SQUARE ENIX

2018
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

With respect to this annual report, the financial section will be provided at the link below.
http://www.hd.square-enix.com/eng/ir/library/ar.html

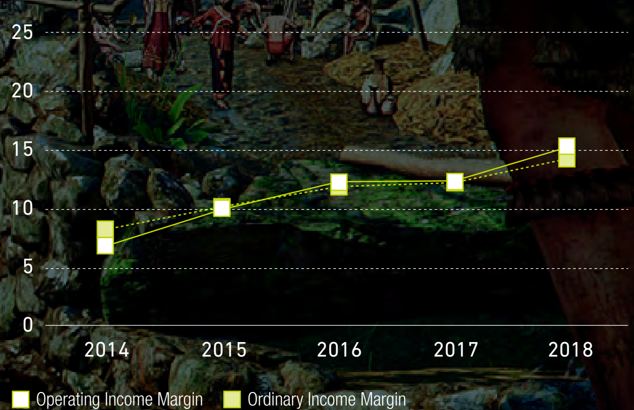
» Financial Highlights

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

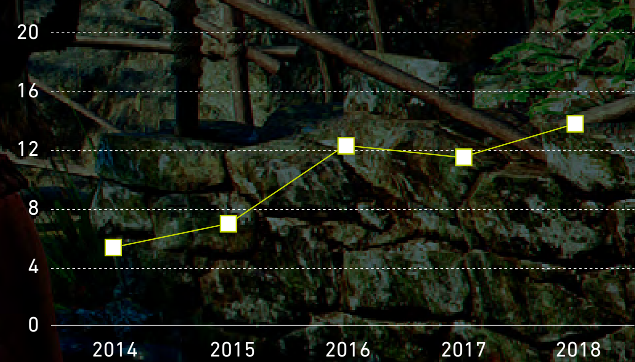
	2014	2015	2016	2017	2018 (Millions of Yen)	2018 (Thousands of U.S. Dollars)
For the Year						
Net sales	¥ 155,023	¥ 167,891	¥ 214,101	¥ 256,824	¥ 250,394	$2,356,877
Operating income	10,543	16,426	26,018	31,295	38,176	359,340
Ordinary income	12,534	16,984	25,322	31,128	36,124	340,025
Profit attributable to owners of parent	6,598	9,831	19,884	20,039	25,821	243,047
At Year-end						
Total assets	¥ 216,617	¥ 211,938	¥ 232,731	¥ 243,859	¥ 259,713	$2,444,592
Total net assets	127,676	155,314	168,783	181,904	193,359	1,820,029
					Yen	U.S. Dollars
Per Share of Common Stock						
Earnings	¥ 57.28	¥ 84.34	¥ 163.04	¥ 164.20	¥ 215.33	$ 2.03
Total net assets	1,095.78	1,267.24	1,376.93	1,485.56	1,617.58	15.23
					%	
Key Ratios						
Operating income margin	6.8%	9.8%	12.2%	12.2%	15.2%	
Ordinary income margin	8.1	10.1	11.8	12.1	14.4	
Return on equity	5.4	7.0	12.3	11.5	13.8	
Equity ratio	58.3	72.9	72.2	74.4	74.2	

Note: For the convenience of readers, amounts in U.S. dollars have been translated using the currency exchange rate at March 31, 2018 of ¥106.24=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. In the fiscal year ended March 2018, our consolidated net sales declined slightly on a year-on-year basis to ¥250.3 billion, but we set new records for operating income, ordinary income, and net income. 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

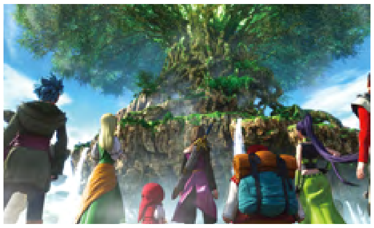
In the fiscal year ended March 2018, the Digital Entertainment Business Segment posted net sales of ¥191.4 billion and operating income of ¥43.4 billion, representing a decline in sales but rise in profits on a year-on-year basis.

In the **HD (High-Definition) Games sub-segment**, we launched "DRAGON QUEST XI: Echoes of an Elusive Age," the latest installment in the DRAGON QUEST series, in July 2017. We undertook the ambitious task of offering the title on both the PlayStation 4 and the Nintendo 3DS. The title has proven extremely popular with players on both platforms, becoming a major hit with combined sales in excess of three million units. With the launch of Western versions of the title slated for September 2018, we plan to grow the DRAGON QUEST brand globally in the fiscal year ending March 2019.

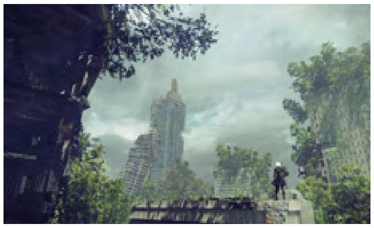
Meanwhile, in the FINAL FANTASY franchise, we launched “FINAL FANTASY XII THE ZODIAC AGE,” a remaster of “FINAL FANTASY XII” for which we have completely updated the graphics and incorporated new elements. The title has met with a great reception from players the world over. Remasters are important because they enable us to bring franchise titles presented with the latest look and feel to customers who have never played earlier titles in a series, thus imbuing our game franchises with renewed vitality. We also believe that even players who have experienced the original will find new surprises and excitement in playing recreations brought to life with the latest technologies. As such, we intend to remain proactive in offering remastered titles.

We are also very happy with the major success we enjoyed with “NieR:Automata” in the fiscal year ended March 2018. The title had been launched in the fourth quarter of the fiscal year ended March 2017 but continued to see solid sales volume growth throughout the fiscal year ended March 2018, resulting in the development of a substantial franchise. Traditionally, consumer games have generated the majority of their lifetime sales in the first few months after their launches, but “NieR:Automata” actually saw significant growth after the initial few months post-launch, making it a revolutionary title from our perspective. Despite being a single-player title, the game has generated nearly 60% of its sales via digital downloads, which is an unusually high number. The fact that it continues to sell well even at present highlights its status as a title emblematic of the shift from the physical to the digital. The game was the second installment in the NieR series, coming seven years after the original. New players also loved it, and we feel that we have succeeded at establishing a new franchise for our Group.

FINAL FANTASY XII: THE ZODIAC AGE



DRAGON QUEST XI: Echoes of an Elusive Age



NieR:Automata

In the **MMO (Massively Multiplayer Online game) sub-segment**, we launched expansion packs for both “FINAL FANTASY XIV” and “DRAGON QUEST X” for the first time in two years in an endeavor to maintain and expand our paying subscriber base. Continuously adding new content is key to maintaining paying subscribers for online games, which tend to show marked attrition with the passage of time. The release of the expansion pack proved especially effective for “FINAL FANTASY XIV,” which, in defiance of the aforementioned tendency, achieved the highest paying subscriber count since its launch. The game itself has also garnered extremely positive feedback, and we saw the year as one in which it demonstrated its presence as a global MMORPG. Having been on the market for more than five years, both titles are long runners, but by rolling out new content on an ongoing basis, we will endeavor to create an even more robust service.

FINAL FANTASY XIV

DRAGON QUEST X ONLINE

Net sales in our **Games for Smart Devices/PC Browsers sub-segment** came in slightly under the ¥100 billion mark, and the titles we released in the latter half of the fiscal year ended March 2018 delivered lackluster performances on the whole. As such, we saw the year as one that left us many issues to tackle. While maintaining and bolstering the percentage of our titles that prove successful is always a key challenge, we regret that many of the new titles released in the last fiscal year delivered very disappointing results. Common wisdom has it that Japan's gaming market has matured, making it difficult to generate new hits. Meanwhile, we view the new trend of Chinese and Korean developers

and publishers creating hit titles to be one worthy of note. Our intention is always to pursue new and creative gaming experiences, and in the fiscal year ending March 2019, we will return to this basic philosophy, revisit our development and operation organizations, and strive to create new hit titles.

Amusement

The release of fewer new game machine titles resulted in sales declining to ¥41.7 billion and operating income falling to ¥2.4 billion in the fiscal year ended March 2018. However, arcade operations were stable, and we were proactive in undertaking new initiatives, as exemplified by our renovation of the Mizonokuchi location of the Taito Station arcade outlets and our opening of the MEGARAGE arcade bar. With the number of brick-and-mortar stores continuing to decline, many prime retail properties that we traditionally would not have had access to are coming onto the market. We intend to capitalize on this opportunity and be proactive in opening new arcades to bolster our earnings.

In the portion of the business dealing in amusement machine sales, we launched a newly reincarnated version of "DENSHA DE GO!!," a train simulator game machine, as that title marked its twentieth anniversary. "DENSHA DE GO!!" is a key piece of IP (intellectual property) not only for TAITO CORPORATION but also for our Group. While the latest version has faced various challenges, it has been positively received by core fans, and we are currently exploring how we might go about further spreading its popularity. We hope you will look forward to what we have in store. In the fiscal year ending March 2019, we have launched a brand-new title, "Starwing Paradox." Players have very high expectations for the title given the sheer size of the machine and the physical gaming experience it provides. The greatest appeal of arcade gaming is the realism it offers that cannot be gained from gaming at home. As such, we continue to see our arcades as a key piece of our Group's gaming portfolio and intend to continue to take on new challenges in the Amusement Business Segment.

