | No conditions have been set for vesting interests |
| 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 |
| Rights exercise period | August 22, 2008 to August 21, 2028 | October 22, 2009 to October 21, 2029 | 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 |

| | 2011 stock options | 2012 stock options | 2012 stock options | 2014 stock options | 2015 stock options | 2015 stock options |
|---|---|---|---|---|---|---|
| Category of grantees | Company employees, and directors and employees of the Company's subsidiaries | Company directors | Company employees | Company directors | Company directors | Company employees, and directors and employees of the Company's subsidiaries |
| Number of grantees | 12 | 5 | 8 | 6 | 6 | 18 |
| Number of stock options | 180,000 shares of common stock | 67,000 shares of common stock | 110,000 shares of common stock | 16,000 shares of common stock | 21,000 shares of common stock | 122,000 shares of common stock |
| Date granted | August 31, 2011 | July 26, 2012 | August 29, 2012 | September 25, 2014 | July 16, 2015 | July 16, 2015 |
| 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 |
| 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 |
| Rights exercise period | August 6, 2013 to August 5, 2016 | July 27, 2012 to July 26, 2032 | July 31, 2014 to July 30, 2017 | September 26, 2014 to September 25, 2034 | July 17, 2015 to July 16, 2035 | June 25, 2017 to June 24, 2020 |

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 | 2010 stock options | 2010 stock options | 2010 stock options | 2011 stock options | 2011 stock options | 2012 stock options | 2012 stock options | 2014 stock options | 2015 stock options | 2015 stock options |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Before vesting (shares) | | | | | | | | | | | | |
| March 31, 2015 | — | — | — | — | — | — | — | — | — | — | — | — |
| Granted | — | — | — | — | — | — | — | — | — | — | 21,000 | 122,000 |
| Forfeited | — | — | — | — | — | — | — | — | — | — | — | 30,000 |
| Vested | — | — | — | — | — | — | — | — | — | — | 21,000 | — |
| Unvested balance | — | — | — | — | — | — | — | — | — | — | — | 92,000 |
| After vesting (shares) | | | | | | | | | | | | |
| March 31, 2015 | 9,900 | 26,000 | 31,000 | 84,800 | 10,000 | 31,000 | 117,000 | 26,000 | 62,100 | 16,000 | — | — |
| Vested | — | — | — | — | — | — | — | — | — | — | 21,000 | — |
| Exercised | — | — | — | 30,900 | 10,000 | — | 20,000 | — | 5,700 | — | — | — |
| Forfeited | — | — | — | 53,900 | — | — | — | — | — | — | — | — |
| Balance unexercised | 9,900 | 26,000 | 31,000 | — | — | 31,000 | 97,000 | 26,000 | 56,400 | 16,000 | 21,000 | — |

2) Price information

Yen

| | 2008 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 | 2014 stock options | 2015 stock options | 2015 stock options |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Exercise price | ¥ 1 | ¥ 1 | ¥ 1 | ¥1,895 | ¥1,779 | ¥ 1 | ¥1,835 | ¥ 1 | ¥1,515 | ¥ 1 | ¥ 1 | ¥3,150 |
| Average share price at exercise | — | — | — | 2,700 | 2,927 | — | 2,824 | — | 2,814 | — | — | — |
| Fair market value on grant date | 3,171 | 2,107 | 1,464 | 364 | 250 | 1,312 | 435 | 948 | 214 | 2,041 | 2,864 | 885 |

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

The fair value of the 2015 stock options granted during the fiscal year ended March 31, 2016 was estimated using the following method.

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

(2) Main assumptions:

| | 2015 stock options | 2015 stock options |
|---|---|---|
| Expected share price volatility[1] | 36.3% | 41.9% |
| Expected life[2] | 10 years | 3.4 years |
| Expected dividend yield[3] | 0.95% | 0.95% |
| Risk-free interest rate[4] | 0.46% | 0.04% |

Notes: 1 This was calculated based on historical share price data prior to the grant date over a period equivalent to the expected life.
2 Owing to insufficient accumulated data, it is difficult to determine an appropriate estimate. Consequently, the midpoint of the available exercise period has been used as the estimated life.
3 For the 2015 stock options, this was calculated based on the actual dividend applicable to the fiscal year ended March 31, 2015.
4 This was determined based on the yield of government bonds corresponding to the expected life of the options.

