SQUARE ENIX

2017
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

In working to make our Corporate Philosophy a reality, we will manage our Group with the following policies as our key guidelines.

1. We will strive to be a company that delivers unparalleled entertainment.

Through our games, amusement offerings, publications, merchandising, and other contents and services, we will be steadfast in our efforts to deliver unparalleled entertainment to our customers.

2. We will value innovation and creativity.

By giving rise to new expressions and ideas and creating experiences like none ever encountered before, we will deliver contents and services that surpass the expectations of our customers. We believe that it is in our unrelenting efforts to this end that our existential value and the value of our brand lie.

3. We will respond with sensitivity and flexibility to environmental changes.

We are surrounded by an environment that is ever changing. We will stay attuned to those changes and be flexible in adapting the nature and format of our contents and services as well as our business models accordingly. In addition, we will stay at the forefront of change so that we can provide our customers with excitement and fun.

4. We will create a corporate culture that is both collaborative and competitive.

Our contents and services are born of teamwork and could never be created without the concerted efforts of a team that is fully united. At the same time, it is important that we engage in collegial competition in order to inspire one another to greater heights. We will foster a corporate culture that promotes such competitive collaboration.

CONTENTS

Financial Highlights

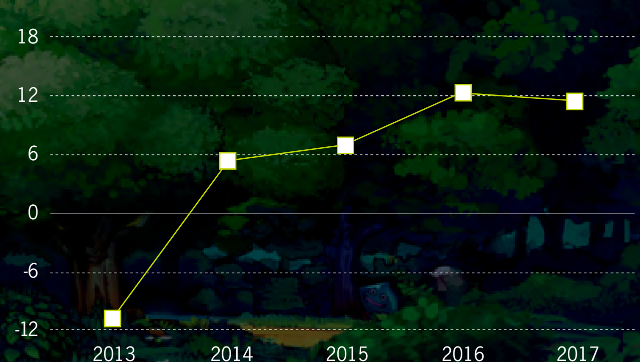
SQUARE ENIX HOLDINGS CO., LTD. and Consolidated Subsidiaries
Years ended March 31

					Millions of Yen	Thousands of U.S. Dollars
	2013	2014	2015	2016	2017	2017
For the Year						
Net sales	¥ 147,981	¥ 155,023	¥ 167,891	¥ 214,101	¥ 256,824	$2,289,188
Operating income (loss)	(6,081)	10,543	16,426	26,018	31,295	278,952
Ordinary income (loss)	(4,378)	12,534	16,984	25,322	31,128	277,466
Profit (loss) attributable to owners of parent	(13,714)	6,598	9,831	19,884	20,039	178,620
At Year-end						
Total assets	¥ 202,509	¥ 216,617	¥ 211,938	¥ 232,731	¥ 243,859	$2,173,626
Total net assets	121,636	127,676	155,314	168,783	181,904	1,621,392
					Yen	U.S. Dollars
Per Share of Common Stock						
Earnings (loss)	¥ (119.19)	¥ 57.28	¥ 84.34	¥ 163.04	¥ 164.20	$ 1.46
Total net assets	1,043.62	1,095.78	1,267.24	1,376.93	1,485.56	13.24
					%	
Key Ratios						
Operating income margin	(4.1)%	6.8%	9.8%	12.2%	12.2%	
Ordinary income margin	(2.9)	8.1	10.1	11.8	12.1	
Return on equity	(10.7)	5.4	7.0	12.3	11.5	
Equity ratio	59.3	58.3	72.9	72.2	74.4	

Note: For the convenience of readers, amounts in U.S. dollars have been translated using the currency exchange rate at March 31, 2017 of ¥112.19=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 2017 one of record net sales, operating income, recurring income, and net income, successfully fortifying our foundation for further growth. I am pleased to take this opportunity to describe conditions in each of our business segments and our plans for the way forward.

Business Segment Overview

Digital Entertainment Business Segment

In the fiscal year ended March 2017, the Digital Entertainment Business Segment posted net sales of ¥199 billion and operating income of ¥33.3 billion, with both figures representing year-on-year growth. In the HD (High-Definition) Games sub-segment, major titles such as "FINAL FANTASY XV," "Rise of the Tomb Raider" for PlayStation®4, "Deus Ex: Mankind Divided," and "NieR:Automata" made major contributions to earnings. We released "FINAL FANTASY XV," the latest series title in the FINAL FANTASY franchise, simultaneously in all markets on November 29, 2016. Thanks to your support, the title has been a major global hit enjoyed by gamers the world over. Since the game's launch, we have released DLC (downloadable content) and updates to ensure its many fans can continue to play it over the long term. In the case of "Rise of the Tomb Raider," we first released versions for Xbox One and Xbox 360 followed by Windows in the fiscal year ended March 2016, before making it available for PlayStation®4 in the fiscal year ended March 2017. The global response to the title has been excellent, putting it on par with "Deus Ex: Mankind Divided" as a symbol of the high quality of our Group's products. In addition, "NieR:Automata," which we released in February 2017, has proven a global hit far in excess of our expectations. It has not only reminded the world of the high quality of Japanese games, but also demonstrated significant potential for future franchise development.

FINAL FANTASY XV

MAIN CHARACTER DESIGN:
TETSUYA NOMURA

Rise of the Tomb Raider

Deus Ex: Mankind Divided

In the MMO (Massively Multiplayer Online game) sub-segment, we strove to maintain stable operations for our “FINAL FANTASY XIV” and “DRAGON QUEST X” titles. In the case of “FINAL FANTASY XIV,” we not only worked on operational stability but also announced in December 2016 a release date for the “Stormblood” expansion pack, thus bolstering the number of our paid subscribers. Moreover, when we launched that expansion pack in June 2017, we achieved the greatest paid subscriber count we had seen since the launch of “A Realm Reborn” in August 2013. With an expansion pack release slated for “DRAGON QUEST X” during the fiscal year ending March 2018, we see the MMO business as a major contributor to the stability of our earnings.

FINAL FANTASY XIV

DRAGON QUEST X

Our Games for Smart Devices/PC Browsers sub-segment struggled in the first half of the fiscal year ended March 2017, but we were able to make up lost ground in the second half by releasing successful titles, primarily leveraging our own IP (intellectual property). While we often hear that the Japanese mobile game market has reached maturity, we do not believe that “maturity” is synonymous with “stagnation” or “decline.” “Maturity” only means that mobile devices in general and smartphones in particular have already established solid positions as gaming devices and that gamers playing games on their smartphones have become a common sight. In addition, with a multitude of titles on offer, including both new and classic titles, gamers are becoming more discerning in their choices. Competition over their playtime has intensified, and the race to grab a spot on their smartphone screens is growing ever more heated. This means that only fun, appealing games will survive, which is of course only natural. As such, the market is at last in a stage where the capabilities of the game companies will truly be tested. That is what we understand “maturity” to mean. Based in part on the lessons we learned in the fiscal year ended March 2017, we intend to leverage our strengths to deliver even more sophisticated games in the fiscal year ending March 2018, so that we can target Smart Devices/PC Browsers sub-segment sales in excess of ¥100 billion.

Amusement Business Segment

In the fiscal year ended March 2017, the Amusement Business Segment saw stable earnings, with net sales coming in at ¥42.7 billion and operating income at ¥3.6 billion. We released new arcade titles such as “GUNSLINGER STRATOS 3” and “LOVE LIVE! School Idol Festival – after school ACTIVITY –” receiving a positive response from our customers. In addition, September 2016 saw the opening of Taito Station Ikebukuro Nishiguchi, a large arcade in the busy Ikebukuro area of Tokyo featuring a jumbo screen on the exterior. Along with the “STORIA” cafe that we opened at the same time, the location has proven popular with customers as a new source of gaming experiences. In the fiscal year ending March 2018, we plan to establish a new arcade format in Hakata, the largest town in Kyushu, in collaboration with teamLab Inc., where we hope our customers will come to experience the latest evolution in arcades.

GUNSLINGER STRATOS 3

LOVE LIVE! School idol festival – after school ACTIVITY –

“LOVE LIVE! School idol festival – after school ACTIVITY –” is joint development project with Bushiroad Inc.

Publication Business Segment

Despite the publishing industry struggling, our Publication Business Segment was able to achieve sales and profit growth in the fiscal year ended March 2017, posting sales of ¥10 billion and operating income of ¥2.4 billion. This was in spite of some of our major titles ending and there being a lull in our anime adaptations. Moreover, we have at last begun to see growth in digital sales, which has been an area of focus for several years. Digital sales now account for more than 15% of the total for the Publication Business Segment. It is clear that our customers are moving away from print media and that the shift to e-books and digital media is an irreversible trend. Publishers have no choice but to respond to changing customer reading styles, and no time can be wasted in transitioning to a structure that leverages the unique attributes of the digital media business, including the elimination of inventory and the challenge of product returns.
In the fiscal year ended March 2017, we not only offered traditional e-books, but also released a new app called “Manga UP!” in order to offer customers additional convenience and inspire them to make new purchases. We have also released many titles with future potential such as “The Case Study of Vanitas,” “Yakumo-san wa Eduke ga Shitai,” and “Happy Sugar Life.” As I always say, our Publication Business Segment is a fertile field from which we can cultivate new content. Japanese manga and anime represent powerful pieces of IP that enjoy strong reputations around the world. It is our Publication Business Segment that gives rise to such IP, so how we go about evolving it in a multifaceted way for the digital age will be a key part of our strategy. Rather than thinking that the segment’s boundaries end with traditional comic sales, we intend to define its reaches more broadly in order to pursue further earnings expansion.

Merchandising Business Segment

Both net sales and operating income grew at the Merchandising Business Segment in the fiscal year ended March 2017, coming in at ¥6.4 billion and ¥2.1 billion, respectively. The segment represents a key part of our business portfolio, helping to compliment and bolster our lineup of original products. In the fiscal year ended March 2017, sales of products and services commemorating the 30th anniversary of “DRAGON QUEST” and “FINAL FANTASY XV” tie-in products were especially brisk, enabling us to significantly grow our earnings. The “SQUARE ENIX CAFE” that we opened in the Akihabara entertainment district of Tokyo in October 2016 has generated traffic far beyond our expectations and inspired many customers to purchase merchandise associated with their favorite game titles. Our hope is that the cafe will not only generate product sales in its role as our official shop, but also serve as an important source of information regarding our products and services. We will continue to enhance its product and service offerings in order to attract even more customers.

Key Business Development Initiatives

The environment surrounding the gaming industry is in constant motion. I would therefore like to describe the business development initiatives we are undertaking to drive sustained growth against such backdrop.

Digital Sales Enhancement

The way game content is purchased is undergoing a significant change. Gamers are significantly moving away from purchasing packaged games and shifting toward digital downloads. In North America, more than 20% of purchases of “FINAL FANTASY XV” have been via digital downloads. The global download rate for “NieR:Automata” has been even higher at over 30%. Higher download rates help in a significant way to improve profitability on HD game sales. Mega publishers in the West have greatly improved their profitability via strong promotions of digital downloads. However, our own efforts in this area have not been sufficient, and we still have significant scope to improve our margins by bolstering our digital sales rates. It is extremely important to make the purchasing process as smooth as possible, such as by presenting or recommending products to customers based upon their purchase attributes. As such, we intend to undertake a variety of initiatives, including the overhaul of our sales sites.