DENSHA DE GO!!

(Arcade version)

MEGARAGE at the Taito Station arcade in Mizonokuchi

Publication

The Publication Business Segment posted net sales of ¥11 billion and operating income of ¥2.4 billion in the fiscal year ended March 2018. The shift to digital is pronounced in the Publication Business Segment, where we have come to generate more than 20% of our sales digitally. We look for that figure to increase further, and to accelerate the trend, we launched our MANGA UP! and GANGAN pixiv services in the fiscal year ended March 2017. By offering smartphone applications, we hope to create an environment that gives a broader base of readers easy access to manga and thereby tap new demand. The DAU (daily active users) figures for these smartphone applications have reached a sizeable level, and we are looking at them to develop into media that will underpin our Publications Business Segment.

Additionally, in a new effort to bring manga to life using VR (virtual reality) technology, we have been working on an initiative we call “Project Hikari.” In May 2018, the project at last resulted in the launch of a product, “Tales of Wedding Rings VR,” a pilot endeavor that enables users to enter the world of manga via VR technology. Through initiatives such as this, we will continue to pursue new ways to depict the world of manga, thus adding further breadth to our Group’s content lineup.

Merchandising

The Merchandising Business Segment generated net sales of ¥7.5 billion and operating income of ¥1.8 billion. Earnings were helped by the variety of events we organized to commemorate the 30th anniversaries of our Group’s two major franchises, namely DRAGON QUEST in 2016 and FINAL FANTASY in 2017. Profits declined year on year due to increased advertising spending, but we are hopeful that these commemorative events have further strengthened our brand and will contribute to the development of the franchises.

Moreover, following the opening of our first SQUARE ENIX CAFE in the fiscal year ended March 2017, we added locations in Osaka and Shanghai in the fiscal year ended March 2018. The cafes, which serve as a messaging platform for our content, have proven popular with customers. While we have no plans for additional openings at the moment, we see such brick-and-mortar locations as an effective shaper of our brand and are upbeat on future possibilities in this area.

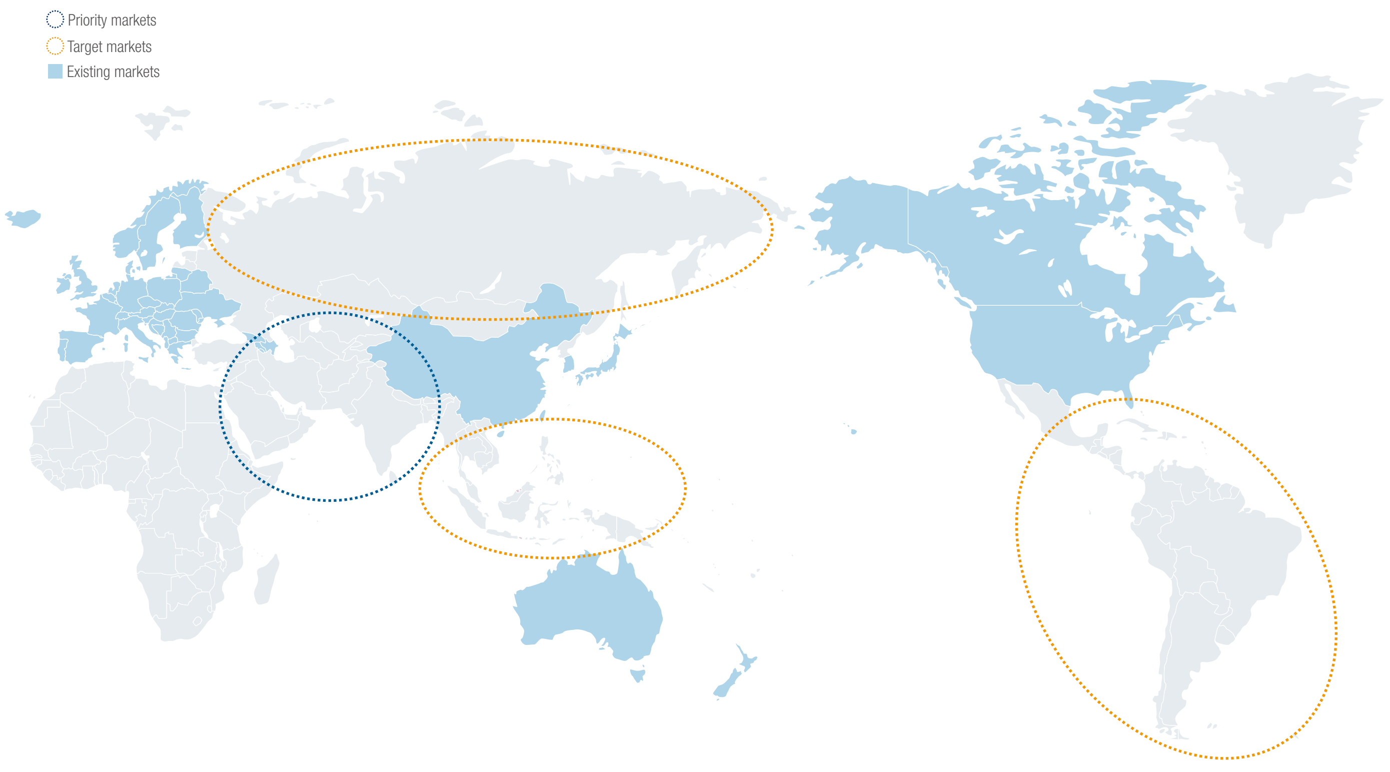
Key Business Development Initiatives

For our Group to continue to deliver growth, we remain engaged in the following initiatives: 1) Digital Sales Enhancement; 2) Multiplatform Utilization; 3) Geographic Expansion; and 4) Game as a Service, Game as Media.

Geographic Expansion

In the context of Geographic Expansion, we have highlighted the Middle East, Southeast Asia, Latin America, and India as key strategic regions. Amongst these regions, we especially intend to position India as a region for focused investment starting this fiscal year. India's telecommunications infrastructure has developed in recent years, and advances in fintech have given rise to more payment methods. As such, we believe the market is reaching the point that it can at last support the development of a robust gaming business. For this reason, we will be ramping up our investment in India. The Middle East is also very promising. We see it as an extremely attractive market when viewed broadly as the Arabic-speaking world rather than looking at it country by country. We intend to invest in the region not only via the localization and culturalization of our games, but also by supporting local developers or otherwise seeking opportunities to discover new talent.

Overseas Expansion of the Digital Entertainment Business Segment



Game as a Service, Game as Media

E-sports are a major topic of discussion in Japan of late. The focus tends to be on their business potential as a draw for spectators; however, rather than focusing exclusively on that side of e-sports, we hope instead to build excitement around them via initiatives designed to support the player community that makes them a viable spectator event to begin with. The concept of “Game as a Service” became the subject of significant debate in the fiscal year ended March 2018 due to its association with the loot box controversy. We see “Game as a Service” as a type of game design capable of enhancing the user’s entertainment experience and as a key concept in shaping the way e-sports and other gaming will look in the future. Similarly, we believe “Game as Media” is best considered in the context of the overall trend of games evolving into services. The world we find ourselves in demands that we think of new business models that recognize the media value of games by establishing streaming and viewing as ways of enjoying games in addition to actual game play.

Digital Sales Enhancement/e-commerce

We have implemented our digital sales enhancement initiatives against a backdrop of customers increasingly purchasing full games—especially HD games—via digital download rather than in boxes. These initiatives have included enhancing and renovating our sales site to make for a smoother purchasing experience for our customers. As a result, the fiscal year ended March 2018 saw download sales of our catalog titles grow, which led to a sharp increase in the portion of our HD game sales that we generate digitally to more than 40%. The trend toward greater digital shopping is irreversible, so we will now need to go beyond simply renovating our sales site to creating the capability to provide our customers with tailored recommendations based on their preferences and game-play style. We must admit that our Group is behind in terms of such initiatives, but we will ramp up our system development and other relevant efforts to make up for lost time.

We will in fact take things a step further by not only bolstering the digital sales of our games, but also establishing an e-commerce strategy as the fifth pillar of our growth initiatives to better leverage our Group’s IP portfolio. To date, we have recognized sales of IP-derived figures and other merchandise produced either by ourselves or via licensing arrangements under our Merchandising Business Segment and positioned such offerings as a way of supplementing the original IP. However, of late we have noted that consumers increasingly want not simply to enjoy games and manga in isolation but in a more wholistic way that includes merchandise based upon such contents. They have begun not only to want to play games but also to have a deeper appreciation for the universe of the game and the characters that inhabit it. Social networks have made it possible for players to share their playing experiences and reviews with many other players, thus creating global communities. In those communities, fans enjoy games, manga, and other content as though they are all part of a single universe, irrespective of whether they are engaging with the original IP or derivative products. For this reason, we believe that we should no longer limit our Merchandising Business Segment to a supplementary role vis-à-vis the original IP but to redefine it as "e-commerce," applying a broad interpretation to the term and including in it the digital sales of our games, manga, and other products. We further believe that we should strive to grow such business, thereby giving additional depth to our earnings base and enabling investment in the development of more new content. We intend to pursue e-commerce as a new thematic initiative starting in the fiscal year ending March 2019.