5. Method of estimating the number of vested stock options:

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

## Tax Effect Accounting

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

Millions of yen

| | As of March 31, 2016 | As of March 31, 2015 |
|---|---|---|
| Deferred tax assets | | |
| 1) Current assets | | |
| Enterprise tax payable | ¥ 565 | ¥ 381 |
| Business office tax payable | 32 | 36 |
| Provision for bonuses | 590 | 531 |
| Accrued expenses | 414 | 599 |
| Provision for sales returns | 862 | 1,328 |
| Non-deductible portion of allowance for doubtful accounts | 8 | 40 |
| Tax credits | 333 | 275 |
| Loss on write-offs of content production account | 3,494 | 2,847 |
| Loss on inventory revaluation | 555 | 507 |
| Provision for game arcade closings | 23 | 125 |
| Other | 178 | 221 |
| Valuation allowance | (348) | (1,888) |
| Offset to deferred tax liabilities (current) | (149) | (188) |
| Total | 6,561 | 4,818 |
| 2) Non-current assets | | |
| Net defined benefit liabilities | 967 | 713 |
| Provision for directors' retirement benefits | 51 | 50 |
| Expense for stock-based compensation | 113 | 104 |
| Non-deductible depreciation expense of property and equipment | 138 | 129 |
| Asset retirement obligations | 721 | 307 |
| Impairment loss | 306 | 386 |
| Loss on evaluation of investments in securities | 3,843 | 242 |
| Non-deductible portion of allowance for doubtful accounts | 24 | 4 |
| Non-deductible portion of excess expenses on lump-sum depreciable assets | 72 | 78 |
| Loss carried forward, and others, at overseas subsidiaries | 754 | 989 |
| Provision for game arcade closings | 39 | 136 |
| Tax credits | 15 | 60 |
| Loss carried forward | 598 | 36 |
| Other | 12 | 72 |
| Valuation allowance | (1,063) | (677) |
| Offset to deferred tax liabilities (non-current) | (1,623) | (1,435) |
| Total | 4,972 | 1,198 |
| Total deferred tax assets | 11,534 | 6,016 |
| Deferred tax liabilities | | |
| 1) Current liabilities | | |
| Accrued expenses and other cost calculation details | 138 | 180 |
| Other | 11 | 7 |
| Offset to deferred tax assets (current) | (149) | (188) |
| Total | — | — |
| 2) Non-current liabilities | | |
| Non-current assets | 2,633 | 1,946 |
| Tax effects from intangible non-current assets relating to business combinations | 1,075 | 1,647 |
| Other | 67 | 213 |
| Offset to deferred tax assets (non-current) | (1,623) | (1,435) |
| Total | 2,153 | 2,371 |
| Total deferred tax liabilities | 2,153 | 2,371 |
| Balance: Net deferred tax assets | ¥ 9,381 | ¥ 3,644 |

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

| | As of March 31, 2016 | As of March 31, 2015 |
|---|---|---|
| Statutory tax rate | 33.06% | 35.64% |
| (Adjustments) | | |
| Permanent differences relating to entertainment expense and others excluded from non-taxable expenses | 0.13 | 0.33 |
| Permanent differences relating to dividends received and others excluded from non-taxable expenses | (0.00) | (0.01) |
| Valuation allowance | (16.61) | (5.97) |
| Taxation on a per capita basis for inhabitants' tax | 0.37 | 0.75 |
| Special deduction for income growth | (0.98) | (0.62) |
| Tax credit for R&D expenses | (8.40) | (9.13) |
| Reduction of deferred tax assets and liabilities at fiscal year-end due to changes in corporate tax rate | 2.06 | 3.21 |
| Differences in tax rate from the parent company's statutory tax rate | 0.67 | 6.95 |
| Other | (3.10) | 4.71 |
| Effective tax rate | 7.20 | 35.86 |