Multiplatform Utilization

It is in the interest of content providers such as ourselves to have more platforms on which to provide our content. In the console gaming space, the fiscal year ended March 2017 saw the release of the “Nintendo Switch”, and its installed base has been growing rapidly. Microsoft has also announced that it will be releasing the “Xbox One X” this fall, so the console gaming market looks likely to experience an upsurge as we head into the 2017 holiday season. With 5G or the fifth-generation mobile networks likely to come online at last as 2020 approaches, the telecommunications environment for mobile gaming also looks poised to evolve dramatically.

Devices supporting VR (virtual reality) and AR (augmented reality) technologies are also likely to grow smaller and lighter, and the use of such technologies in mobile environments looks likely to increase. As such, we believe we will see new content and services developed in those spaces.

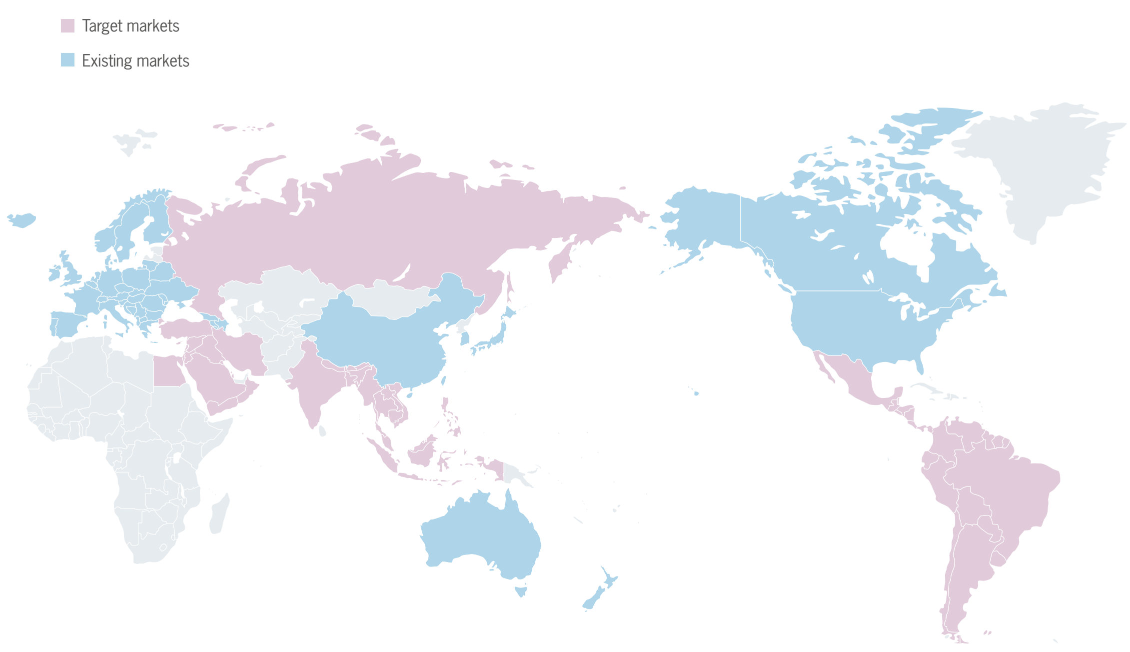
In the mobile content space, native apps are enjoying a zenith, but in the 5G world that awaits us, we believe that HTML5 will result in a resurgence for web browsers and that robust cloud streaming will become a reality. By collaborating with and taking part in Yahoo Japan's "Yahoo!Game Gameplus" initiative, we intend to proactively engage with browsers, the conventional platform that has many new things to offer.

As the above illustrates, game platforms are constantly evolving, with content now regularly becoming available on platforms where it previously could not be offered. This should be welcomed by content providers such as ourselves who possess a wealth of content assets. We have entered an age where more customers can enjoy our content more easily. For this reason, our guiding principle will be to offer our content on all available platforms to make it possible for our customers to enjoy our content in the ways that best suit their diverse lifestyles.

Geographic Expansion

It goes without saying that expanding the geographies in which we offer our products and services is a key challenge. We saw the numbers that "FINAL FANTASY BRAVE EXVIUS" and "KINGDOM HEARTS Union χ" were able to generate in the North American market in the fiscal year ended March 2017 as a major achievement. Japan, North America, and China account for more than 70% of the global mobile gaming market. How we go about enhancing our presence in those three major markets is a key question. In particular, we have not been able to attain the achievements we

Overseas Expansion of the Digital Entertainment Segment



should have been able to thus far in the North American market. However, the success of the aforementioned titles in the fiscal year ended March 2017 gives us hope for future releases. We have multiple title launches scheduled for the fiscal year ending March 2018 and intend to solidify our foothold in the North American market.

It should also be noted that we exhibited at the India Gaming Show 2017 in February 2017. India has significant potential as a gaming market given the country's striking economic growth and massive youth population. We had previously seen India as one location in our global development network and contracted game asset development and other tasks to local firms there. However, we believe we have now reached the point where we should view India as a consumer market. Our hope is that as telecommunications infrastructure and payment systems rapidly come online, India will take off as a major consumer market for games. Based on that belief, we will continue to expand in India.

Games as a Service, Games as Media

"Games as a Service" is a concept that is often mentioned recently in HD game contexts. Gone are the days in which single-player games were of primary status and multiplayer games secondary. Lately, multiplayer games have taken the lead, and it is standard for games to be designed for long-term play. The terms "multiplayer" and "Games as a Service" themselves have existed for some time, but they are now being used in reference to game designs that place a strong emphasis on longer-term user engagement. We will also endeavor to develop games designed not to be played once after launch but that customers can enjoy more and play longer. In so doing, we will increase customer satisfaction and enhance the lifetime value of the games themselves.

Game play streaming has been another major trend in recent years. An increasing number of our customers around the world enjoy not only playing games themselves, but also watching other gamers play them. You do not actually need to play a game yourself to enjoy it. Watching the advanced techniques of professional gamers and the

unique broadcasts of game streamers is another way to enjoy games. Watching gaming is growing into a major form of entertainment thanks to considerable advances in the online streaming environment. It is the presence of e-sports spectators that make this meaningful. Once the size of gaming spectatorship grows, gaming itself will gain value as a form of media. This conversion of gaming into a form of media is proceeding rapidly. We also have a great deal of interest in this field and intend to proactively work to turn it into an actual business.

In Closing

In the fiscal year ended March 2017, we set new records for net sales and all our profit lines. However, that achievement is already in the past, and it was merely a mile marker on our way to future growth. The business environment that surrounds us is subject to constant, unending change. We view such changes as opportunities and intend to continue to strive for further growth.

We look forward to your continued support.

Yosuke Matsuda
President and Representative Director

Directors and Audit & Supervisory Board Members

As of June 23, 2017

Board of Directors

President and Representative Director
Yosuke Matsuda

Director	Director	Director	Director *1	Director *1
Philip Timo Rogers	Keiji Honda	Yukinobu Chida	Yukihiro Yamamura	Yuji Nishiura

Audit & Supervisory Board Members

Ryoichi Kobayashi (Standing*2)

Ryuji Matsuda *2

Tadao Toyoshima *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

DELIVERING UNFORGETTABLE EXPERIENCES

“DRAGON QUEST” Series

In 2016, the “DRAGON QUEST” series celebrated its 30th anniversary. This series of popular role-playing games has sold a total of over 71 million units worldwide since the launch of “DRAGON QUEST” for the Nintendo Entertainment System in 1986. The series keeps creating new gaming experiences by actively utilizing advanced technologies such as 3D maps, StreetPass wireless communication, and cloud gaming.

Total of over 71 million

package shipments and digital sales worldwide

(As of June 30, 2017)

DRAGON QUEST X
ドラゴンクエストX オンライン

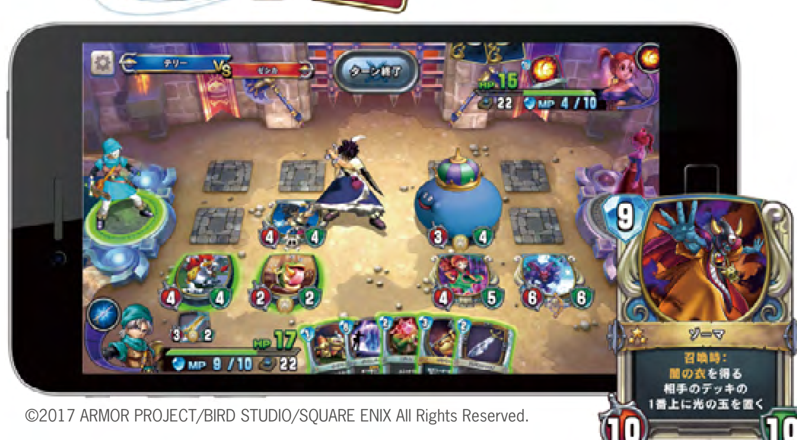
DRAGON QUEST HEROES I·II
ドラゴンクエストヒーローズI·II
for Nintendo Switch

戦え!! DRAGON QUEST
ドラゴンクエスト
スキャンバトラーズ

DQMJ3
DRAGON QUEST MONSTERS Joker
PROFESSIONAL

DRAGON QUEST
星のドラゴンクエスト

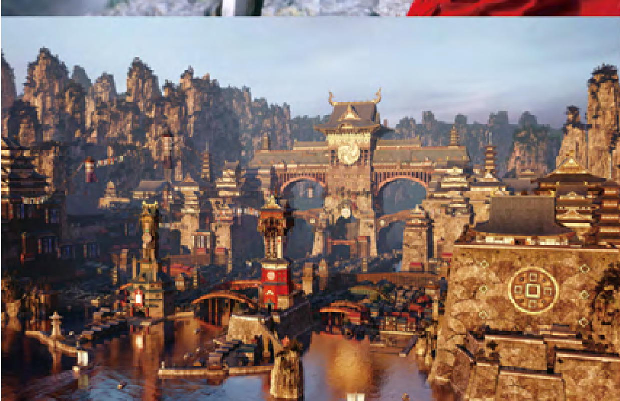
ドラゴンクエスト ライバルズ
DRAGON QUEST RIVALS



FINAL FANTASY

"FINAL FANTASY" Series

The "FINAL FANTASY" series will celebrate its 30th anniversary in 2017. It has earned high praise from fans all over the world for its cutting-edge graphics, unique world view, and rich, in-depth storylines. Since its launch in 1987, the series has sold a total of over 130 million units worldwide. The newest entry, "FINAL FANTASY XV," supports 12 languages, the most of any game in the series. Its epic story and huge, open world have formed the basis of a full-length CG movie, anime, and smartphone game, among other content.