Multiplatform Utilization

In the context of Multiplatform Utilization, we note that game streaming was a hot topic at E3 this year. Game streaming is finally becoming a reality just as the current generation of game consoles are approaching the end of their lifecycles and the next-generation consoles are beginning to be discussed. The telecommunications landscape looks poised for dramatic change over the next few years with the roll-out of 5G or the fifth-generation mobile network, and we expect the gaming industry to face a major paradigm shift spurred by the advent of client-agnostic gaming services. This may fundamentally change the look of the gaming industry, not only in terms of how it designs its games but also even in terms of its business models. To respond to these changes, our Group will strengthen its R&D and sales functions to lay the groundwork for further expanding our businesses. New technologies such as AI (artificial intelligence), blockchain, and XR (a catchall term covering VR, or virtual reality; AR, or augmented reality; and MR, or mixed reality) may give rise to new platforms. We will invest aggressively in such new technologies with an eye to the post-smartphone world. As we have already announced, we have set aside US$25 million to invest via a venture capital fund. Through such investment, we will develop content businesses befitting the times in which we live.

We look forward to your continued support.

Yosuke Matsuda
President and Representative Director

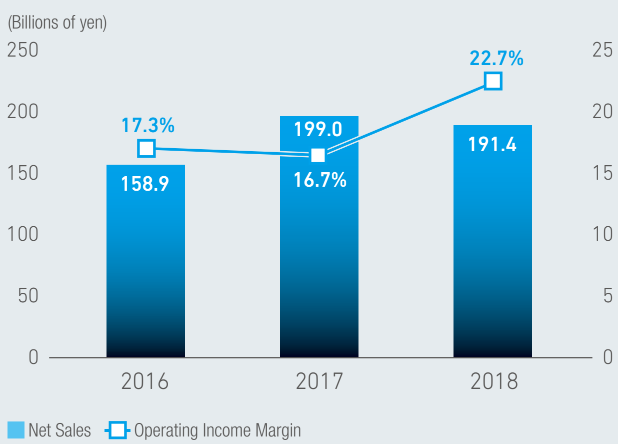
» Review of Operations

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.

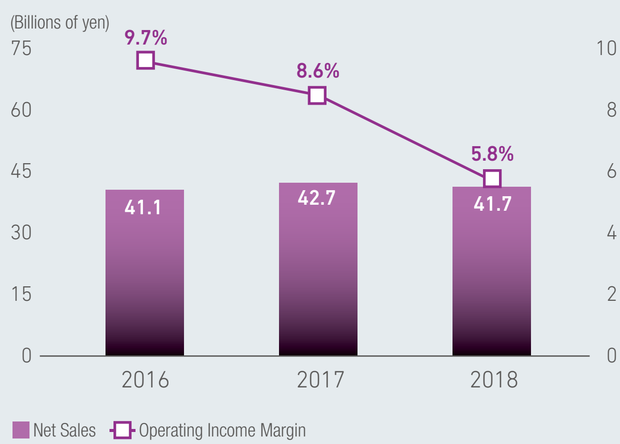
Net sales for the fiscal year ended March 31, 2018 totaled ¥250,394 million (a decrease of 2.5% from the prior fiscal year), operating income amounted to ¥38,176 million (an increase of 22.0% from the prior fiscal year), and ordinary income amounted to ¥36,124 million (an increase of 16.0% from the prior fiscal year).

These factors resulted in profit attributable to owners of parent of ¥25,821 million (an increase of 28.9% from the prior fiscal year).

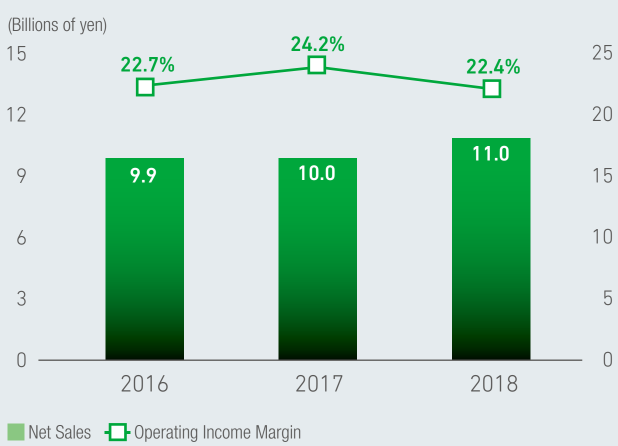
Digital Entertainment



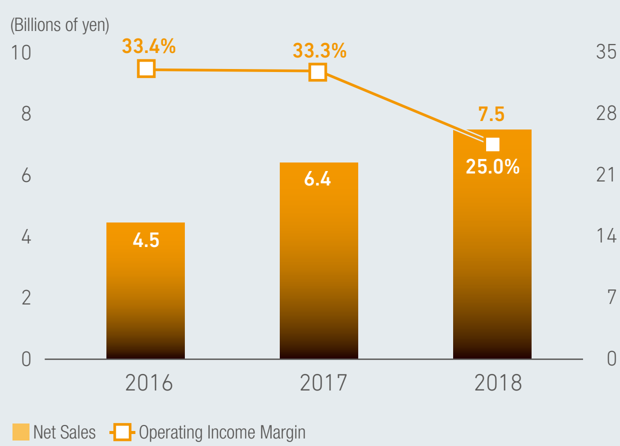
Amusement



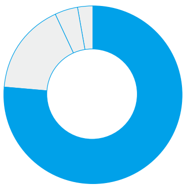
Publication



Merchandising



Digital Entertainment



Share of Net Sales (FY ended March 2018)

76.5%

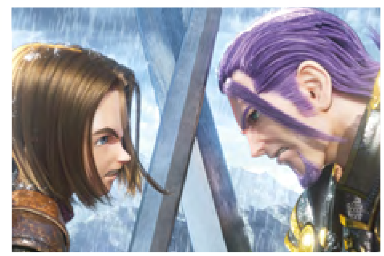
The Digital Entertainment segment consists of planning, development, distribution, and operation of digital entertainment content primarily in the form of games. Digital Entertainment content is offered to meet customer lifestyles across a variety of usage environments such as consumer game consoles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

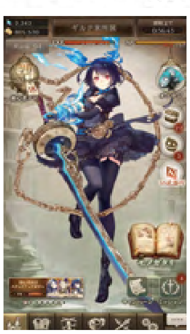
The fiscal year ended March 31, 2018 saw the launch of “DRAGON QUEST XI: Echoes of an Elusive Age,” the latest title in the “DRAGON QUEST” series, and of “FINAL FANTASY XII THE ZODIAC AGE,” but a decrease in the number of blockbuster titles resulted in a net sales decline as compared to the prior fiscal year. On the other hand, strong high-margin download sales of previously released catalogue titles such as “NieR: Automata” resulted in an increase in operating income as compared to the prior fiscal year.

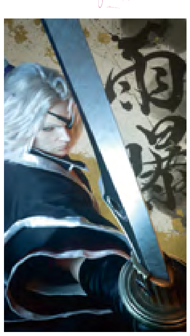
In the smart devices and PC browser area, our established lineup of popular games such as “FINAL FANTASY BRAVE EXVIUS,” “HOSHI NO DRAGON QUEST,” “DRAGON QUEST MONSTERS SUPER LIGHT,” and “KINGDOM HEARTS Union χ” is continuing to show a strong performance globally, and an increase of royalty income pushed both net sales and operating income up as compared to the prior fiscal year.

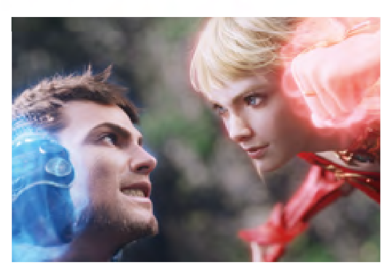
In the area of massively multiplayer online role playing games, revenues from the latest expansions of “FINAL FANTASY XIV” and “DRAGON QUEST X” led to an increase in the number of paying subscribers and disk sales, which resulted in an increase of net sales and operating income as compared to the prior fiscal year.

Net sales and operating income in the Digital Entertainment segment totaled ¥191,469 million (a decrease of 3.8% from the prior fiscal year) and ¥43,421 million (an increase of 30.4% from the prior fiscal year), respectively.

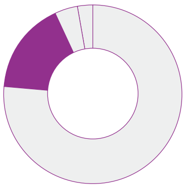








Amusement



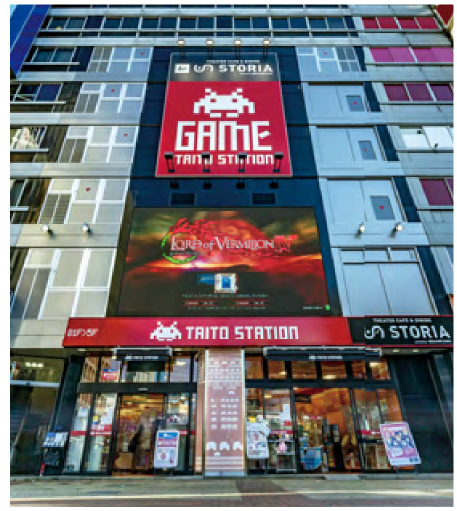
Share of Net Sales (FY ended March 2018)

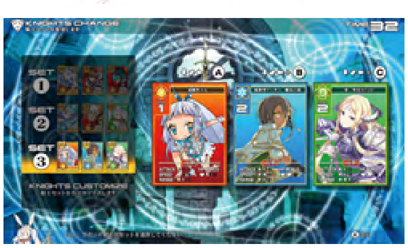
16.7%

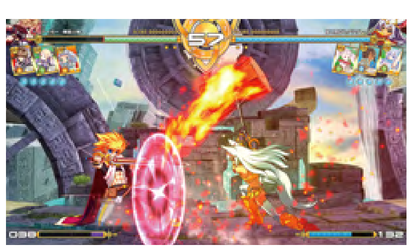
The Amusement segment consists of the operation of amusement facilities and planning, development, and distribution of arcade game machines and related products for amusement facilities.