3. Revision to the amount of deferred tax assets and deferred tax liabilities due to changes in the income tax rate

The "Act for Partial Amendment of the Income Tax Act, etc." (Act No. 15 of 2016) and the "Act for Partial Amendment of the Local Tax Act, etc." (Act No. 13 of 2016) were enacted by the Japanese Diet on March 29, 2016, and the income tax rates have been reduced from fiscal years beginning on or after April 1, 2016. In accordance with these acts, the statutory tax rate used for the calculation of deferred tax assets and deferred tax liabilities has been changed from 32.30%, which was used in the calculation for the previous fiscal year, to 30.86% for the temporary differences likely to be eliminated in the fiscal years beginning on April 1, 2016 and 2017, and to 30.62% for the temporary differences likely to be eliminated in and after the fiscal year beginning on April 1, 2018.

As a result of this change in the tax rate, the net amount of deferred tax assets (after deduction of deferred tax liabilities) decreased by ¥359 million, while income taxes–deferred, remeasurements of defined benefit plans and valuation difference on available-for-sale securities increased by ¥348 million, ¥14 million and ¥3 million, respectively, as of and for the year ended March 31, 2016.

## Business Combinations

**Year ended March 31, 2016**

Not applicable

**Year ended March 31, 2015**

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 5 and 15 years, and a discount rate generally set between 0.014% and 2.147%.

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 (0.040)% and 1.355%.

c) Changes to aggregate asset retirement obligations

Millions of yen

| | Fiscal year ended March 31, 2016 | Fiscal year ended March 31, 2015 |
|---|---|---|
| Beginning balance | ¥ 962 | ¥810 |
| Increase due to procurement of property and equipment | 112 | 149 |
| Increase due to changes in estimates | 1,225 | — |
| Accretion expense | 7 | 7 |
| Decrease due to fulfillment of asset retirement obligations | (36) | (5) |
| Other changes | 90 | — |
| Ending balance | ¥2,361 | ¥962 |

d) Changes in estimates of asset retirement obligations

With respect to asset retirement obligations recognized for restoration costs based on real estate lease contracts, the Company and its domestic consolidated subsidiaries changed the estimates relating to such restoration costs required at the time of moving the head office and the closing of game arcades, through obtaining new information such as recent actual restoration costs.

As a result, compared with the amounts that would have been recognized under the previous estimates, operating income, ordinary income and profit before income taxes decreased by ¥312 million, respectively, for the fiscal year ended March 31, 2016.

## Matters Relating to Real Estate Leases, Etc.

**Year ended March 31, 2016**

Not applicable

**Year ended March 31, 2015**

Not applicable

## Segment Information

[Segment Information]

**Year ended March 31, 2016**

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 | ¥158,964 | ¥41,135 | ¥9,919 | ¥4,081 | ¥214,101 | ¥ — | ¥214,101 |
| (2) Intersegment sales | 0 | 0 | 50 | 466 | 517 | (517) | — |
| Total | 158,964 | 41,135 | 9,970 | 4,547 | 214,618 | (517) | 214,101 |
| Segment operating income | ¥ 27,456 | ¥ 3,988 | ¥2,267 | ¥1,517 | ¥ 35,230 | ¥ (9,212) | ¥ 26,018 |
| Segment assets | ¥ 74,221 | ¥15,821 | ¥4,128 | ¥ 681 | ¥ 94,852 | ¥137,879 | ¥232,731 |
| Other items | | | | | | | |
| Depreciation and amortization | 3,514 | 2,203 | 89 | 15 | 5,823 | 494 | 6,317 |
| Increases in property and equipment and intangible assets | 1,221 | 2,810 | 9 | 18 | 4,060 | 1,812 | 5,872 |

Notes: 1 (1) Segment adjustments (¥9,212 million) include unallocated corporate operating expenses (¥9,253 million).