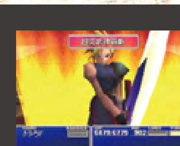
30 Years of FINAL FANTASY

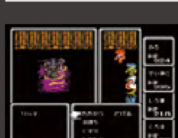
1987 NES
FINAL FANTASY I

1990 NES
FINAL FANTASY III

1992 SNES
FINAL FANTASY V

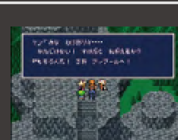
1997 PS
FINAL FANTASY VII





1988 NES
FINAL FANTASY II

1991 SNES
FINAL FANTASY IV



1994 SNES
FINAL FANTASY VI

1999 PS
FINAL FANTASY VIII

NES: Nintendo Entertainment System SNES: Super Nintendo Entertainment System PS: PlayStation PS2: PlayStation2 PS3: PlayStation3 PS4: PlayStation4

FINAL FANTASY XV

DISSIDIA

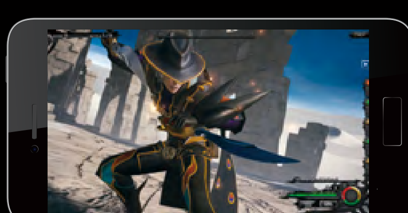
FINAL FANTASY BRAVE EXVIUS

FINAL FANTASY XII THE ZODIAC AGE

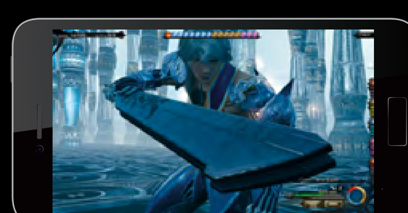
Japanese version

Global version

MOBIUS FINAL FANTASY



Japanese version

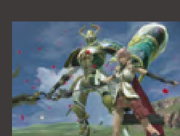


Global version

2000 PS
FINAL FANTASY IX

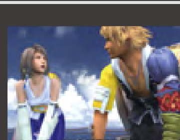
2002 PS2
FINAL FANTASY XI

2009 PS3
FINAL FANTASY XIII



2016 PS4/Xbox One
FINAL FANTASY XV

2001 PS2
FINAL FANTASY X



2006 PS2
FINAL FANTASY XII

2010 PC
FINAL FANTASY XIV

Total of over 135 million

package shipments and digital sales worldwide

(As of June 30, 2017)

Life is Strange: Before The Storm

"Life is Strange: Before the Storm" is a new three part standalone adventure set three years before the first game in the BAFTA award winning franchise. You play as 16-year-old Chloe Price, who forms an unlikely friendship with Rachel Amber, a beautiful and popular girl destined for success. When Rachel learns a secret about her family that threatens to destroy her world, it is her newfound friendship with Chloe that gives her the strength to carry on.

DEUS EX: MANKIND DIVIDED

"DEUS EX: MANKIND DIVIDED" is the newest installment in the multimillion-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.

NieR:Automata

"NieR: Automata" is a new third-person action role-playing game (RPG) and follow-up to the 2010 cult hit NieR. Offering a fresh blend of action and RPG gameplay styles, NieR: Automata was developed in collaboration with PlatinumGames Inc.

Invaders from another world attack without warning, unleashing their secret weapon: machines. In the face of this insurmountable threat, the human race is driven from the earth and takes refuge on the moon.

FORTUNE STREET DRAGON QUEST & FINAL FANTASY 30th ANNIVERSARY

The "DRAGON QUEST" series celebrated its 30th anniversary in May 2016, and the "FINAL FANTASY" series will mark its 30th anniversary in December 2017. "Fortune Street: DRAGON QUEST & FINAL FANTASY 30th Anniversary" is a dream collaboration commemorating the 30th anniversary of these two series.


LOST SPHEAR
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BATTLE INFO
攻撃に火属性を付与する
攻撃に光属性を付与する
全属性の与ダメージ+15%
単体の敵への攻撃ヒット時に与ダメージ+15%
17 HIT
SHORT
TARGET
Special Attack
ブレード・ライジング
STAR OCEAN
anamnesis
スターオーシャン：アナムネシス
RUSH
12600
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乖離性
Kai-ri-Sei Million Arthur
ミリオンアーサー
VR
VIRTUAL REALITY
©2017 SQUARE ENIX CO., LTD. / GREE, Inc. All Rights Reserved.


BRAVELY DEFAULT
FAIRY'S EFFECT
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魔法陣
MAGICAL CIRCLE
グルグル2
©Hiroyuki Eto/SQUARE ENIX


電車でGO!!
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JR東日本商品化許諾申請中
電車でGO!!
DENSHADE

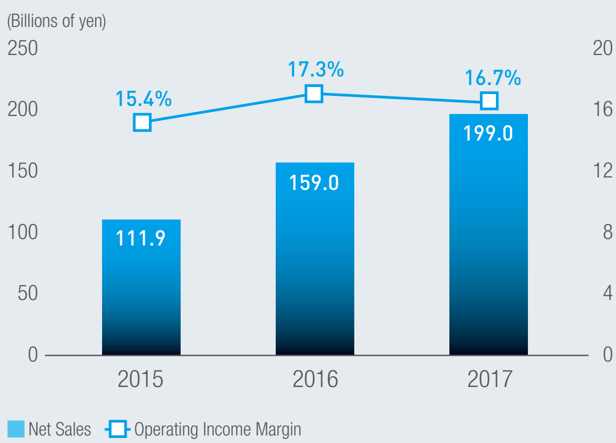
Review of Operations

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.

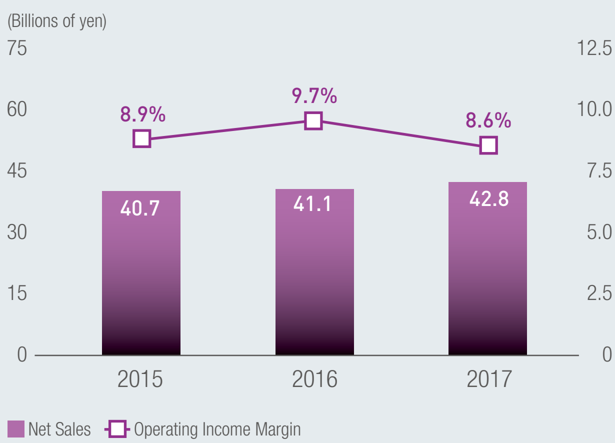
Net sales for the fiscal year ended March 31, 2017 totaled ¥256,824 million (an increase of 20.0% from the prior fiscal year), operating income amounted to ¥31,295 million (an increase of 20.3% from the prior fiscal year), and ordinary income amounted to ¥31,128 million (an increase of 22.9% from the prior fiscal year).

These factors resulted in profit attributable to owners of parent of ¥20,039 million (an increase of 0.8% from the prior fiscal year).

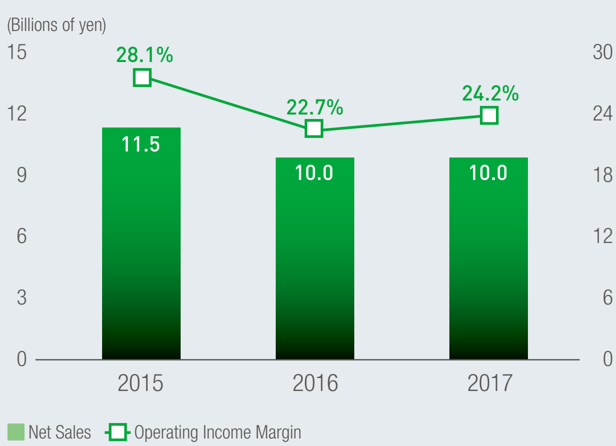
Digital Entertainment



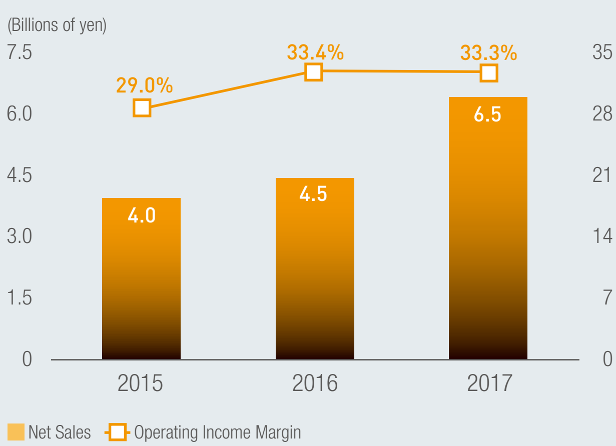
Amusement



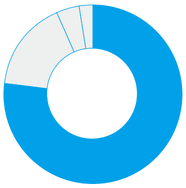
Publication



Merchandising



Digital Entertainment



Share of Net Sales (FY ended March 2017)

77.0%

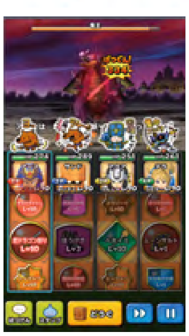
The Digital Entertainment segment consists of planning, development, distribution, and operation of digital entertainment content primarily in the form of games. Digital entertainment content is offered to meet customer lifestyles across a variety of usage environments such as consumer game consoles (including handheld game machines), personal computers and smart devices.

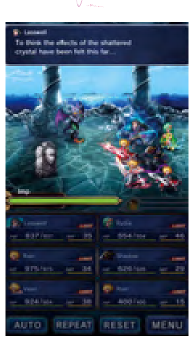
During the fiscal year ended March 31, 2017, major launches of blockbuster series titles such as “FINAL FANTASY XV” and the PlayStation®4 version of “Rise of the Tomb Raider”, on top of strong download sales of previously released catalogue titles, have led to a material increase of net sales and operating income in the area of console games, compared to the prior fiscal year.

In the area of massively multiplayer online role playing games, revenues from operation has been showing steady performance while net sales and operating income declined significantly compared to the prior fiscal year mainly due to the absence of expansion disk releases during the fiscal year ended March 31, 2017.

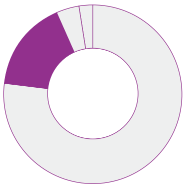
Net sales and operating income, in the area of content for platforms such as smart devices and PC browsers, increased significantly compared to the prior fiscal year primarily thanks to the strong performance of existing major titles of native application games on smartphones such as “FINAL FANTASY BRAVE EXVIUS,” “HOSHI NO DRAGON QUEST” and “DRAGON QUEST MONSTERS SUPER LIGHT,” coupled with successful overseas expansion of “FINAL FANTASY BRAVE EXVIUS” and “KINGDOM HEARTS Union χ.”

Net sales and operating income in the Digital Entertainment segment totaled ¥199,016 million (an increase of 25.2% from the prior fiscal year), and ¥33,310 million (an increase of 21.3% from the prior fiscal year), respectively.





Amusement



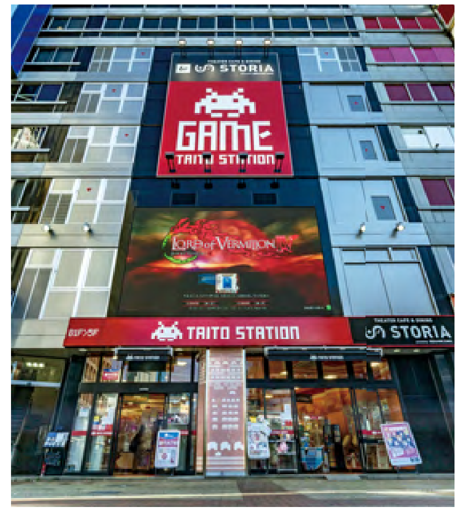
Share of Net Sales (FY ended March 2017)

16.6%

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

During the fiscal year ended March 31, 2017, sales of amusement machines such as "GUNSLINGER STRATOS 3," and "LOVE LIVE! School idol festival – after school ACTIVITY –" have gained favorable results, and operation of the amusement facilities has been showing steady performance through efficient store management efforts.

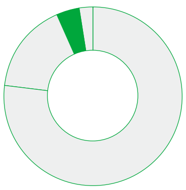
Net sales and operating income in the Amusement segment totaled ¥42,757 million (an increase of 3.9% from the prior fiscal year), and ¥3,669 million (a decrease of 8.0% from the prior fiscal year), respectively.



"LOVE LIVE! School idol festival – after school ACTIVITY –" is joint development project with Bushiroad Inc.