During the fiscal year ended March 31, 2018, amusement facility operations showed a steady performance, while new amusement machine releases decreased, which led to a decline in this segment's net sales and operating income as compared to the prior fiscal year.

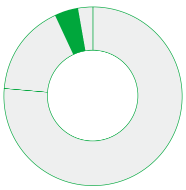
Net sales and operating income in the Amusement segment totaled ¥41,750 million (a decrease of 2.4% from the prior fiscal year) and ¥2,402 million (a decrease of 34.5% from the prior fiscal year), respectively.







Publication



Share of Net Sales (FY ended March 2018)

4.4%

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

During the fiscal year ended March 31, 2018, sales of comic books remained strong. In particular, digital format sales increased as compared to the prior fiscal year.

Net sales and operating income in the Publication segment totaled ¥11,049 million (an increase of 10.0% from the prior fiscal year) and ¥2,470 million (an increase of 1.7% from the prior fiscal year), respectively.

SHONEN GANGAN

Ojisama-to Neko

Black Butler

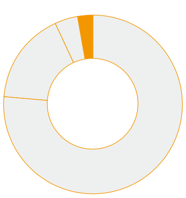
Kakegurui - Compulsive Gambler –

DRAGON QUEST X OFFICIAL GUIDE BOOK

GANGAN ONLINE

Manga UP!

Merchandising



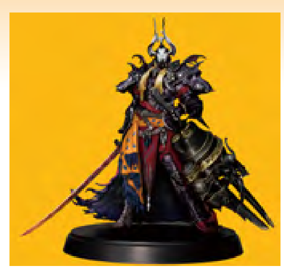
Share of Net Sales (FY ended March 2018)

2.4%

The Merchandising segment consists of planning, production, distribution, and licensing of products primarily based on Group-owned IP.

The fiscal year ended March 31, 2018 saw solid sales and licensing of character goods and soundtracks based on the Group’s own IPs.

Net sales and operating income in the Merchandising segment totaled ¥7,567 million (an increase of 17.3% from the prior fiscal year) and ¥1,888 million (a decrease of 12.2% from the prior fiscal year), respectively.



FINAL FANTASY XIV MEISTER QUALITY FIGURE
- ZENOS YAE GALVUS

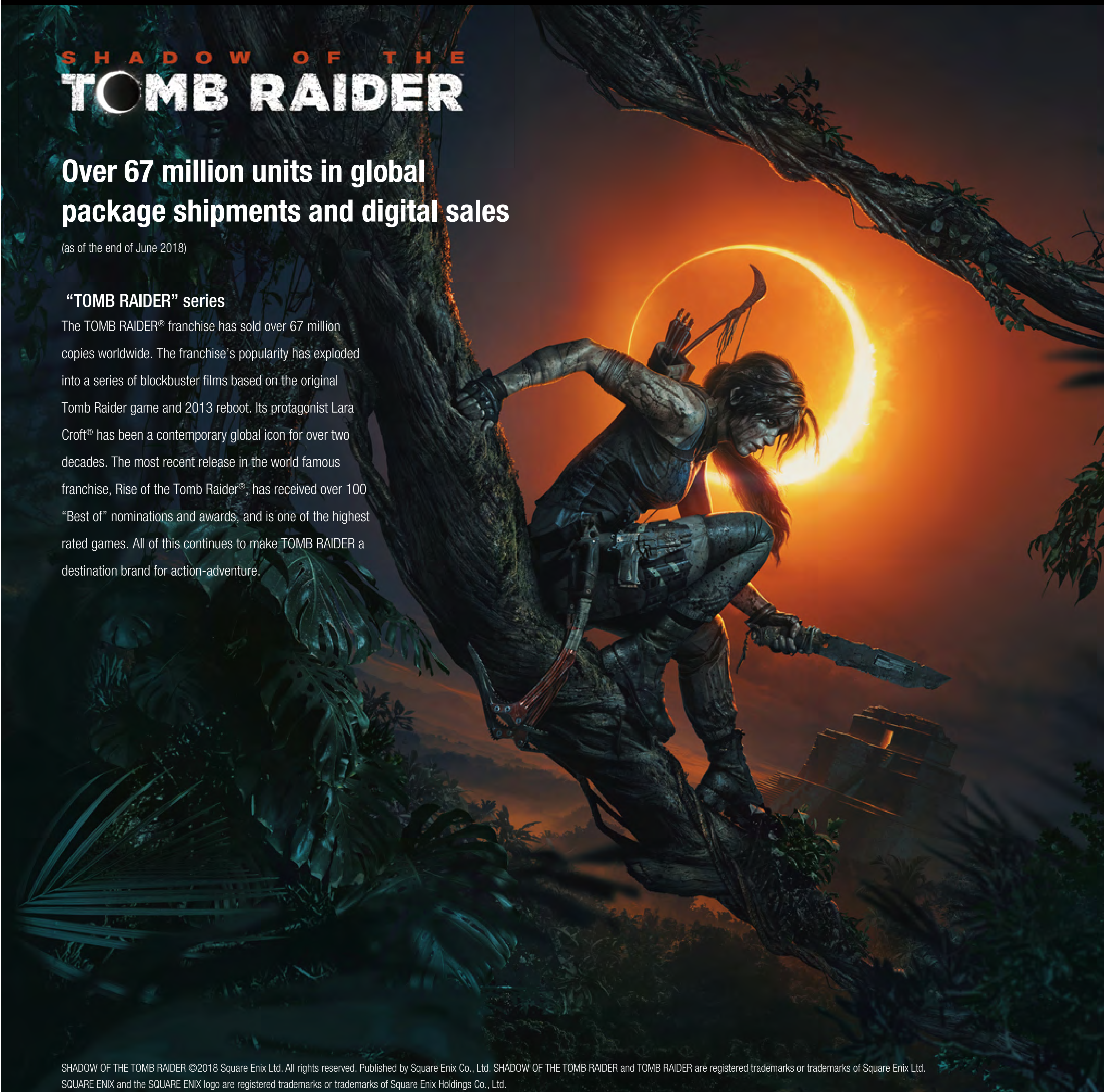
FINAL FANTASY 30th ANNIVERSARY EXHIBITION –Memories of You–

SQUARE ENIX CAFE

Dragon Quest Metallic Monsters Gallery Series

FINAL FANTASY Trading Cardgame Opus I

DELIVERING UNFORGETTABLE EXPERIENCES



Over 67 million units in global package shipments and digital sales

(as of the end of June 2018)

"TOMB RAIDER" series

The TOMB RAIDER® franchise has sold over 67 million copies worldwide. The franchise's popularity has exploded into a series of blockbuster films based on the original Tomb Raider game and 2013 reboot. Its protagonist Lara Croft® has been a contemporary global icon for over two decades. The most recent release in the world famous franchise, Rise of the Tomb Raider®, has received over 100 "Best of" nominations and awards, and is one of the highest rated games. All of this continues to make TOMB RAIDER a destination brand for action-adventure.

Latest release "SHADOW OF THE TOMB RAIDER"

Experience Lara Croft's defining moment as she becomes the Tomb Raider. In Shadow of the Tomb Raider, Lara must master a deadly jungle, overcome terrifying tombs, and persevere through her darkest hour. As she races to save the world from a Maya apocalypse, Lara will ultimately be forged into the Tomb Raider she is destined to be.

Platforms: Xbox One, PlayStation 4, Windows PC
*Windows PC version will be available via Steam in Japan.
Release date: Global launch September 14, 2018 (Fri)

"Just Cause" series

The Just Cause series has delivered ground-breaking, open-world technology and explosive action for the last 12 years. In 2006, players were introduced to Rico Rodriguez with the release of JUST CAUSE, a game born out of a vision of complete player freedom - open-world exploration and action were at the heart of this sandbox experience. In the most ambitious Just Cause game to date, December 2018 sees the release of JUST CAUSE 4. This game takes the series incredible destruction and unique physics to a whole new level with the introduction of tornadoes and other Extreme Weather events.

JUST CAUSE 4

Over 15 million units in global package shipments and digital sales

(as of the end of June 2018)

Latest release "JUST CAUSE 4"

Set in the fictional South American world of Solis, JUST CAUSE 4 takes the series incredible destruction and unique physics to a whole new level with the introduction of tornadoes and other Extreme Weather events. JUST CAUSE 4 has four distinct biomes: Rainforest, Grasslands, Alpine & Desert. With each biome offering its own individual, fully simulated weather event, players will have a truly unique experience as they traverse this deep, diverse world.