(2) Unallocated assets amounting to ¥138,131 million are included in the ¥137,879 million adjustment to segment assets. Most of this amount comprises funds for management of surplus funds (cash and deposits).

(3) The ¥494 million adjustment to depreciation and amortization is associated with unallocated assets that do not belong to any reporting segment.

(4) The ¥1,812 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, 2015

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 | ¥111,896 | ¥40,715 | ¥11,509 | ¥3,769 | ¥167,891 | ¥ — | ¥167,891 |
| (2) Intersegment sales | 30 | 0 | 37 | 227 | 295 | (295) | — |
| Total | 111,926 | 40,715 | 11,547 | 3,997 | 168,187 | (295) | 167,891 |
| Segment operating income | ¥ 17,276 | ¥ 3,615 | ¥ 3,241 | ¥1,161 | ¥ 25,294 | ¥ (8,867) | ¥ 16,426 |
| Segment assets | ¥ 71,221 | ¥15,367 | ¥ 4,026 | ¥ 982 | ¥ 91,598 | ¥120,340 | ¥211,938 |
| Other items | | | | | | | |
| Depreciation and amortization | 3,579 | 2,722 | 87 | 28 | 6,418 | 516 | 6,934 |
| Increases in property and equipment and intangible assets | 2,392 | 2,510 | 17 | 9 | 4,929 | 1,118 | 6,048 |

Notes: 1 (1) Segment adjustments (¥8,867 million) include unallocated corporate operating expenses (¥8,907 million).

(2) Unallocated assets amounting to ¥120,594 million are included in the ¥120,340 million adjustment to segment assets. Most of this amount comprises funds for management of surplus funds (cash and deposits).

(3) The ¥516 million adjustment to depreciation and amortization is associated with unallocated assets that do not belong to any reporting segment.

(4) The ¥1,118 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, 2016**

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 |
|---|---|---|---|---|
| ¥151,160 | ¥28,977 | ¥26,572 | ¥7,390 | ¥214,101 |

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 |
|---|---|---|---|---|
| ¥12,232 | ¥827 | ¥562 | ¥126 | ¥13,748 |

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, 2015**

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 |
|---|---|---|---|---|
| ¥129,072 | ¥18,124 | ¥17,316 | ¥3,378 | ¥167,891 |

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 |
|---|---|---|---|---|
| ¥11,738 | ¥1,391 | ¥394 | ¥96 | ¥13,620 |

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, 2016**

Millions of yen

| | Digital Entertainment | Amusement | Publication | Merchandising | Eliminations or unallocated (Note) | Total |
|---|---|---|---|---|---|---|
| Impairment losses | ¥1,734 | ¥222 | ¥— | ¥— | ¥4 | ¥1,961 |

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

■ **Year ended March 31, 2015**

Millions of yen

| | Digital Entertainment | Amusement | Publication | Merchandising | Eliminations or unallocated (Note) | Total |
|---|---|---|---|---|---|---|
| Impairment losses | ¥315 | ¥321 | ¥— | ¥— | ¥4 | ¥640 |

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, 2016**

Not applicable

■ **Year ended March 31, 2015**

Not applicable

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

■ **Year ended March 31, 2016**

Not applicable

■ **Year ended March 31, 2015**

Not applicable

**[Related party transactions]**

Transaction between the consolidated financial statement-submitting company and related parties

(i) The consolidated financial statement-submitting company and directors and audit & supervisory board members and the principal shareholders (individuals only) of related parties, etc.

■ **Year ended March 31, 2016**

| Type | Name | Location | Capital (Millions of yen) | Business description or occupation | Ratio of voting rights held (%) | Relationship with related parties | Transaction | Amount of transactions (Millions of yen) | Account item | Year-end balance (Millions of yen) |
|---|---|---|---|---|---|---|---|---|---|---|
| Director and close relatives | Philip Timo Rogers | — | — | Director of the Company | (Held)<br>Direct —<br>Indirect — | — | Exercising of stock options | ¥17 | — | ¥— |
| | Michihiro Sasaki | — | — | Audit & supervisory board member of subsidiary | (Held)<br>Direct 0.00<br>Indirect — | — | Exercising of stock options | ¥11 | — | ¥— |

Terms and conditions of transactions and/or decision-making policy, etc.