GROOVE COASTER 3EX DREAM PARTY

Publication



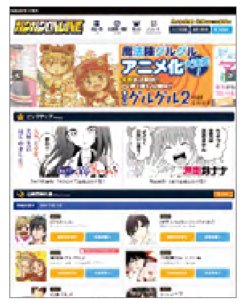
Share of Net Sales (FY ended March 2017)

3.9%

The Publication segment consists of publication and licensing of comic magazines, comic books, and game strategy guides.

During the fiscal year ended March 31, 2017, sales of comic books declined while sales of game strategy guides for blockbuster series titles have gained favorable results compared to the prior fiscal year.

Net sales and operating income in the Publication segment totaled ¥10,041 million (an increase of 0.7% from the prior fiscal year) and ¥2,429 million (an increase of 7.1% from the prior fiscal year), respectively.



G FANTASY
©SQUARE ENIX CO., LTD. All Rights Reserved.

Barakamon
©Satsuki Yoshino/SQUARE ENIX

Black Butler
©Yana Toboso/SQUARE ENIX

FINAL FANTASY XV ULTIMANIA SCENERIO SIDE
©2016 SQUARE ENIX CO., LTD. All Rights Reserved.
MAIN CHARACTER DESIGN: TETSUYA NOMURA.

GANGAN ONLINE
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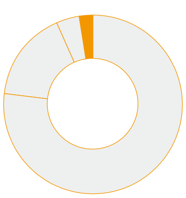
Saki
©Ritz Kobayashi/SQUARE ENIX

Merchandising



Share of Net Sales (FY ended March 2017)

2.5%

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

During the fiscal year ended March 31, 2017, sales and licensing performed steadily thanks to character goods and soundtracks derived from the Group's own IPs.

Net sales and operating income in the Merchandising segment totaled ¥6,451 million (an increase of 41.9% from the prior fiscal year), and ¥2,150 million (an increase of 41.7% from the prior fiscal year), respectively.

FINAL FANTASY XV PLAY ARTS -KAI- NOCTIS
©2016 SQUARE ENIX CO., LTD. All Rights Reserved.
MAIN CHARACTER DESIGN: TETSUYA NOMURA

DRAGON QUEST X Umbrella
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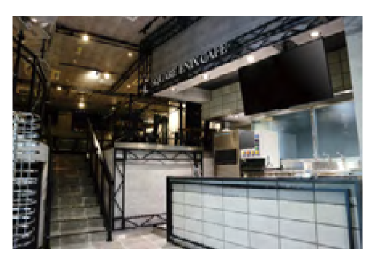

SQUARE ENIX CAFE
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FINAL FANTASY Trading Cardgame Opus I
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1. Status of Corporate Governance

(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 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 two people who report 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.

Tadao Toyoshima does not have experience in corporate management excluding duties as an 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).

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 Tadao Toyoshima 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 Toyoshima 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	322	268	54
Outside directors	2	29	24	5
Total	6	352	292	59

Notes: 1. Non-monetary compensation for the fiscal year ended March 31, 2017 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 ¥192 million and was paid by the parent company (comprising ¥170 million in monetary compensation and ¥22 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, 2016 and March 31, 2017; and total dividends received, total gain on sale of shares and total gain on revaluation of shares for the fiscal year ended March 31, 2017 for investments in shares for purely investment purposes:

Millions of yen

Category	Previous fiscal year	Fiscal year ended March 31, 2017			
	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	7	—	(Note 1) (—)*1
Shares other than those above	694	724	2	—	437 (—)

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, 2017.

• CPAs performing audits:

Limited-liability partners:

Kenichi Shibata, Hiroyoshi Konno

• Personnel providing audit assistance:

14 CPAs, 18 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, 2016		Fiscal year ended March 31, 2017	
	Compensation for statutory audit operations	Compensation for non-audit operations	Compensation for statutory audit operations	Compensation for non-audit operations
Parent company	47	2	47	1
Consolidated subsidiaries	70	—	70	—
Total	118	2	118	1

Note: In addition to the above, there was an additional compensation of ¥3 million recognized in the fiscal year ended March 31, 2017 for an audit of consolidated subsidiaries conducted during the previous fiscal year.

(2) Other significant compensation

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.

Fiscal year ended March 31, 2017

The Company's consolidated subsidiaries SQUARE ENIX LTD. and SQUARE ENIX OF AMERICA HOLDINGS, INC. paid compensation to the Ernst & Young Group amounting to ¥89 million for statutory audit operations and ¥35 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, 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.

Fiscal year ended March 31, 2017

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

(4) Policy on determining audit compensation

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

Financial Section

CONTENTS

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

The following statements are based on management's view on SQUARE ENIX HOLDINGS CO., LTD. (the "Company") as of June 30, 2017 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, 2017, the Group's balance of interest-bearing debt was ¥8,504 million. The equity ratio stood at 74.4%. Cash and cash equivalents at the end of the year totaled ¥127,395 million, an increase of ¥12,019 million from the previous fiscal year-end.

Cash flows in the fiscal year ended March 31, 2017, 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 ¥25,537 million, an increase of 26.5% from the previous fiscal year. This position was primarily due to profit before income taxes of ¥25,846 million, depreciation and amortization of ¥6,270 million, and a decrease in inventories of ¥4,257 million.

(2) Net cash used in investing activities

Net cash used in investing activities totaled ¥7,164 million, an increase of 50.1% from the previous fiscal year. The main factors were purchases of property and equipment of ¥5,785 million, and purchases of intangible assets of ¥851 million.

(3) Net cash used in financing activities

Net cash used in financing activities totaled ¥5,807 million (net cash used in financing activities of ¥141 million in the previous fiscal year). The main factor was cash dividends paid of ¥5,849 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, 2017

■ Assets

Total Assets

Millions of yen

March 31	2017	2016	Change
	¥243,859	¥232,731	¥11,128

Total assets as of March 31, 2017 amounted to ¥243,859 million, an increase of ¥11,128 million from the previous fiscal year. The main factors contributing to the change were as follows:

Cash and Deposits

Millions of yen

March 31	2017	2016	Change
	¥129,364	¥117,306	¥12,058

Cash and deposits as of March 31, 2017 increased ¥12,058 million, to ¥129,364 million, mainly reflecting profit before income taxes of ¥25,846 million offset by an increase of notes and accounts receivable of ¥4,882 million and cash dividends paid of ¥5,849 million, among other factors.

Content Production Account

Millions of yen

March 31	2017	2016	Change
	¥34,548	¥41,419	¥(6,871)

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, 2017, the content production account totaled ¥34,548 million, a decrease of ¥6,871 million from the previous fiscal year.

Property and Equipment

Millions of yen

March 31	2017	2016	Change
	¥14,234	¥13,748	¥486

Total property and equipment as of March 31, 2017 amounted to ¥14,234 million, an increase of ¥486 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	2017	2016	Change
	¥4,735	¥6,447	¥(1,712)

Total intangible assets as of March 31, 2017 amounted to ¥4,735 million, a decrease of ¥1,712 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	2017	2016	Change
	¥15,850	¥17,856	¥(2,006)

Total investments and other assets decreased ¥2,006 million, to ¥15,850 million, as of March 31, 2017.

■ Liabilities

Millions of yen

March 31	2017	2016	Change
	¥61,955	¥63,948	¥(1,993)

As of March 31, 2017, total liabilities amounted to ¥61,955 million, a decrease of ¥1,993 million from the previous fiscal year. The main factors contributing to the change were as follows:

Current Liabilities

Millions of yen

March 31	2017	2016	Change
	¥55,445	¥55,737	¥(292)

Total current liabilities decreased ¥292 million, to ¥55,445 million, as of March 31, 2017. This was mainly due to an increase in provision for sales returns of ¥2,863 million and decreases in short-term loans of ¥1,285 million and accrued income taxes of ¥4,061 million, respectively.

Non-Current Liabilities

Millions of yen

March 31	2017	2016	Change
	¥6,510	¥8,210	¥(1,700)

Total non-current liabilities decreased ¥1,700 million, to ¥6,510 million, as of March 31, 2017, mainly reflecting a decrease in deferred tax liabilities of ¥1,580 million.

■ Shareholders' Equity/Net Assets

Millions of yen

March 31	2017	2016	Change
Common stock	¥ 23,828	¥ 23,753	¥ 75
Capital surplus	53,067	52,993	74
Retained earnings	109,764	95,581	14,183
Treasury stock	(897)	(888)	(9)
Total shareholders' equity	185,763	171,439	14,324
Valuation difference on available-for-sale securities	364	341	23
Foreign currency translation adjustments	(4,640)	(3,207)	(1,433)
Remeasurements of defined benefit plans	(165)	(607)	442
Total accumulated other comprehensive income (loss)	(4,440)	(3,474)	(966)
Stock acquisition rights	453	374	79
Non-controlling interests	128	443	(315)
Total net assets	¥181,904	¥168,783	¥13,121

As of March 31, 2017, total net assets amounted to ¥181,904 million, up ¥13,121 million from the previous fiscal year-end, mainly due to factors such as the recording of profit attributable to owners of parent offset by payments of year-end dividends (¥40 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	2017	Composition	2016	Composition	Amount change	Percent change
Net sales	¥256,824	100.0%	¥214,101	100.0%	¥42,723	20.0%
Gross profit	115,701	45.1%	98,784	46.1%	16,917	17.1%
Reversal of provision for sales returns	3,227	1.3%	4,867	2.3%	(1,640)	(33.7)%
Provision for sales returns	6,014	2.3%	3,534	1.7%	2,480	70.2%
Net gross profit	112,914	44.0%	100,116	46.8%	12,798	12.8%
Selling, general and administrative expenses	81,618	31.8%	74,097	34.6%	7,521	10.2%
Operating income	¥ 31,295	12.2%	¥ 26,018	12.2%	¥ 5,277	20.3%

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	2017	2016	Change
Non-operating income	¥293	¥ 980	¥ (687)
Non-operating expenses	459	1,676	(1,217)

Extraordinary Gain and Loss

Millions of yen

Years ended March 31	2017	2016	Change
Extraordinary gain	¥ 302	¥ 40	¥ 262
Extraordinary loss	5,584	3,925	1,659

Total extraordinary gain was ¥302 million. Total extraordinary loss was ¥5,584 million, mainly due to loss on liquidation of subsidiaries and associates of ¥4,898 million.

■ Capital Expenditures and Depreciation and Amortization

Millions of yen

Years ended March 31	2017	2016	Change
Capital expenditures	¥6,962	¥5,872	¥1,090
Depreciation and amortization	6,270	6,317	(47)

Capital expenditures for the fiscal year ended March 31, 2017 amounted to ¥6,962 million, an increase of ¥1,090 million from the previous fiscal year, mainly due to the relocation of offices and expansion of the number of rental floors at subsidiaries and other factors.

Depreciation and amortization totaled ¥6,270 million, a decrease of ¥47 million from the previous fiscal year, primarily due to a decrease in depreciation and amortization in the Digital Entertainment 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. Our business area is also expanding to new markets such as Central and South America, the Middle East and South Asia, in addition to existing major markets including Japan, Europe, the United States and East Asia. The Group strives to respond to these changes, and become a pioneer in 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 focusing on emerging markets 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, 2018 is as follows (as of June 30, 2017).