Rico Rodriguez returns in JUST CAUSE 4 with his trademark parachute, wingsuit and, of course his grappling hook, now enhanced with new functionality and fully customizable. Making it the most powerful and creative tool the player has ever had.

Platforms: Xbox One, PlayStation 4, Windows PC
*Windows PC version will be available via Steam in Japan.
Release date: Japan TBD; North America/Europe December 4, 2018 (Tues)

“KINGDOM HEARTS” Series

KINGDOM HEARTS is a series of role-playing games created through the collaboration of Disney Interactive and Square Enix. Since the first KINGDOM HEARTS was released in March 2002 for the PlayStation®2 computer entertainment system, the series has expanded with several additional entries. The series celebrated its 15th anniversary on March 2017, and has sold over 25 million units worldwide.

Latest release

“KINGDOM HEARTS III”

In KINGDOM HEARTS III, players will continue their magical adventures across beloved Disney worlds, like the futuristic San Fransokyo from Big Hero 6, the Kingdom of Corona from Tangled, Olympus from Hercules, and more.

KINGDOM HEARTS III will be available for the Xbox One®, the all-in-one games and entertainment system from Microsoft, and the PlayStation®4 computer entertainment system.

Over 25 million units in global package shipments and digital sales

(as of the end of June 2018)

Platforms: PlayStation 4, Xbox One

Release date: Japan/Asia January 25, 2019 (Fri)

North America/Europe January 29, 2019 (Tues)

FINAL FANTASY

Over 142 million units in global package shipments and digital sales

(as of the end of June 2018)

"FINAL FANTASY" Series

The "FINAL FANTASY" series celebrated 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 142 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.

FINAL FANTASY XV

MAIN CHARACTER DESIGN: TETSUYA NOMURA
LOGO ILLUSTRATION: © 2016 YOSHITAKA AMANO

FINAL FANTASY XV POCKET EDITION

LOGO ILLUSTRATION: © 2016 YOSHITAKA AMANO

MOBIUS FINAL FANTASY (Japanese version)
LOGO ILLUSTRATION: © 2018 YOSHITAKA AMANO

FINAL FANTASY XIV

DISSIDIA FINAL FANTASY OPERA OMNIA (Japanese version)

CHARACTER DESIGN: TETSUYA NOMURA

FINAL FANTASY EXPLORERS FORCE

Character Design: GEN KOBAYASHI
LOGO ILLUSTRATION: ©2017 YOSHITAKA AMANO

FINAL FANTASY BRAVE EXVIUS (Global version)

Developed by gumi Inc.
LOGO ILLUSTRATION: ©2014 YOSHITAKA AMANO

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Over 76 million units in global package shipments and digital sales

(as of the end of June 2018)

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“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 76 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.

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© BANDAI NAMCO Amusement Inc.
“DRAGON QUEST VR” playable at VR ZONE SHINJUKU and VR ZONE OSAKA
(operated by BANDAI NAMCO Amusement Inc.).

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"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.


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ハイスコアガール
©Rensuke Oshikiri/SQUARE ENIX

» Environment, Social and Governance

Environmental and Social Initiatives

Through its environmental and social initiatives, our Group contributes to society while working to bolster our corporate value and create sustainable growth.

Environmental Protection Initiatives

By its nature, our core Digital Entertainment segment has a relatively small environmental footprint. Our Group nonetheless strives to run its operations mindful of the need for even greater environmental protection. Game contents can be sold either by recording them on optical disks that are packaged and delivered to our customers via physical distribution channels or by having our customers download them from servers directly to their game consoles, computers, or other devices. Promoting digital downloads is one way we work to protect the environment. It enables us to reduce the emissions that result from transporting physical products and to conserve the resources that are used to make them. We also use recyclable materials in the production of our physical products and otherwise strive to operate with a minimum environmental footprint.

Social Contribution Initiatives

Providing a safer, more comfortable game-play environment

As part of our social responsibility initiatives, we label the consumer games we sell in regions such as Japan, North America, and Europe based on the ratings systems of the applicable countries*1. For the mobile games we provide in Japan, we comply with the "Operating Guidelines for Random Item Distribution in Network Games"*2 established by the Computer Entertainment Supplier's Association (CESA) and indicate the odds associated with all in-game items for which users pay. In this way, we provide our customers with a safer and securer game-play environment and services.

*1 Under Japan's rating system, which is controlled by the Computer Entertainment Rating Organization (CERO), we label our games to indicate the age group for which the game contents are suitable.

*2 In order to help our customers make purchase decisions, we list all the in-game items provided via fee-based loot boxes (a method of providing random in-game items in direct exchange for money or for virtual currency that can be purchased with money) and the odds of obtaining them.

Training and educational support fostering sustainable growth

Through a tie-up with PROCLASS, a training academy for IT professionals, we offer game-based trial lessons in programming free of charge as well as ongoing classes in order to give parents and their children the opportunity to learn about programming in a comfortable, enjoyable environment. (TAITO CORPORATION)

We provided imagery using our Group's latest CG technology and production techniques for the special series "Out of The Cradle" produced by Japan's public broadcaster NHK, thus contributing to public awareness of the history of the human race. (Luminous Productions Co., Ltd.)


As part of a corporate-academic tie-up between ourselves and Tokyo University of the Arts, we held a limited-time exhibition called the Virtual Department of Games, which envisioned games as art. The exhibit featured workshops and displays of works created using game development technology. (SQUARE ENIX CO., LTD.)

Regional revitalization initiatives employing game contents

In collaboration with many local governments, we support regional revitalization and tourism promotion efforts using real-life problem-solving games and other forms of entertainment. We also plan and execute interactive events that make use of regional tourism resources and create VR imagery and promotional videos that help people in Japan and around the world discover the appeal of Japan's various regions. In this way, we contribute to Japan's regional revitalization efforts in a way that only an entertainment company can. (TAITO CORPORATION)

Employee relations

The Code of Conduct that all our Group's employees and corporate officers must follow requires respect for the diversity of our human resources. Irrespective of race, nationality, religion or gender, our offices in Japan and around the world hire diverse human resources for the varied skills and experiences they possess and provide them with an arena in which they can shine. We also do our utmost to ensure that our employees are able to maintain appropriate working hours and good health.

Through these kinds of social contribution efforts that leverage our strengths, we not only strive to gain broad social acceptance for games and other forms of entertainment, but also focus on actively contributing to the well-being of society as a whole.

Corporate Governance

1. Status of Corporate Governance

(1) Overview of corporate governance system and objectives

In an effort to enhance its corporate governance, the Company transitioned to a Company with an Audit & Supervisory Committee following a resolution made at its 38th Annual Shareholders' Meeting held on June 22, 2018. The establishment of an Audit & Supervisory Committee comprising only outside directors works to strengthen the Company's auditing and supervisory functions over its management.

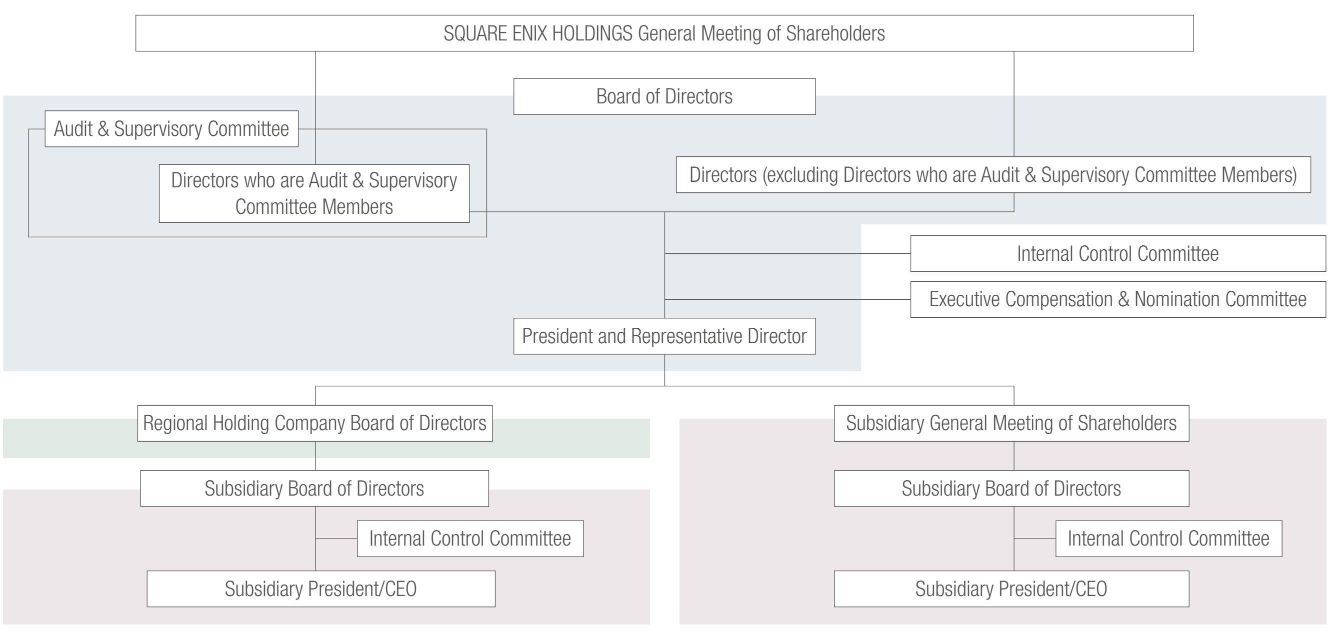
Moreover, in order to clarify the separation between management and execution, the Company will strengthen the monitoring functions of the Board of Directors, a majority of which is constituted by outside directors. Meanwhile, the Company has established an organization to increase the efficiency and speed of operational execution by stipulating in its Articles of Incorporation that the Board of Directors can empower directors to make decisions on execution of key operational matters while concentrating operational execution authorities to the Representative Director.