Note: The exercise of stock acquisition rights as stock options during the year ended March 31, 2016 was pursuant to the resolutions of the Board of Directors on July 29 and December 24, 2010. Amount of transactions represents cash payments made from exercising of stock options.

■ **Year ended March 31, 2015**

Not applicable

## Per Share Information

Yen

| | Fiscal year ended March 31, 2016 | Fiscal year ended March 31, 2015 |
|---|---|---|
| Net assets per share | ¥1,376.93 | ¥1,267.24 |
| Earnings per share | 163.04 | 84.34 |
| Diluted earnings per share | 162.72 | 84.20 |

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

Millions of yen

| | Fiscal year ended March 31, 2016 | Fiscal year ended March 31, 2015 |
|---|---|---|
| Earnings per share: | | |
| Profit attributable to owners of parent | ¥ 19,884 | ¥ 9,831 |
| Profit not available to common shareholders | — | — |
| Profit attributable to common shareholders of parent | 19,884 | 9,831 |
| Average number of shares of common stock outstanding during the fiscal year (thousands of shares) | 121,961 | 116,569 |
| Adjustments to profit used to calculate diluted earnings per share: | | |
| Adjustments to profit attributable to owners of parent: | — | — |
| Increase in the number of shares of common stock (thousands of shares) | 240 | 192 |
| (Number of shares reserved for the purpose of new share issuances for exercise of share subscription rights) | (240) | (192) |
| Summary of residual securities that do not dilute the Company's earnings per share | Issuance of July 2015 stock acquisition rights, pursuant to a resolution of the Board of Directors on June 24, 2015: 92,000 shares | — |

## Significant Subsequent Events

Issuance of stock acquisition rights pursuant to the resolution of the Board of Directors on June 24, 2016

The Board of Directors resolved at its meeting held on June 24, 2016 to grant the stock acquisition rights as stock options, pursuant to the provisions provided under Articles 236, 238 and 240 of the Companies Act, as part of the compensation to the employees of the Company and the directors and the employees of the Company's subsidiaries.

## Supplementary Schedule

### [Borrowings]

| Category | Balance as of April 1, 2015 (Millions of yen) | Balance as of March 31, 2016 (Millions of yen) | Average interest rate (%) | Repayment date |
|---|---|---|---|---|
| Short-term loans | ¥7,122 | ¥9,722 | 0.8 | — |
| Long-term borrowings due for repayment within one year | — | — | — | — |
| Lease obligations due for repayment within one year | 17 | 15 | — | — |
| Long-term borrowings (excluding the amount due for repayment within one year) | — | — | — | — |
| Lease obligations (excluding the amount due for repayment within one year) | 28 | 27 | — | September 2017 to March 2021 |
| Other interest-bearing liabilities | — | — | — | — |
| Total | ¥7,168 | ¥9,765 | — | — |

Notes: 1 The average interest rate shown is the weighted average interest rate on the balance of borrowings as of March 31, 2016.
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, 2016 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 | ¥5 | ¥2 |

### [Asset retirement obligations]

Information on asset retirement obligations has been omitted as the disclosure was included in the notes to the consolidated financial statements as provided in Article 15-23 of Regulations for Consolidated Financial Statements.