Millions of yen

Years ended/ ending March 31	2008 actual	2009 actual	2010 actual	2011 actual	2012 actual	2013 actual	2014 actual	2015 actual	2016 actual	2017 actual	2018 forecast
Net sales	¥147,516	¥135,693	¥192,257	¥125,271	¥127,896	¥147,981	¥155,023	¥167,891	¥214,101	¥256,824	¥240,000–260,000
Operating income (loss)	21,520	12,277	28,235	7,325	10,713	(6,081)	10,543	16,426	26,018	31,295	25,000–30,000
Ordinary income (loss)	18,864	11,261	27,822	5,390	10,297	(4,378)	12,534	16,984	25,322	31,128	25,000–30,000
Profit (loss) attributable to owners of parent	9,196	6,333	9,509	(12,043)	6,060	(13,714)	6,598	9,831	19,884	20,039	16,500–19,500

5. Basic Policy for Profit Distribution and Dividends

The Group has made the return of profits to shareholders one of its most important management tasks. The Group prioritizes investments that will enhance the value of the Group and toward this end maintains internal reserves to finance efforts that include expanding existing businesses, developing new businesses and restructuring business segments. Funds remaining after the allocation of retained earnings are appropriated for dividends, keeping in mind returns to shareholders and seeking an optimal balance of stable returns linked to operating performance. The amount of dividends is determined by setting a consolidated payout ratio target of approximately 30%, 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, 2017, the Company paid an interim dividend of ¥10 per share and a year-end dividend of ¥40 per share for an annual dividend of ¥50 per share.

The distribution of surplus for the fiscal year ended March 31, 2017 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, 2017 are as follows:

Date of resolution	Total dividends (Millions of yen)	Dividends per share (Yen)
November 8, 2016 Resolution by the Board of Directors	¥1,220	¥10
May 17, 2017 Resolution by the Board of Directors	¥4,882	¥40

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, 2017.

(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

	2017	2016
Assets		
Current assets		
Cash and deposits	¥129,364	¥117,306
Notes and accounts receivable	26,053	21,487
Merchandise and finished goods	2,820	2,428
Work in progress	11	109
Raw materials and supplies	302	233
Content production account	34,548	41,419
Deferred tax assets	7,029	6,561
Other	9,222	5,275
Allowance for doubtful accounts	(314)	(143)
Total current assets	209,038	194,679
Non-current assets		
Property and equipment		
Buildings and structures	14,777	13,779
Accumulated depreciation	(9,365)	(8,654)
Buildings and structures (net)	5,412	5,124
Tools and fixtures	13,694	13,312
Accumulated depreciation	(10,626)	(10,047)
Tools and fixtures (net)	3,067	3,265
Amusement equipment	16,247	15,457
Accumulated depreciation	(14,455)	(14,012)
Amusement equipment (net)	1,792	1,445
Other	181	101
Accumulated depreciation	(79)	(47)
Other (net)	101	54
Land	3,798	3,798
Construction in progress	62	61
Total property and equipment	14,234	13,748
Intangible assets		
Other	4,735	6,447
Total intangible assets	4,735	6,447
Investments and other assets		
Investment securities	780	749
Guarantee deposits	9,204	9,173
Net defined benefit asset	120	—
Deferred tax assets	2,572	4,972
Other	*1 3,394	*1 3,185
Allowance for doubtful accounts	(222)	(224)
Total investments and other assets	15,850	17,856
Total non-current assets	34,820	38,052
Total assets	¥243,859	¥232,731

The accompanying notes are an integral part of these statements.

	2017	2016
Liabilities		
Current liabilities		
Notes and accounts payable	¥ 14,220	¥ 14,671
Short-term loans	8,437	9,722
Accrued income taxes	1,665	5,726
Provision for bonuses	2,358	2,672
Provision for sales returns	6,197	3,334
Provision for game arcade closings	64	75
Asset retirement obligations	17	5
Other	22,482	19,529
Total current liabilities	55,445	55,737
Non-current liabilities		
Provision for directors' retirement benefits	88	162
Provision for game arcade closings	83	127
Net defined benefit liabilities	2,546	2,747
Deferred tax liabilities	573	2,153
Asset retirement obligations	2,450	2,355
Other	767	665
Total non-current liabilities	6,510	8,210
Total liabilities	61,955	63,948
Net Assets		
Shareholders' equity		
Common stock	23,828	23,753
Capital surplus	53,067	52,993
Retained earnings	109,764	95,581
Treasury stock	(897)	(888)
Total shareholders' equity	185,763	171,439
Accumulated other comprehensive income (loss)		
Valuation difference on available-for-sale securities	364	341
Foreign currency translation adjustments	(4,640)	(3,207)
Remeasurements of defined benefit plans	(165)	(607)
Total accumulated other comprehensive income (loss)	(4,440)	(3,474)
Stock acquisition rights	453	374
Non-controlling interests	128	443
Total net assets	181,904	168,783
Total liabilities and net assets	¥243,859	¥232,731

Millions of yen

The accompanying notes are an integral part of these statements.

Consolidated Statement of Income (JPNGAAP)

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

	Millions of yen	
	2017	2016
Net sales	¥ 256,824	¥ 214,101
Cost of sales	*1 141,123	*1 115,316
Gross profit	115,701	98,784
Reversal of provision for sales returns	3,227	4,867
Provision for sales returns	6,014	3,534
Net gross profit	112,914	100,116
Selling, general and administrative expenses		
Packaging freight charge	1,726	1,751
Advertising expense	25,541	20,270
Sales promotion expense	74	66
Allowance for doubtful accounts	12	54
Compensation for directors	557	565
Salaries	14,618	14,465
Provision for bonuses	2,492	2,916
Net periodic pension costs	678	539
Provision for directors' retirement benefits	—	10
Welfare expense	2,161	2,092
Rental expense	2,100	2,118
Commission fee	21,554	18,996
Depreciation and amortization	2,272	2,476
Other	7,825	7,772
Total selling, general and administrative expenses	*2 81,618	*2 74,097
Operating income	31,295	26,018
Non-operating income		
Interest income	75	85
Dividends received	9	9
Rental income	16	16
Reversal of allowance for doubtful accounts	2	213
Subsidy income	33	495
Gain on forgiveness of payable for group tax	62	—
Miscellaneous income	93	158
Total non-operating income	293	980
Non-operating expenses		
Interest expenses	52	67
Commission fee	6	14
Office transfer-related expenses	31	44
Foreign exchange loss	358	1,545
Miscellaneous loss	11	4
Total non-operating expenses	459	1,676
Ordinary income	31,128	25,322
Extraordinary gain		
Gain on sale of property and equipment	*3 4	*3 18
Gain on sale of investment securities	—	1
Gain on reversal of stock acquisition rights	20	19
Gain on liquidation of subsidiaries	69	—
Gain on reversal of foreign currency translation adjustment	105	—
Gain on reversal of debts	82	—
Other	20	—
Total extraordinary gain	302	40
Extraordinary loss		
Loss on sale of property and equipment	*4 —	*4 36
Loss on disposal of property and equipment	*5 210	*5 194
Impairment loss	*6 437	*6 1,961
Provision for game arcade closings	—	15
Loss on liquidation of subsidiaries and associates	*7 4,898	—
Loss on valuation of shares of subsidiaries and associates	0	1,702
Other	37	14
Total extraordinary loss	5,584	3,925
Profit before income taxes	25,846	21,436
Income taxes–current	5,331	6,690
Income taxes–deferred	472	(5,146)
Total income taxes	5,804	1,544
Profit	20,042	19,892
Profit attributable to non-controlling interests	3	8
Profit attributable to owners of parent	¥ 20,039	¥ 19,884

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

	2017	2016
Profit	¥20,042	¥19,892
Other comprehensive income (loss)		
Valuation difference on available-for-sale securities	23	(277)
Foreign currency translation adjustments	(1,539)	(1,956)
Remeasurements of defined benefit plans	442	(707)
Other comprehensive income (loss)	*1 (1,073)	*1 (2,941)
Comprehensive income	18,969	16,951
(Breakdown)		
Comprehensive income attributable to owners of parent	19,072	16,984
Comprehensive income (loss) attributable to non-controlling interests	¥ (103)	¥ (33)

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

■ 2017

Millions of yen

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at the beginning of the year	¥23,753	¥52,993	¥ 95,581	¥(888)	¥171,439
Changes during the year					
Issuance of new stocks	74	74			149
Dividends from retained earnings			(5,855)		(5,855)
Profit attributable to owners of parent			20,039		20,039
Purchase of treasury stock				(8)	(8)
Disposal of treasury stock		0		0	0
Net changes in items other than shareholders' equity					
Total changes during the year	74	74	14,183	(8)	14,323
Balance at the end of the year	¥23,828	¥53,067	¥109,764	¥(897)	¥185,763

Millions of yen

	Accumulated other comprehensive income (loss)				Stock acquisition rights	Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total accumulated other comprehensive income (loss)			
Balance at the beginning of the year	¥341	¥(3,207)	¥(607)	¥(3,474)	¥374	¥ 443	¥168,783
Changes during the year							
Issuance of new stocks							149
Dividends from retained earnings							(5,855)
Profit attributable to owners of parent							20,039
Purchase of treasury stock							(8)
Disposal of treasury stock							0
Net changes in items other than shareholders' equity	23	(1,432)	442	(966)	78	(315)	(1,203)
Total changes during the year	23	(1,432)	442	(966)	78	(315)	13,120
Balance at the end of the year	¥364	¥(4,640)	¥(165)	¥(4,440)	¥453	¥ 128	¥181,904

The accompanying notes are an integral part of these statements.

■ 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
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)				Stock acquisition rights	Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total accumulated other comprehensive income (loss)			
Balance at the beginning of the year	¥ 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.

Consolidated Statement of Cash Flows (JPNGAAP)

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

Millions of yen

	2017	2016
Cash flows from operating activities		
Profit before income taxes	¥ 25,846	¥ 21,436
Depreciation and amortization	6,270	6,317
Impairment loss	862	1,961
Increase (decrease) in allowance for doubtful accounts	169	(169)
Increase (decrease) in provision for bonuses	(224)	1,138
Increase (decrease) in provision for sales returns	2,905	(1,332)
Increase (decrease) in provision for directors' retirement benefits	(63)	10
Increase (decrease) in provision for game arcade closing	(53)	(328)
Decrease (increase) in net defined benefit asset	7	—
Increase (decrease) in net defined benefit liabilities	291	(476)
Interest and dividends income	(84)	(95)
Interest expenses paid	52	67
Foreign exchange loss (gain)	(964)	1,749
Loss (gain) on sales of investment securities	—	(1)
Loss on disposal of property and equipment	210	194
Gain on sales of non-current assets	(4)	(18)
Loss on sales of property and equipment	—	36
Loss on valuation of shares of subsidiaries and associates	0	1,702
Decrease (increase) in notes and accounts receivable	(4,882)	(910)
Decrease (increase) in inventories	4,257	(7,630)
Increase (decrease) in notes and accounts payable–trade	3,283	2,735
Decrease (increase) in other current assets	410	(552)
Decrease (increase) in other non-current assets	(187)	(527)
Increase (decrease) in other current liabilities	881	320
Other, net	(2,215)	210
Subtotal	36,769	25,838
Interest and dividends income received	89	95
Interest expenses paid	(54)	(65)
Income taxes paid	(11,311)	(6,213)
Income taxes refund	45	530
Net cash provided by operating activities	¥ 25,537	¥ 20,184

The accompanying notes are an integral part of these statements.