The Company currently has 5 directors (excluding those who are members of the Audit & Supervisory Committee), 3 of which are outside directors, and 3 directors who are members of the Audit & Supervisory Committee, all of which are outside directors, with 1 being full time. The Company designates all of its outside directors as independent directors as defined by the Tokyo Stock Exchange. The term of office is set at 1 year for directors (excluding directors who are members of the Audit & Supervisory Committee) and 2 years for members of the Audit & Supervisory Committee, respectively.

As a general rule, meetings of the Board of Directors are convened at least once a month, and deliberations and exchanges of opinions between the individual directors brings greater vitality to the management of the Company while also serving to sufficiently enhance the checking and balancing function that directors play for one another. Furthermore, in order to ensure the objectivity and transparency of decisions made regarding executive remuneration and candidates for director positions, the Company has at its discretion established an Executive Compensation & Nomination Committee comprising outside directors and the President and Representative Director. This committee makes decisions regarding the Basic Policy on the Executive Compensation System, individual compensation amount for each director (excluding directors who are Audit & Supervisory Committee members), and the Guidelines on the Nomination Criteria for Directors.

The Board of Directors has passed a resolution establishing the

Corporate Governance System



Company's Basic Policy on Building an Internal Control System. The Company has established such systems to ensure auditing and supervisory functions are strictly maintained, to confirm that all business activities comply with all relevant laws and regulations and the Company's Articles of Incorporation, and 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 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 Square Enix Group companies in a manner suited to their size and level of importance. Based on the Rule, the Company requests major 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 such companies, and takes necessary measures in an appropriate and timely fashion.

(2) Organization, personnel and procedures for internal audits and audits by Audit & Supervisory Committee members; and coordination between internal audits, audits by Audit & Supervisory Committee members and statutory audit firm

Internal audits are carried out by the Auditing Division, which reports directly to the President. The Auditing Division performs regular monitoring, reviews and evaluations (internal evaluations) of internal control systems, including those of Group companies—taking into account the relative importance of and risk inherent in each part of the organization—and provides reports and recommendations to the President. The Auditing Division's functions are carried out while sharing information with the Audit & Supervisory Committee and the statutory audit firm.

Audits by the Audit & Supervisory Committee are carried out by 3 Audit & Supervisory Committee members, who are all outside directors. The Committee also requests regular reports from the Auditing Division on operational audits, while instructing the division to assist the Committee's duties, as necessary.

Ryoichi Kobayashi possesses a wealth of experience and breadth of insight in corporate management, as well as a wealth of experience and a proven track record as an outside auditor for the Company. Mr. Kobayashi was appointed as an outside director who is an Audit & Supervisory Committee member to supervise and serve as a check on directors' execution of operations. He also offers his opinions at meetings of the Board of Directors aggressively.

Ryuji Matsuda does not have experience in corporate management excluding duties as an outside officer at several companies. However, he holds a qualification as an attorney and possesses extensive expertise in finance and accounting matters, as well as a wealth of experience and proven track record as an outside auditor of the Company. Mr. Matsuda was appointed as an outside director who is an Audit & Supervisory Committee member to supervise and serve as a check on directors' execution of operations. He also offers his opinions at meetings of the Board of Directors aggressively.

Tadao Toyoshima does not have experience in corporate management excluding duties as an outside officer 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, as well as a wealth of experience and proven track record as an outside auditor of the Company. Mr. Toyoshima was appointed as an outside director who is an Audit & Supervisory Committee member to supervise and serve as a check on directors' execution of operations. He also offers his opinions at meetings of the Board of Directors aggressively.

Information on audits by the statutory audit firm is provided in section (8) below.

Each quarter, the Audit & Supervisory Committee 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, and links between supervision or audits by the outside directors and internal audits, audits by Audit & Supervisory Committee members and audits by the accounting firm

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

The Company has 6 outside directors and no conflict-of-interest relationships exist between the Company and its outside directors.

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

Since their appointments as outside directors of the Company, Yukihiro Yamamura and Yuji Nishiura have been fulfilling their supervisory and oversight functions over the execution of duties by the 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 aggressively.

Masato Ogawa has abundant experience and broad insight of management in general. He has been appointed as an outside director to supervise and serve as a check on directors' execution of operations.

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

The Company has not established any particular provisions regarding independence in appointing the outside directors 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 that Messrs. Yamamura, Nishiura, Ogawa, Kobayashi, Matsuda and Toyoshima are designated as independent officers pursuant to the rules established by this stock exchange.

(iv) Links between audits by the outside directors and internal audits, audits by Audit & Supervisory Committee members and audits by the accounting firm, and relationship with the internal control unit

The outside directors work closely with the Auditing Division, Audit & Supervisory Committee 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 Committee, Internal Control Committee and other corporate forums.

(4) Activities of the Outside Directors

Outside directors	Status of attendance of Board of Directors meetings for the fiscal year ended March 31, 2018
Yukihiro Yamamura	15 out of 16 meetings (attendance rate: 93.7%)
Yuji Nishiura	16 out of 16 meetings (attendance rate: 100%)
Masato Ogawa	Newly appointed
Ryoichi Kobayashi	16 out of 16 meetings*1 (attendance rate: 100%)
Ryuji Matsuda	16 out of 16 meetings*1 (attendance rate: 100%)
Tadao Toyoshima	13 out of 13 meetings*1*2 (attendance rate: 100%)

*1. Audit & Supervisory Committee members Ryoichi Kobayashi, Ryuji Matsuda, and Tadao Toyoshima attended the meetings of the Board of Directors as Audit & Supervisory Board members during the fiscal year ended March 31, 2018.

*2. As Tadao Toyoshima was appointed as an Audit & Supervisory Committee member at the 37th Annual Shareholders' Meeting held on June 23, 2017, his status of attendance at Board of Directors meetings is for after his appointment.

(5) Analysis and Evaluation of the Effectiveness of the Board of Directors

The meetings of the Board of Directors for the fiscal year ended March 31, 2018 were held in the matter as described below. The Company conducted a survey on the effectiveness of board meetings by Board members and received positive feedback on the effectiveness of the meetings from the answerers. Based on these factors, the Company confirms that the Board is functioning in an effective manner.

- In principle, Board meetings are held once a month (16 times in the fiscal year ended March 31, 2018), whereupon the Board engages in discussions and makes decisions on matters that require its resolution in a timely manner.
- Each of the directors and Audit & Supervisory Board members maintains a high attendance rate (100% for 4 directors and 3 Audit & Supervisory Board members, and 93.7% for two directors in the fiscal year ended March 31, 2018). The Board meetings secure sufficient time for active discussions.

• The Board's execution of operations is subject to effective discipline, with the Board at times deciding as the result of discussions to revise or revisit proposed items.

The Company will continue to make further efforts to improve the effectiveness of the Board meetings by soliciting feedback from Board members in a timely manner.

(6) Overview of Executive Compensation

(i) Total compensation paid to directors, total compensation for each category of directors, and the total number of directors

Compensation Paid to Directors

Executive category	Number of individuals	Total remuneration (Millions of yen)	Remuneration breakdown (Millions of yen)	
			Monetary compensation	Non-monetary compensation
Directors (excluding outside directors)	4	433	372	60
Outside directors	2	30	24	6
Total	6	463	396	66

Notes: 1. Non-monetary compensation for the fiscal year ended March 31, 2018 was paid in the form of stock options.
2. The Company abolished the retirement benefit plan for directors.

Compensation Paid to Audit & Supervisory Board Members

Executive category	Number of individuals	Total remuneration (Millions of yen)	Remuneration breakdown (Millions of yen)	
			Monetary compensation	Non-monetary compensation
Audit & Supervisory Board members (excluding outside Audit & Supervisory Board members)	—	—	—	—
Outside Audit & Supervisory Board members	4	29	29	—
Total	4	29	29	—

Notes: 1. The table above includes 1 outside Audit & Supervisory Board member who retired upon expiration of his term of office at the conclusion of the 37th Annual Shareholders' Meeting held on June 23, 2017.
2. The Company abolished the retirement benefit plan for Audit & Supervisory Board members.

(ii) Total amount, etc., of total consolidated remuneration of executives who received ¥100 million or more

Name	Executive category	Company category	Total remuneration (Millions of yen)	Consolidated remuneration breakdown (Millions of yen)	
				Monetary compensation	Non-monetary compensation
Yosuke Matsuda	Director	The Company	255	230	25
Philip Timo Rogers	Director	The Company	56	41	15
		SQUARE ENIX LTD.	59	59	—
Keiji Honda	Director	The Company	104	89	15

(iii) Decision-making policies on executive compensation

In order to ensure the objectivity and transparency of decisions regarding executive compensation, the Company has at its discretion established the Executive Compensation & Nomination Committee comprising outside directors and the President and Representative Director. This committee makes decisions regarding the Basic Policy on the Executive Compensation System, the individual remuneration amounts for directors (excluding directors who are Audit & Supervisory Committee members).