### [Other]

Quarterly Financial Information

Millions of yen

| Cumulative period | 1Q April 1, 2015 to June 30, 2015 | 2Q April 1, 2015 to September 30, 2015 | 3Q April 1, 2015 to December 31, 2015 | 4Q April 1, 2015 to March 31, 2016 |
|---|---|---|---|---|
| Net sales | ¥42,282 | ¥86,360 | ¥152,760 | ¥214,101 |
| Profit before income taxes | 9,501 | 11,696 | 22,313 | 21,436 |
| Profit attributable to owners of parent | 5,999 | 7,324 | 13,538 | 19,884 |
| Earnings per share (yen) | 49.20 | 60.06 | 111.01 | 163.04 |

| Quarterly | 1Q April 1, 2015 to June 30, 2015 | 2Q July 1, 2015 to September 30, 2015 | 3Q October 1, 2015 to December 31, 2015 | 4Q January 1, 2016 to March 31, 2016 |
|---|---|---|---|---|
| Earnings per share (yen) | ¥49.20 | ¥10.86 | ¥50.95 | ¥52.02 |

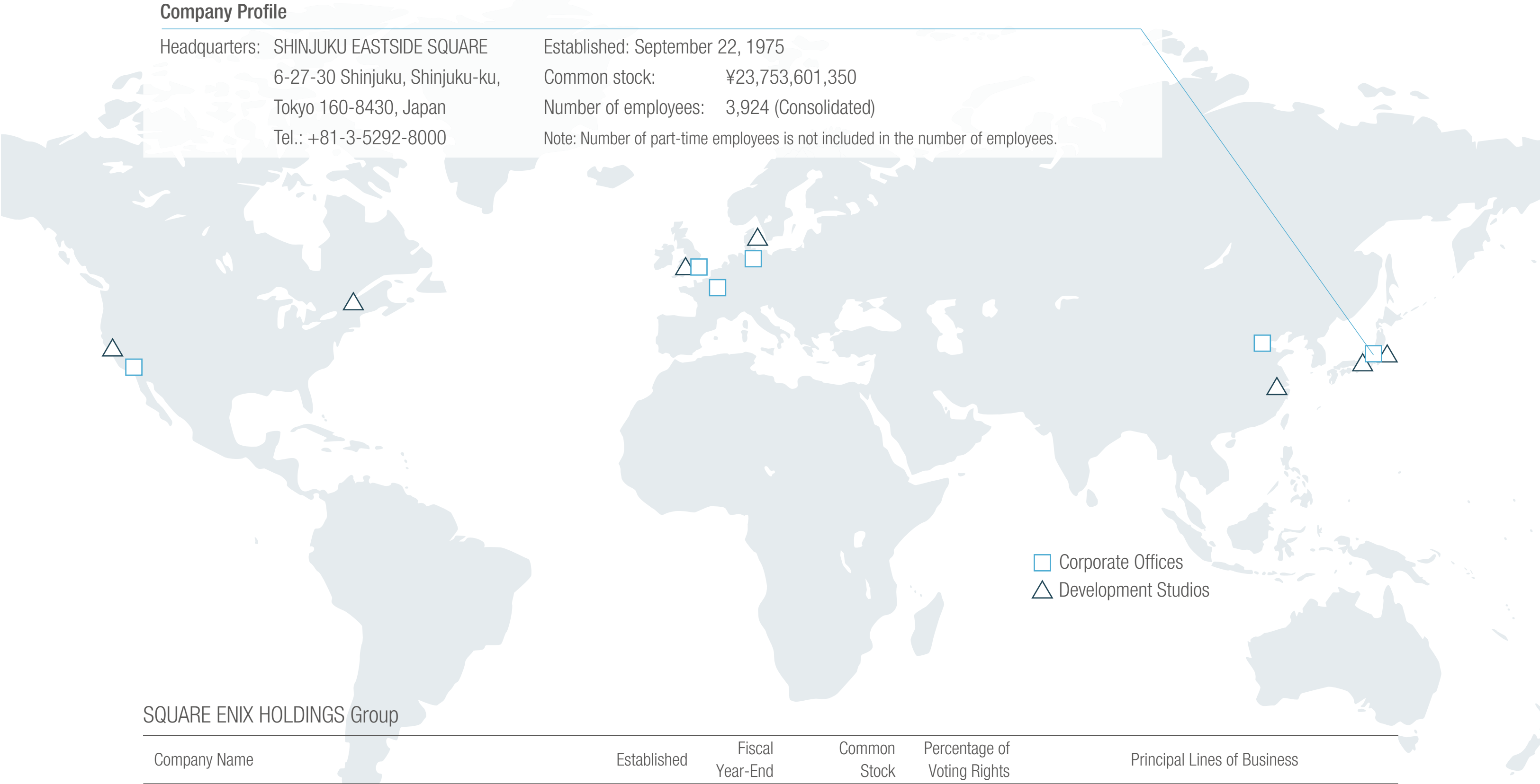
# Corporate Data

(As of March 31, 2016)