Millions of yen

	2017	2016
Cash flows from investing activities		
Payments into time deposits	¥(4,461)	¥ (1,671)
Proceeds from withdrawal of time deposits	4,113	1,153
Proceeds from sales of investment securities	—	1
Purchases of property and equipment	(5,785)	(4,053)
Proceeds from sales of property and equipment	6	200
Purchases of intangible assets	(851)	(461)
Purchases of investments in subsidiaries	(100)	(330)
Proceeds from liquidation of subsidiaries	69	—
Payments for guarantee deposits	(324)	(398)
Proceeds from collection of guarantee deposits	223	992
Other, net	(54)	(206)
Net cash used in investing activities	(7,164)	(4,773)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	—	3,428
Proceeds from issuance of new stocks	124	121
Purchase of treasury stock	(8)	(11)
Cash dividends paid	(5,849)	(3,654)
Other, net	(74)	(24)
Net cash used in financing activities	(5,807)	(141)
Effect of exchange rate change on cash and cash equivalents	(534)	(3,041)
Net increase (decrease) in cash and cash equivalents	12,030	12,228
Cash and cash equivalents at the beginning of the year	115,375	103,147
Decrease in cash and cash equivalents resulting from exclusion of subsidiaries from consolidation	(11)	—
Cash and cash equivalents at end of the year	*1 ¥127,395	*1 ¥115,375

The accompanying notes are an integral part of these statements.

Notes to Consolidated Financial Statements (JPNGAAP)

SQUARE ENIX HOLDINGS CO., LTD. and Consolidated Subsidiaries

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

1. Scope of Consolidation

(1) Number of consolidated subsidiaries: 24 companies

Names of principal consolidated subsidiaries

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

During the fiscal year ended March 31, 2017, SQUARE ENIX OF EUROPE HOLDINGS LTD., CORE DESIGN LTD., IRONSTONE PARTNERS LTD., ROCKPOOL GAMES LTD., and SOGOPLAY LTD. completed liquidation procedures, and consequently, they were excluded from the Company's scope of consolidation. SQUARE ENIX WEBSTAR NETWORK TECHNOLOGY (BEIJING) CO., LTD. was excluded from the scope of consolidation as it decreased in importance and was in the process of liquidation.

(2) Names of principal non-consolidated subsidiaries:

Tokyo RPG Factory Co., Ltd.
STUDIO ISTOLIA 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 Tokyo RPG Factory Co., Ltd., STUDIO ISTOLIA 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, regarding buildings (excluding building fixtures) acquired on or after April 1, 1998, and facilities attached to buildings and other non-building structures acquired on or after April 1, 2016, the straight-line method is applied. Overseas consolidated subsidiaries also use the straight-line method. 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, 2017, 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, 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.

Changes in Accounting Policy

(Application of accounting standard for business)

The Company and its domestic consolidated subsidiaries adopted the "Practical Solution on a change in depreciation method due to Tax Reform 2016" (ASBJ Practical Issues Task Force (PITF) No. 32, June 17, 2016) as a result of revisions to the Corporation Tax Act of Japan. Accordingly, the Group has changed the depreciation method for facilities attached to buildings and other non-building structures acquired on or after April 1, 2016 from the declining-balance method to the straight-line method.

The impact of this change on the consolidated financial statements for the fiscal year ended March 31, 2017 is insignificant.

Accounting Standards Issued but Not Yet Applied

Not applicable

Additional Information

(Application of Revised Implementation Guidance on Recoverability of Deferred Tax Assets)

Effective from the beginning of the fiscal year ended March 31, 2017, the Group has adopted "Revised Implementation Guidance on Recoverability of Deferred Tax Assets" (ASBJ Guidance No. 26, March 28, 2016).

Notes to Consolidated Balance Sheet

*1 Investments in non-consolidated subsidiaries and affiliates

Millions of yen

	As of March 31, 2017	As of March 31, 2016
Investments and other assets	¥649	¥550

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, 2017	Fiscal year ended March 31, 2016
¥6,921	¥6,666

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

Millions of yen

Fiscal year ended March 31, 2017	Fiscal year ended March 31, 2016
¥1,395	¥1,224

*3 Breakdown of gain on sale of property and equipment

Millions of yen

	Fiscal year ended March 31, 2017	Fiscal year ended March 31, 2016
Buildings, structures and land	¥—	¥ 9
Tools, furniture and fixtures	4	9
Total	¥ 4	¥18

*4 Breakdown of loss on sale of property and equipment

Millions of yen

	Fiscal year ended March 31, 2017	Fiscal year ended March 31, 2016
Buildings, structures and land	¥—	¥36
Tools, furniture and fixtures	—	0
Total	¥—	¥36

*5 Breakdown of loss on disposal of property and equipment

Millions of yen

	Fiscal year ended March 31, 2017	Fiscal year ended March 31, 2016
Buildings and structures	¥ 3	¥ 13
Tools, furniture and fixtures	37	11
Amusement equipment	169	170
Other	0	—
Total	¥210	¥194

*6 Impairment loss

In the fiscal year ended March 31, 2017, 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	¥ 80
		Other (Intangible assets)	0
Shinjuku-ku, Tokyo	Assets planned for disposal	Amusement equipment	1
Fukuoka-city, Fukuoka	Assets planned for disposal	Buildings	3
United Kingdom	Other	Other (Intangible assets)	351
Total			¥437

In addition to the above, an impairment loss of ¥424 million was posted as a loss on liquidation of subsidiaries and associates.

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 primarily on a reasonable assumption of market price, while value in use is estimated at zero as no recoverability is recognized.

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%.

*7 Loss on liquidation of subsidiaries and associates

The “loss on liquidation of subsidiaries and associates” reported as an extraordinary loss for the fiscal year ended March 31, 2017 refers to a loss on business withdrawal regarding IO INTERACTIVE A/S, a consolidated subsidiary, as determined by the Company. The loss comprises ¥3,335 million in loss on write-offs of content production account, ¥424 million in impairment loss on intangible assets, ¥717 million in staff reduction costs, and ¥421 million in other expenses.

Details of the aforementioned impairment loss on intangible assets are shown below.

Millions of yen

Location	Usage	Category	Impairment amount
United Kingdom	Other	Other (Intangible assets)	¥424

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 the calculation of the recoverable amounts is measured by value in use.

The value in use is estimated at zero as no recoverability is recognized.

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, 2017	Fiscal year ended March 31, 2016
Valuation difference on available-for-sale securities:		
Gains (losses) arising during the year	¥ 34	¥ (422)
Reclassification adjustments	—	—
Total amount before tax-effect	34	(422)
Tax-effect	(10)	145
Valuation difference on available-for-sale securities	23	(277)
Foreign currency translation adjustments:		
Exchange differences arising during the year	(1,363)	(1,956)
Reclassification adjustments relating to foreign operations	(175)	—
Total amount before tax-effect	(1,539)	(1,956)
Tax-effect	—	—
Foreign currency translation adjustments	(1,539)	(1,956)
Remeasurements of defined benefit plans:		
Defined benefit obligations arising during the year	350	(1,117)
Reclassification adjustments relating to defined benefit plans	270	94
Total amount before tax-effect	620	(1,022)
Tax-effect	(178)	315
Remeasurements of defined benefit plans	442	(707)
Total other comprehensive income (loss)	¥(1,073)	¥(2,941)

Notes to Consolidated Statement of Changes in Net Assets

■ Year ended March 31, 2017

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, 2016	Share increases during the year	Share decreases during the year	Shares as of March 31, 2017
Shares issued and outstanding				
Common stock[1]	122,299	73	—	122,373
Total	122,299	73	—	122,373
Treasury stock				
Common stock[2, 3]	313	2	0	316
Total	313	2	0	316

Notes: 1 The increase of 73 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 2 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				Balance as of March 31, 2017 (Millions of yen)
			As of April 1, 2016	Increase during the year	Decrease during the year	As of March 31, 2017	
Supplying company (parent company)	Stock acquisition rights as stock options	—	—	—	—	—	¥453
	Total	—	—	—	—	—	¥453

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, 2016 (Board of Directors' Meeting)	Common stock	¥4,635	¥38	March 31, 2016	June 3, 2016
November 8, 2016 (Board of Directors' Meeting)	Common stock	1,220	10	September 30, 2016	December 5, 2016

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

Date of approval	Type of shares	Total dividends (Millions of yen)	Source of dividends	Dividends per share (Yen)	Record date	Effective date
May 17, 2017 (Board of Directors' Meeting)	Common stock	¥4,882	Retained earnings	¥40	March 31, 2017	June 2, 2017

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				Balance as of March 31, 2016 (Millions of yen)
			As of April 1, 2015	Increase during the year	Decrease during the year	As of March 31, 2016	
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

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, 2017	Fiscal year ended March 31, 2016
Cash and deposits	¥129,364	¥117,306
Time deposits with maturity periods over three months	(1,969)	(1,930)
Cash and cash equivalents	¥127,395	¥115,375

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, 2017 and 2016, 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, 2017**

Millions of yen

Assets:	Book value	Fair value	Difference
(1) Cash and deposits	¥129,364	¥129,364	¥ —
(2) Notes and accounts receivable	26,053		
Allowance for doubtful accounts	(314)		—
Notes and accounts receivable, net	25,739	25,739	—
(3) Investment securities	748	748	—
(4) Guarantee deposits	9,204		
Allowance for doubtful deposits paid	(137)		—
Guarantee deposits, net	9,066	8,976	(90)
Total assets	164,919	164,828	(90)
Liabilities:			
(1) Notes and accounts payable	14,220	14,220	—
(2) Short-term loans	8,437	8,437	—
(3) Accrued income taxes	1,665	1,665	—
Total liabilities	¥ 24,323	¥ 24,323	¥ —

■ **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	¥ —

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, 2017	As of March 31, 2016
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, 2017				As of March 31, 2016			
	Within 1 year	More than 1 year but within 5 years	More than 5 years but within 10 years	More than 10 years	Within 1 year	More than 1 year but within 5 years	More than 5 years but within 10 years	More than 10 years
Deposits	¥127,640	¥ —	¥ —	¥—	¥115,647	¥ —	¥ —	¥—
Notes and accounts receivable	26,053	—	—	—	21,487	—	—	—
Guarantee deposits	5,208	2,629	1,366	—	4,698	1,762	2,674	38
Total	¥158,902	¥2,629	¥1,366	¥—	¥141,833	¥1,762	¥2,674	¥38

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

Millions of yen

	As of March 31, 2017						As of March 31, 2016					
	Within 1 year	More than 1 year but within 2 years	More than 2 years but within 3 years	More than 3 years but within 4 years	More than 4 years but within 5 years	More than 5 years	Within 1 year	More than 1 year but within 2 years	More than 2 years but within 3 years	More than 3 years but within 4 years	More than 4 years but within 5 years	More than 5 years
Short-term loans	¥8,437	¥—	¥—	¥—	¥—	¥—	¥9,722	¥—	¥—	¥—	¥—	¥—
Total	¥8,437	¥—	¥—	¥—	¥—	¥—	¥9,722	¥—	¥—	¥—	¥—	¥—

Securities

1. Held-for-sale securities

Not applicable

2. Held-to-maturity securities with market value

Not applicable

3. Other investment securities with market value

Millions of yen

	Type	As of March 31, 2017			As of March 31, 2016		
		Book value	Acquisition cost	Difference	Book value	Acquisition cost	Difference
Securities with book value exceeding acquisition cost	(1) Stocks	¥678	¥229	¥448	¥665	¥233	¥432
	(2) Bonds						
	a. Government bonds and municipal bonds	—	—	—	—	—	—
	b. Corporate bonds	—	—	—	—	—	—
	c. Other	—	—	—	—	—	—
	(3) Other	—	—	—	—	—	—
	Subtotal	678	229	448	665	233	432
Securities with acquisition cost exceeding book value	(1) Stocks	70	75	(5)	52	75	(23)
	(2) Bonds						
	a. Government bonds and municipal bonds	—	—	—	—	—	—
	b. Corporate bonds	—	—	—	—	—	—
	c. Other	—	—	—	—	—	—
	(3) Other	—	—	—	—	—	—
	Subtotal	70	75	(5)	52	75	(23)
Total		¥748	¥305	¥443	¥718	¥308	¥409

4. Securities sold during the year

Millions of yen

	Fiscal year ended March 31, 2017			Fiscal year ended March 31, 2016		
Item	Proceeds	Aggregate gain on sale	Aggregate loss on sale	Proceeds	Aggregate gain on sale	Aggregate loss on sale
(1) Stocks	¥—	¥—	¥—	¥1	¥1	¥—
(2) Bonds						
a. Government bonds and municipal bonds	—	—	—	—	—	—
b. Corporate bonds	—	—	—	—	—	—
c. Other	—	—	—	—	—	—
(3) Other	—	—	—	—	—	—
Total	¥—	¥—	¥—	¥1	¥1	¥—

Derivative Transactions

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

Currency derivatives

Year ended March 31, 2017

Not applicable

Year ended March 31, 2016

Not applicable

2. Derivative transactions for which hedge accounting has been applied

Year ended March 31, 2017

Not applicable

Year ended March 31, 2016

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 adopted defined benefit corporate pension plans in addition to the above plan.