The remuneration for directors (excluding directors who are Audit & Supervisory Committee members) consists of monetary compensation as a basic consideration and non-monetary compensation such as subscription rights to shares issued as stock options. The Executive Compensation & Nominating Committee determines the amount of remuneration and allocation among the directors within the scope of the total remuneration amount approved by an Annual Shareholders' Meeting, by taking into account the business performance of the Company for the fiscal year concerned and directors' contribution to the performance, etc. The President and Representative Director is delegated by the Board of Directors the authority to make the final approval based on the aforementioned decision.

The remuneration for directors who are Audit & Supervisory Committee members is monetary compensation only, in light of their independence from the corporate management of the Company. The amount of remuneration and allocation among the directors who are Audit & Supervisory Committee members are determined through consultations among the directors who are Audit & Supervisory Committee members, within the scope of the total remuneration amount approved by an Annual Shareholders' Meeting, based on the basic policy determined by the Executive Compensation & Nominating Committee.

(7) Matters relating to the Company's holdings of shares

Matters relating to shares held by the Company, which has the largest amount of Investment Securities on its balance sheet 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 as Investment Securities for purposes other than purely investment purposes:

None.

(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:

None.

(iii) Total amount presented on balance sheets for the fiscal years ended March 31, 2017 and March 31, 2018; and total dividends received, total gain on sale of shares and total gain on revaluation of shares for the fiscal year ended March 31, 2018 for investments in shares for purely investment purposes:

Category	Previous fiscal year	Fiscal year ended March 31, 2018			
	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	0	3	103	(Note) 1 (—)
Shares other than those above	724	117	4	248	103 (—)

Notes: 1. Unlisted shares are not included in the above table, since it is extremely difficult to determine fair value of unlisted shares having no market price.
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":

None.

(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":

None.

(8) 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, 2018.

- CPAs performing audits:
  Limited-liability partners: Kenichi Shibata, Hiroyoshi Konno
- Personnel providing audit assistance:
  13 CPAs, 21 assistant CPAs

(9) Overview of liability limitation agreements

The Company has liability limitation agreements in place with its outside directors 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 to ¥10 million or the legally specified amount, whichever is greater.

(10) Prescribed number of directors

The Company's Articles of Incorporation stipulate that the number of directors (excluding directors who are Audit & Supervisory Committee members) shall not exceed 12 and the number of directors who are Audit & Supervisory Committee members shall not exceed 4.

(11) 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 a majority of affirmative votes of shareholders exercising their voting rights at the Annual Shareholders' Meeting where shareholders in attendance hold one-third or more of outstanding voting rights.

(12) 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 flexibility in execution of capital policies.

(13) Exemption of directors' liability

Pursuant to Article 426, Paragraph 1 of the Companies Act, the Company's Articles of Incorporation stipulate that directors (including former directors) may be exempted from liability for actions related to Article 423, Paragraph 1 of the Companies Act, up to the limit provided by law, through a resolution passed by the Board of Directors. The objective of this provision is to ensure the maintenance of an environment in which directors may exercise their duties to the maximum of their abilities and are able to fulfill the roles expected of them.

(14) Matters requiring special resolutions at the Shareholders' Meeting

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 two-thirds or more of affirmative votes of shareholders exercising their voting rights at the Shareholders' Meeting where shareholders in attendance hold one-third or more of outstanding voting rights. The objective of this provision is to ensure smooth proceedings of the Shareholders' Meeting by relaxing the special resolution requirements.

2. Compensation to Statutory Audit Firm, etc.

(1) Compensation paid to statutory audit firm

Category	Fiscal year ended March 31, 2017		Fiscal year ended March 31, 2018	
	Compensation for statutory audit operations	Compensation for non-audit operations	Compensation for statutory audit operations	Compensation for non-audit operations
Parent company	47	1	47	1
Consolidated subsidiaries	70	—	70	—
Total	118	1	118	1

(2) Other significant compensations

Fiscal year ended March 31, 2017

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 ¥89 million for statutory audit operations and ¥35 million for non-audit operations. The statutory audit firm retained by the Company is affiliated with the international auditing network of the Ernst & Young Group.

Fiscal year ended March 31, 2018

The Company's consolidated subsidiaries SQUARE ENIX LTD. and SQUARE ENIX OF AMERICA HOLDINGS, INC. paid compensation to the Ernst & Young Group amounting to ¥112 million for statutory audit operations and ¥18 million for non-audit operations. The statutory audit firm retained by the Company is 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, 2017

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

Fiscal year ended March 31, 2018

The non-audit operations provided by the statutory audit firm for which the Company paid compensation are provision of guidance and advice regarding the preparation of English 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, number of days required to conduct audits and the characteristics of the operations performed.

3. IR Activities

The Company's basic policy is to disclose information in a timely and appropriate manner in order to deliver useful information to its investors. In particular, the Company timely discloses information with significant impact on investment decisions in accordance with the Timely Disclosure Rules set forth under the Financial Instruments and Exchange Act and by the Tokyo Stock Exchange, and proactively discloses other information determined to be useful to promote understanding of the Company.

Briefing sessions or telephone conferences are held quarterly for institutional investors and analysts, with the President and Representative Director and Chief Financial Officer providing the briefings. The Company conducts overseas road shows for foreign investors where the President and Representative Director and head of the Corporate Planning Division provide briefings.

The Company hosts an IR conference after the Annual Shareholders' Meeting for individual investors. The briefing is delivered by the President and Representative Director and subsidiary executives.

The Company posts earnings summaries, earnings briefing materials (including the briefing by the President and Representative Director), annual security reports, annual reports, Annual Shareholders' Meeting convocation notices, and other items on its website.

» Executive Members

As of June 22, 2018

Yukihiro Yamamura	**Yuji Nishiura**	**Masato Ogawa**	**Yukinobu Chida**	**Yosuke Matsuda**	**Ryoichi Kobayashi**	**Tadao Toyoshima**	**Ryuji Matsuda**
Director*	Director*	Director*	Director	President and Representative Director	Director (Audit & Supervisory Committee Member) (Standing)*	Director (Audit & Supervisory Committee Member) *	Director (Audit & Supervisory Committee Member)*

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

Yasuhiro Fukushima
Honorary Chairman

A Message from Our Newly Appointed Executive

Masato Ogawa
Director

Being appointed a director of Square Enix Holdings, which boasts one of the world's top content portfolios, is both an honor and an inspiration. My two sons and I are all massive fans of DRAGON QUEST and FINAL FANTASY, another reason I am very happy about my new appointment.

Advances in digital technology now put Square Enix Group's fantastic content in direct reach of its customers around the world. Games are also played on an increasingly diverse range of devices, making them familiar to people everywhere. This represents an opportunity for major growth but could also present significant risks. The gaming industry gives us what has become as integral a part of our culture as movies and anime, but that means that it is also subject to greater scrutiny and bears increased social responsibility.

As such, it will likely need to overhaul its approach to marketing and to improve customer satisfaction as well as enhance its crisis management capabilities. I have experience in marketing, public relations, and crisis management in the aviation industry, which finds itself in similar circumstances. I hope that that experience will enable me to be of service.

Profile

Apr. 2009	Corporate Executive Officer, Senior Vice President, Marketing & Planning, ALL Nippon Airways Co., LTD. (currently ANA HOLDINGS INC.)
Jun. 2011	Senior Vice President, General Manager, Nagoya Region, Chubu Sales Headquarter, ALL Nippon Airways Co., LTD.
Apr. 2013	Senior Vice President, General Manager, Nagoya Region, Chubu Sales Headquarter, ALL Nippon Airways Co., LTD.
Apr. 2015	Executive Vice President and COO, ANA Strategic Research Institute Co., Ltd.
Apr. 2017	Chairman of the Board, ANA Strategic Research Institute Co., Ltd. (incumbent)
Jun. 2018	Director, SQUARE ENIX HOLDINGS CO., LTD. (incumbent)