### 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: ¥23,753,601,350
Number of employees: 3,924 (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 the Americas |
| 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£145 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% | Digital entertainment in China |
| 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, 2016)

## Share Information

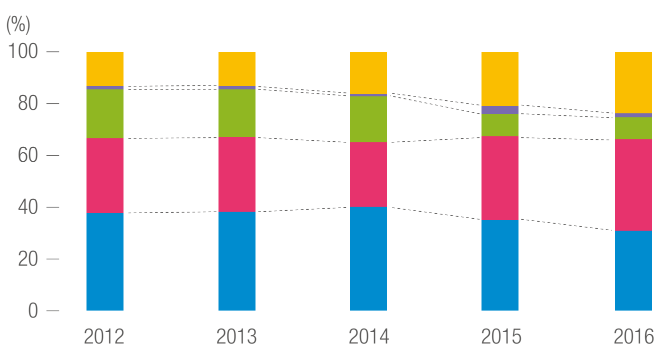
Number of shares issued: 122,299,496

Number of shareholders: 25,982

## Principal Shareholders

| Rank | Shareholder | Investment in Square Enix (Thousands of shares) | (%) |
|---|---|---|---|
| 1 | Yasuhiro Fukushima | 23,626 | 19.31 |
| 2 | Fukushima Planning Co., Ltd. | 9,763 | 7.98 |
| 3 | The Master Trust Bank of Japan, Ltd. (Trust Account) | 7,944 | 6.49 |
| 4 | Japan Trustee Services Bank, Ltd. (Trust Account) | 7,805 | 6.38 |
| 5 | Masafumi Miyamoto | 3,292 | 2.69 |
| 6 | Japan Trustee Services Bank, Ltd. (Trust Account 9) | 3,268 | 2.67 |
| 7 | GOLDMAN SACHS INTERNATIONAL | 3,006 | 2.45 |
| 8 | BNYML-NON TREATY ACCOUNT | 2,414 | 1.97 |
| 9 | CGML PB CLIENT ACCOUNT/COLLATERAL | 2,147 | 1.75 |
| 10 | MSCO CUSTOMER SECURITIES | 2,009 | 1.64 |

## Share Ownership (Thousands of shares)




| | 2012 | | 2013 | | 2014 | | 2015 | | 2016 | |
|---|---|---|---|---|---|---|---|---|---|---|
| Financial Institutions | 15,485 | (13.4%) | 14,700 | (12.7%) | 18,722 | (16.2%) | 25,588 | (20.9%) | 29,231 | (23.9%) |
| Financial Instruments Companies | 995 | (0.9%) | 995 | (0.9%) | 1,114 | (1.0%) | 3,291 | (2.7%) | 1,717 | (1.4%) |
| Other Companies | 22,089 | (19.2%) | 22,092 | (19.1%) | 20,570 | (17.8%) | 10,630 | (8.7%) | 10,424 | (8.5%) |
| Foreign Companies and Individuals | 33,268 | (28.8%) | 32,251 | (28.0%) | 28,817 | (24.9%) | 40,135 | (32.8%) | 43,256 | (35.4%) |
| Individuals and Other | 43,530 | (37.7%) | 45,329 | (39.3%) | 46,350 | (40.1%) | 42,586 | (34.9%) | 37,669 | (30.8%) |
| Total | 115,370 | (100.0%) | 115,370 | (100.0%) | 115,575 | (100.0%) | 122,232 | (100.0%) | 122,299 | (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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