Certain of the Company's overseas subsidiaries adopted 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, 2017	Fiscal year ended March 31, 2016
Balance of retirement benefit obligations at the beginning of the year	¥12,143	¥11,105
Service cost	525	488
Interest cost	28	85
Actuarial (gains) losses arising during the year	(201)	869
Retirement benefits paid	(457)	(405)
Balance of retirement benefit obligations at the end of the year	¥12,038	¥12,143

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

Millions of yen

	Fiscal year ended March 31, 2017	Fiscal year ended March 31, 2016
Balance of plan assets at the beginning of the year	¥9,396	¥8,904
Expected return on plan assets	135	171
Actuarial gains (losses) arising during the year	148	(247)
Employer contribution	295	899
Retirement benefits paid	(362)	(331)
Balance of plan assets at the end of the year	¥9,613	¥9,396

(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, 2017	Fiscal year ended March 31, 2016
Retirement benefit obligation for funded plans	¥ 9,492	¥ 9,771
Plan assets	(9,613)	(9,396)
	(120)	375
Retirement benefit obligation for unfunded plans	2,546	2,371
Net defined benefit liabilities and assets recorded in the consolidated balance sheet	2,425	2,747
Net defined benefit liabilities	2,546	2,747
Net defined benefit assets	120	—
Net defined benefit liabilities and assets recorded in the consolidated balance sheet	¥2,425	¥2,747

(4) Components of net periodic pension costs

Millions of yen

	Fiscal year ended March 31, 2017	Fiscal year ended March 31, 2016
Service cost	¥ 525	¥ 488
Interest cost	28	85
Expected return on plan assets	(135)	(171)
Amortization of net actuarial (gains) losses	270	94
Net periodic pension costs relating to defined benefit plan	¥ 688	¥ 497

(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, 2017	Fiscal year ended March 31, 2016
Actuarial gains (losses)	¥620	¥(1,022)
Total	¥620	¥(1,022)

(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, 2017	As of March 31, 2016
Unrecognized actuarial gains (losses)	¥254	¥875
Total	¥254	¥875

(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, 2017	As of March 31, 2016
Bonds	46	47
Stocks	9	8
General accounts	31	31
Cash and deposits	5	5
Others	9	9
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, 2017	As of March 31, 2016
Discount rate	0.155 to 0.533	0.154 to 0.410
Long-term expected rate of return on plan assets	1.500	2.000

3. Defined contribution plan:

The required contributions for the defined contribution plan by consolidated subsidiaries were ¥342 million and ¥348 million for the years ended March 31, 2017 and 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, 2017	Fiscal year ended March 31, 2016
Selling, general and administrative expenses	¥128	¥90

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

Millions of yen

	Fiscal year ended March 31, 2017	Fiscal year ended March 31, 2016
Reversal of stock acquisition rights	¥20	¥19

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

(1) Details of stock options

	2008 stock options	2009 stock options	2010 stock options	2011 stock options	2011 stock options	2012 stock options
Category of grantees	Company directors	Company directors	Company directors	Company directors	Company employees, and directors and employees of the Company's subsidiaries	Company directors
Number of grantees	5	5	5	5	12	5
Number of stock options	19,800 shares of common stock	57,000 shares of common stock	77,000 shares of common stock	87,000 shares of common stock	180,000 shares of common stock	67,000 shares of common stock
Date granted	August 21, 2008	October 21, 2009	August 23, 2010	July 21, 2011	August 31, 2011	July 26, 2012
Conditions for vesting of interests	No conditions have been set for vesting interests	No conditions have been set for vesting interests	No conditions have been set for vesting interests	No conditions have been set for vesting interests	No conditions have been set for vesting interests	No conditions have been set for vesting interests
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 22, 2011 to July 21, 2031	August 6, 2013 to August 5, 2016	July 27, 2012 to July 26, 2032

	2012 stock options	2014 stock options	2015 stock options	2015 stock options	2016 stock options	2016 stock options
Category of grantees	Company employees	Company directors	Company directors	Company employees, and directors and employees of the Company's subsidiaries	Company directors	Company employees, and directors and employees of the Company's subsidiaries
Number of grantees	8	6	6	18	6	21
Number of stock options	110,000 shares of common stock	16,000 shares of common stock	21,000 shares of common stock	122,000 shares of common stock	21,000 shares of common stock	116,000 shares of common stock
Date granted	August 29, 2012	September 25, 2014	July 16, 2015	July 16, 2015	July 20, 2016	July 20, 2016
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	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	July 21, 2016 to July 20, 2036	June 25, 2018 to June 24, 2021

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	2011 stock options	2011 stock options	2012 stock options	2012 stock options	2014 stock options	2015 stock options	2015 stock options	2016 stock options	2016 stock options
Before vesting (shares)												
March 31, 2016	—	—	—	—	—	—	—	—	—	92,000	—	—
Granted	—	—	—	—	—	—	—	—	—	—	21,000	116,000
Forfeited	—	—	—	—	—	—	—	—	—	10,000	—	10,000
Vested	—	—	—	—	—	—	—	—	—	—	21,000	—
Unvested balance	—	—	—	—	—	—	—	—	—	82,000	—	106,000
After vesting (shares)												
March 31, 2016	9,900	26,000	31,000	31,000	97,000	26,000	56,400	16,000	21,000	—	—	—
Vested	—	—	—	—	—	—	—	—	—	—	21,000	—
Exercised	—	—	—	—	39,500	—	34,400	—	—	—	—	—
Forfeited	—	—	—	—	57,500	—	—	—	—	—	—	—
Balance unexercised	9,900	26,000	31,000	31,000	—	26,000	22,000	16,000	21,000	—	21,000	—

2) Price information

Yen

	2008 stock options	2009 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	2016 stock options	2016 stock options
Exercise price	¥ 1	¥ 1	¥ 1	¥ 1	¥1,835	¥ 1	¥1,515	¥ 1	¥ 1	¥3,150	¥ 1	¥3,290
Average share price at exercise	—	—	—	—	3,374	—	3,351	—	—	—	—	—
Fair market value on grant date	3,171	2,107	1,464	1,312	435	948	214	2,041	2,864	885	2,843	896

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

The fair value of the 2016 stock options granted during the fiscal year ended March 31, 2017 was estimated using the following method.

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

(2) Main assumptions:

	2016 stock options	2016 stock options
Expected share price volatility[1]	37.2%	42.8%
Expected life[2]	10 years	3.4 years
Expected dividend yield[3]	1.46%	1.46%
Risk-free interest rate[4]	(0.25)%	(0.33)%

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 2016 stock options, this was calculated based on the actual dividend applicable to the fiscal year ended March 31, 2016.

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, 2017	As of March 31, 2016
Deferred tax assets		
1) Current assets		
Enterprise tax payable	¥ 166	¥ 565
Business office tax payable	38	32
Provision for bonuses	597	590
Accrued expenses	557	414
Provision for sales returns	1,693	862
Non-deductible portion of allowance for doubtful accounts	11	8
Tax credits	446	333
Loss on write-offs of content production account	3,057	3,494
Loss on inventory revaluation	557	555
Provision for game arcade closings	22	23
Loss carried forward	121	19
Other	47	159
Valuation allowance	(10)	(348)
Offset to deferred tax liabilities (current)	(277)	(149)
Total	7,029	6,561
2) Non-current assets		
Net defined benefit liabilities	887	967
Provision for directors' retirement benefits	37	51
Expense for stock-based compensation	137	113
Non-deductible depreciation expense of property and equipment	210	138
Asset retirement obligations	773	721
Impairment loss	331	306
Loss on evaluation of investments in securities	587	3,843
Non-deductible portion of allowance for doubtful accounts	27	24
Non-deductible portion of excess expenses on lump-sum depreciable assets	62	72
Loss carried forward, and others, at overseas subsidiaries	702	754
Provision for game arcade closings	28	39
Tax credits	11	15
Loss carried forward	1,242	598
Other	351	12
Valuation allowance	(1,303)	(1,063)
Offset to deferred tax liabilities (non-current)	(1,514)	(1,623)
Total	2,572	4,972
Total deferred tax assets	9,602	11,534
Deferred tax liabilities		
1) Current liabilities		
Accrued expenses and other cost calculation details	135	138
Other	141	11
Offset to deferred tax assets (current)	(277)	(149)
Total	—	—
2) Non-current liabilities		
Non-current assets	1,342	2,633
Tax effects from intangible non-current assets relating to business combinations	657	1,075
Other	88	67
Offset to deferred tax assets (non-current)	(1,514)	(1,623)
Total	573	2,153
Total deferred tax liabilities	573	2,153
Balance: Net deferred tax assets	¥ 9,028	¥ 9,381

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

	As of March 31, 2017	As of March 31, 2016
Statutory tax rate	30.86%	33.06%
(Adjustments)		
Permanent differences relating to entertainment expense and others excluded from non-taxable expenses	0.17	0.13
Permanent differences relating to dividends received and others excluded from non-taxable expenses	(0.22)	(0.00)
Valuation allowance	(7.39)	(16.61)
Taxation on a per capita basis for inhabitants' tax	0.32	0.37
Special deduction for income growth	—	(0.98)
Tax credit for R&D expenses	(1.27)	(8.40)
Reduction of deferred tax assets and liabilities at fiscal year-end due to changes in corporate tax rate	0.06	2.06
Differences in tax rate from the parent company's statutory tax rate	0.11	0.67
Other	(0.18)	(3.10)
Effective tax rate	22.46	7.20

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

Following the enactment in a session of the Japanese Diet on November 18, 2016 of the "Act to Partially Revise the Act on Partial Revision to the Consumption Tax Act, etc. for the Fundamental Reform of the Taxation Systems Designed to Secure Stable Financial Resources for Social Security" (Act No. 85 of 2016) and "Act to Partially Revise the Act on Partial Revision to the Local Tax Act and Local Allocation Tax Act, etc. for the Fundamental Reform of the Taxation Systems Designed to Secure Stable Financial Resources for Social Security" (Act No. 86 of 2016), the projected date for the increase in the consumption tax to 10% was postponed from April 1, 2017 to October 1, 2019.

Due to this change, the projected timing of a revision to the corporate enterprise tax rate as a result of the abolition of special local corporation tax, revision to local corporation tax rates, and revision to rates for inhabitants' tax levied on a corporation tax basis was postponed from fiscal years beginning on or after April 1, 2017 to fiscal years beginning on or after October 1, 2019.

The statutory tax rate used for calculating deferred tax assets and deferred tax liabilities has not changed. Tax rates have been reclassified between national taxes and local taxes. Furthermore, the impact on the consolidated financial statements for the fiscal year ended March 31, 2017 is insignificant.

Business Combinations

Year ended March 31, 2017

Not applicable

Year ended March 31, 2016

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 3 and 15 years, and a discount rate generally set between 0.000% 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 (0.070)% and 1.355%.

c) Changes to aggregate asset retirement obligations

Millions of yen

	Fiscal year ended March 31, 2017	Fiscal year ended March 31, 2016
Beginning balance	¥2,361	¥ 962
Increase due to procurement of property and equipment	107	112
Increase due to changes in estimates	—	1,225
Accretion expense	7	7
Decrease due to fulfillment of asset retirement obligations	(7)	(36)
Other changes	—	90
Ending balance	¥2,468	¥2,361

Matters Relating to Real Estate Leases, Etc.

Year ended March 31, 2017

Not applicable

Year ended March 31, 2016

Not applicable

Segment Information

[Segment Information]

Year ended March 31, 2017

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	¥199,016	¥42,747	¥ 9,974	¥5,085	¥256,824	¥ —	¥256,824
(2) Intersegment sales	—	10	66	1,366	1,442	(1,442)	—
Total	199,016	42,757	10,041	6,451	258,266	(1,442)	256,824
Segment operating income	¥ 33,310	¥ 3,669	¥ 2,429	¥2,150	¥ 41,559	¥ (10,264)	¥ 31,295
Segment assets	¥ 73,220	¥20,745	¥ 4,025	¥ 952	¥ 98,944	¥144,915	¥243,859
Other items							
Depreciation and amortization	2,796	2,685	87	18	5,587	683	6,270
Increases in property and equipment and intangible assets	2,479	3,669	5	37	6,192	769	6,962

Notes: 1 (1) Segment adjustments (¥10,264 million) include unallocated corporate operating expenses (¥10,297 million).

(2) Unallocated assets amounting to ¥145,132 million are included in the ¥144,915 million adjustment to segment assets. Most of this amount comprises funds for management of surplus funds (cash and deposits).

(3) The ¥683 million adjustment to depreciation and amortization is associated with unallocated assets that do not belong to any reporting segment.

(4) The ¥769 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, 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.

[Related Information]

Year ended March 31, 2017

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
¥168,546	¥48,541	¥30,732	¥9,003	¥256,824

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
¥12,546	¥1,039	¥576	¥72	¥14,234

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, 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.

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

■ Year ended March 31, 2017

Millions of yen

	Digital Entertainment	Amusement	Publication	Merchandising	Eliminations or unallocated (Note)	Total
Impairment losses	¥775	¥86	¥—	¥—	¥0	¥862

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

■ 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.

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

■ Year ended March 31, 2017

Not applicable

■ Year ended March 31, 2016

Not applicable

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

■ Year ended March 31, 2017

Not applicable

■ Year ended March 31, 2016

Not applicable

[Related party transactions]

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

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, 2017

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) Direct — Indirect —	—	Exercising of stock options	¥72	—	¥—
	Michihiro Sasaki	—	—	Audit & supervisory board member of subsidiary	(Held) Direct 0.00 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, 2017 was pursuant to the resolutions of the Board of Directors on August 5, 2011 and July 30, 2012.
"Amount of transactions" represents amounts calculated by multiplying cash payments by the number of shares granted due to the exercise of stock acquisition rights as stock options during the fiscal year ended March 31, 2017.

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) Direct — Indirect —	—	Exercising of stock options	¥17	—	¥—
	Michihiro Sasaki	—	—	Audit & supervisory board member of subsidiary	(Held) Direct 0.00 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 amounts calculated by multiplying cash payments by the number of shares granted due to the exercise of stock acquisition rights as stock options during the fiscal year ended March 31, 2016.

Per Share Information

Yen

	Fiscal year ended March 31, 2017	Fiscal year ended March 31, 2016
Net assets per share	¥1,485.56	¥1,376.93
Earnings per share	164.20	163.04
Diluted earnings per share	163.92	162.72

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

Millions of yen

	Fiscal year ended March 31, 2017	Fiscal year ended March 31, 2016
Earnings per share:		
Profit attributable to owners of parent	¥20,039	¥ 19,884
Profit not available to common shareholders	—	—
Profit attributable to common shareholders of parent	20,039	19,884
Average number of shares of common stock outstanding during the fiscal year (thousands of shares)	122,040	121,961
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)	214	240
(Number of shares reserved for the purpose of new share issuances for exercise of share subscription rights)	(214)	(240)
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: 82,000 shares, issuance of July 2016 stock acquisition rights, pursuant to a resolution of the Board of Directors on June 24, 2016: 106,000 shares	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

Purchase of treasury stock and tender offer of treasury stock

At the Board of Directors' Meeting held on May 24, 2017, in accordance with the provision of the Company's Articles of Incorporation as prescribed in Article 459, Paragraph 1 of the Companies Act (Act No. 86 of 2005 and all the subsequent revisions) and Article 156, Paragraph 1 of the Act, the Company approved a resolution to purchase its treasury stock and employ a tender offer as the specific method for such purpose.

(1) Purpose of the tender offer, etc.

In early September 2016, the Company was notified by Fukushima Planning Co., Ltd., the second largest shareholder (as of March 31, 2017), about its intention to sell part of its shares of common stock in the Company.

In response to this notice, the Company took into account a comprehensive range of factors, including the impact from the sale of those shares in the market on the liquidity of the Company's common shares and the market price, as well as the Company's financial standing.

As a result, the Company has judged that the purchase of those shares as treasury stock will enhance the efficient use of its capital backed by higher earnings per share (EPS), return on equity (ROE) and other indicators, contributing to improving the return of profit to shareholders. In addition, the Company believes that the purchase of treasury stock would not have a significant impact on its financial standing and dividend policy, maintaining its solid financial health and stability.

(2) Details of the Board of Directors' resolution to purchase treasury stock

1) Type of shares to be purchased: Common stock

2) Total number of shares to be purchased: 3,300,100 shares (maximum)
(Percentage of the total number of 122,373,396 shares issued: 2.70%)

3) Total payment for shares to be purchased: ¥10,154,407,700 (maximum)

4) Purchase period: From May 25, 2017 to July 31, 2017

(3) Outline of the tender offer

1) Planned number of shares to be purchased: 3,300,000 shares

2) Tender offer price: ¥3,077 per common stock

3) Tender offer period: From May 25, 2017 to June 21, 2017

4) Commencement date for settlement: July 13, 2017

(4) Results of the tender offer

1) Total number of shares subscribed: 3,003,530 shares

2) Total number of shares purchased: 3,003,530 shares

3) Total acquisition cost for shares: ¥9,241,861,810

Supplementary Schedule

[Borrowings]

Category	Balance as of April 1, 2016 (Millions of yen)	Balance as of March 31, 2017 (Millions of yen)	Average interest rate (%)	Repayment date
Short-term loans	¥9,722	¥8,437	0.8	—
Long-term borrowings due for repayment within one year	—	—	—	—
Lease obligations due for repayment within one year	15	21	—	—
Long-term borrowings (excluding the amount due for repayment within one year)	—	—	—	—
Lease obligations (excluding the amount due for repayment within one year)	27	46	—	April 2018 to August 2021
Other interest-bearing liabilities	—	—	—	—
Total	¥9,765	¥8,504	—	—

Notes: 1 The average interest rate shown is the weighted average interest rate on the balance of borrowings as of March 31, 2017.

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, 2017 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	¥16	¥14	¥12	¥3

[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, 2016 to June 30, 2016	2Q April 1, 2016 to September 30, 2016	3Q April 1, 2016 to December 31, 2016	4Q April 1, 2016 to March 31, 2017
Net sales	¥51,193	¥106,347	¥190,084	¥256,824
Profit before income taxes	6,420	8,265	21,896	25,846
Profit attributable to owners of parent	5,336	5,495	17,055	20,039
Earnings per share (yen)	43.74	45.04	139.76	164.20

Quarterly	1Q April 1, 2016 to June 30, 2016	2Q July 1, 2016 to September 30, 2016	3Q October 1, 2016 to December 31, 2016	4Q January 1, 2017 to March 31, 2017
Earnings per share (yen)	¥43.74	¥1.30	¥94.71	¥24.46

Corporate Data

(As of March 31, 2017)

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: ¥23,828,172,650
Number of employees: 4,078 (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	¥50 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 the North American market
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 LTD.	December 1998	March	GB£145 million	100.0%	Holding of shares in and business management of Square Enix Group companies located in Europe and digital entertainment, publication and 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 and 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, 2017)

Share Information

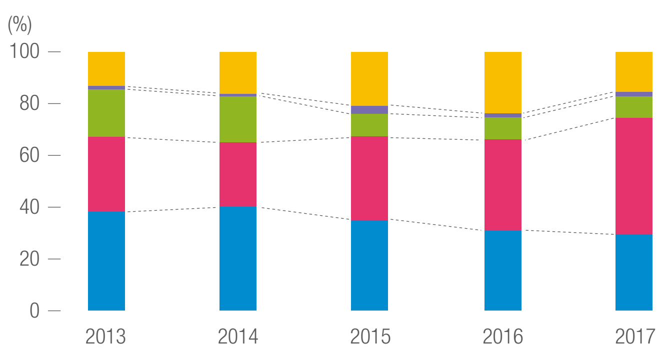
Number of shares issued: 122,373,396

Number of shareholders: 22,889

Principal Shareholders

Rank	Shareholder	Investment in Square Enix (Thousands of shares)	(%)
1	Yasuhiro Fukushima	23,626	19.30
2	Fukushima Planning Co., Ltd.	9,763	7.97
3	Japan Trustee Services Bank, Ltd. (Trust Account)	4,817	3.93
4	The Master Trust Bank of Japan, Ltd. (Trust Account)	4,583	3.74
5	JP MORGAN CHASE BANK 385632	3,968	3.24
6	Masafumi Miyamoto	3,082	2.51
7	Japan Trustee Services Bank, Ltd. (Trust Account 9)	2,246	1.83
8	CHASE MANHATTAN BANK GTS CLI ENTS ACCOUNT ESCROW	2,190	1.79
9	CBLDN-SCOTTISH EQUITABLE-JAPAN EXEMPT SCOTTISH EQUITABLE PLC	1,966	1.60
10	THE BANK OF NEW YORK MELLON 140044	1,900	1.55

Share Ownership (Thousands of shares)



	2013		2014		2015		2016		2017	
Financial Institutions	14,700	(12.7%)	18,722	(16.2%)	25,588	(20.9%)	29,231	(23.9%)	19,042	(15.5%)
Financial Instruments Companies	995	(0.9%)	1,114	(1.0%)	3,291	(2.7%)	1,717	(1.4%)	1,902	(1.6%)
Other Companies	22,092	(19.1%)	20,570	(17.8%)	10,630	(8.7%)	10,424	(8.5%)	10,409	(8.5%)
Foreign Companies and Individuals	32,251	(28.0%)	28,817	(24.9%)	40,135	(32.8%)	43,256	(35.4%)	55,067	(45.0%)
Individuals and Other	45,329	(39.3%)	46,350	(40.1%)	42,586	(34.9%)	37,669	(30.8%)	35,951	(29.4%)
Total	115,370	(100.0%)	115,575	(100.0%)	122,232	(100.0%)	122,299	(100.0%)	122,373	(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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