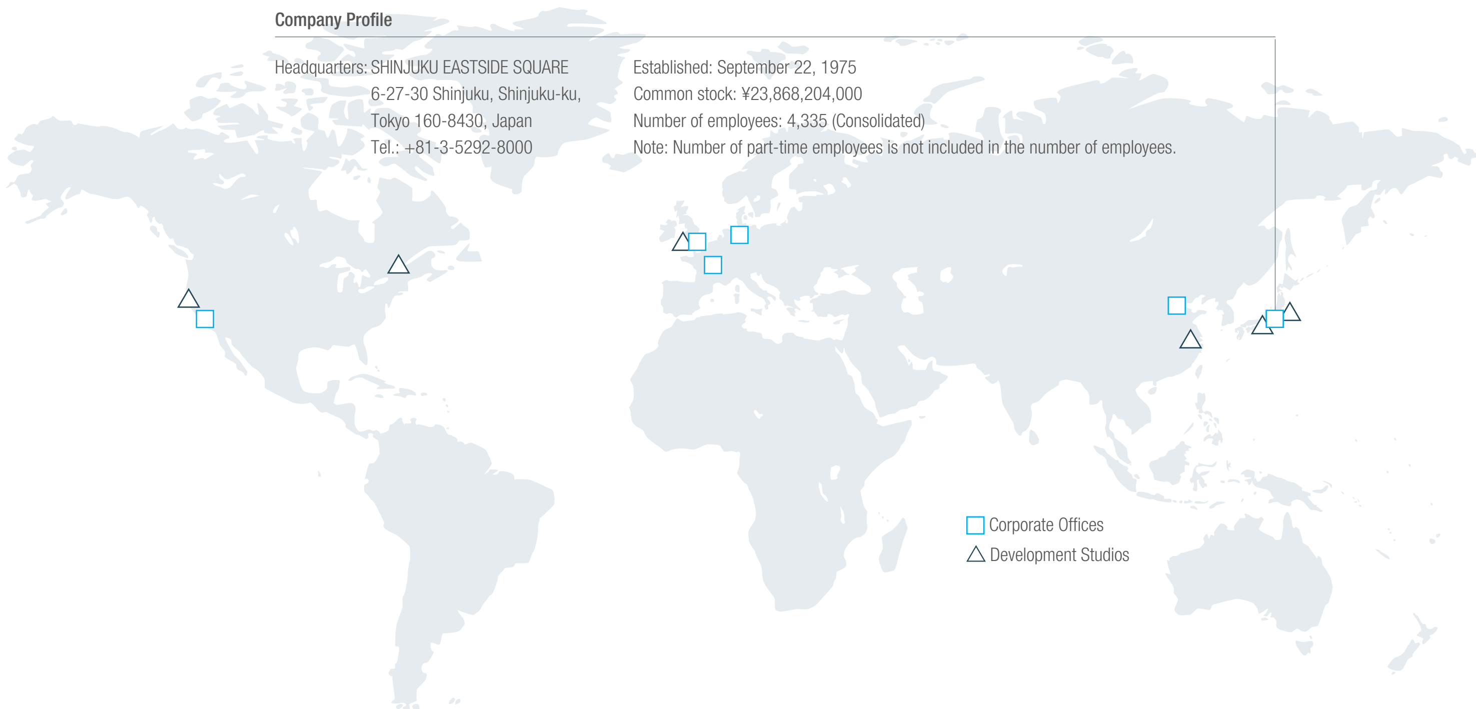
» Corporate Data

(As of March 31, 2018)

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: ¥23,868,204,000
Number of employees: 4,335 (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
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
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, 2018)

Share Information

Number of shares issued: 122,398,896

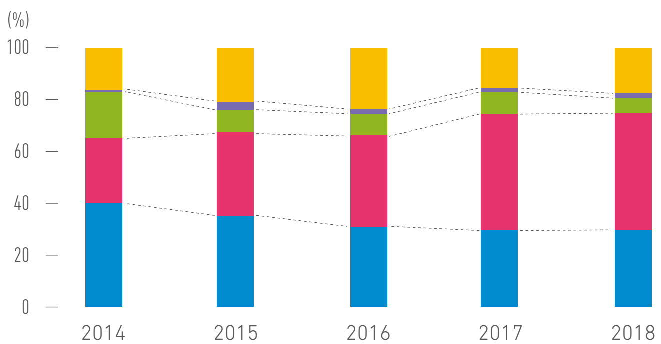
Number of shareholders: 20,126

Principal Shareholders

Rank	Shareholder	Investment in Square Enix (Thousands of shares)	(%)
1	Yasuhiro Fukushima	23,626	19.84
2	Fukushima Planning Co., Ltd.	6,763	5.68
3	JP MORGAN CHASE BANK 380752	6,448	5.41
4	The Master Trust Bank of Japan, Ltd. (Trust Account)	5,468	4.59
5	Japan Trustee Services Bank, Ltd. (Trust Account)	4,413	3.70
6	MSCO CUSTOMER SECURITIES	4,300	3.61
7	Japan Trustee Services Bank, Ltd. (Trust Account 9)	2,801	2.35
8	CHASE MANHATTAN BANK GTS CLIENTS ACCOUNT ESCROW	2,171	1.82
9	NORTHERN TRUST CO. (AVFC) SUB A/C NON TREATY	2,029	1.70
10	Masafumi Miyamoto	2,020	1.69

Notes: 1. The Company holds 3,324,559 shares of treasury stock, which are excluded from the above table.
2. The holding ratio is calculated without the treasury shares (3,324,559).

Share Ownership (Thousands of shares)



	2014		2015		2016		2017		2018	
Financial Institutions	18,722	(16.2%)	25,588	(20.9%)	29,231	(23.9%)	19,042	(15.5%)	21,626	(17.7%)
Financial Instruments Companies	1,114	(1.0%)	3,291	(2.7%)	1,717	(1.4%)	1,902	(1.6%)	2,037	(1.7%)
Other Companies	20,570	(17.8%)	10,630	(8.7%)	10,424	(8.5%)	10,409	(8.5%)	7,409	(6.0%)
Foreign Companies and Individuals	28,817	(24.9%)	40,135	(32.8%)	43,256	(35.4%)	55,067	(45.0%)	54,920	(44.9%)
Individuals and Other	46,350	(40.1%)	42,586	(34.9%)	37,669	(30.8%)	35,951	(29.4%)	36,404	(29.7%)
Total	115,575	(100.0%)	122,232	(100.0%)	122,299	(100.0%)	122,373	(100.0%)	122,398	(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 Division
  Mitsubishi UFJ Trust and Banking Corporation
  1-1, Nikko-cho, Fuchu-shi, Tokyo
  TEL.: 0120-232-711 (Toll-free number within Japan)

  Mailing address:
  Securities Agency Division
  Mitsubishi UFJ Trust and Banking Corporation
  Shin-Tokyo Post Office Post-office box No.29,
  137-8081
- 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/

Printed in Japan

ANNUAL REPORT 2018
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*).

Management Discussion and Analysis of Operating Results and Financial Position (JPNGAAP)
SQUARE ENIX HOLDINGS CO., LTD. and Consolidated Subsidiaries
Years ended March 31

The following statements are based on management's view on SQUARE ENIX HOLDINGS CO., LTD. (the "Company") as of June 30, 2018 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.

a. 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.

b. 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.

c. 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 book value, the Group recognizes a write-down, while recording loss on valuation of inventories. If future demand and market conditions are worse than management's forecasts, there is the possibility that an additional recording of loss on valuation of inventories will become necessary.

d. 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, such a reduction is treated as an impairment loss. In addition, in the event that the fair value of marketable shares declines by 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.

e. 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 possible tax planning, including the prospect of future taxable income, 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, deferred tax assets which were written down in the past shall be reversed 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, of which funds raised by borrowings are used to meet short-term working capital requirements. As of March 31, 2018, the Group's balance of interest-bearing debt including borrowings and lease obligations was ¥9,350 million.
Cash and cash equivalents at the end of the year totaled ¥134,355 million, providing sufficient liquidity for the Group to carry on its business operations.
Cash flows in the fiscal year ended March 31, 2018, 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 ¥30,638 million, an increase of 20.0% from the previous fiscal year. This position was primarily due to profit before income taxes of ¥35,927 million, depreciation and amortization of ¥5,859 million, and an increase in inventories of ¥11,092 million.

(2) Net cash used in investing activities
Net cash used in investing activities totaled ¥8,191 million, an increase of 14.3% from the previous fiscal year. The main factor was purchases of property and equipment of ¥6,378 million.

(3) Net cash used in financing activities

Net cash used in financing activities totaled ¥15,290 million, an increase of 163.3％from the previous fiscal year. The main factors were purchase of treasury stock of ¥9,262 million and cash dividends paid of ¥6,068 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, 2018

■ Assets

Total Assets

Millions of yen

March 31	2018	2017	Change
	¥259,713	¥243,859	¥15,854

Total assets as of March 31, 2018 amounted to ¥259,713 million, an increase of ¥15,854 million from the previous fiscal year. The main factors contributing to the change were as follows:

Cash and Deposits

Millions of yen

March 31	2018	2017	Change
	¥136,785	¥129,364	¥7,421

Cash and deposits as of March 31, 2018 increased ¥7,421 million, to ¥136,785 million, mainly reflecting profit before income taxes of ¥35,927 million offset by an increase of inventories of ¥11,092 million and cash dividends paid of ¥6,072 million, among other factors.

Content Production Account

Millions of yen

March 31	2018	2017	Change
	¥44,167	¥34,548	¥9,619

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, 2018, the content production account totaled ¥44,167 million, an increase of ¥9,619 million from the previous fiscal year.

Property and Equipment

Millions of yen

March 31	2018	2017	Change
	¥16,060	¥14,234	¥1,826

Total property and equipment as of March 31, 2018 amounted to ¥16,060 million, an increase of ¥1,826 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	2018	2017	Change
	¥4,559	¥4,735	¥(176)

Total intangible assets as of March 31, 2018 amounted to ¥4,559 million, a decrease of ¥176 million from the previous fiscal year.

Investments and Other Assets

Millions of yen

March 31	2018	2017	Change
	¥16,549	¥15,850	¥699

Total investments and other assets increased ¥699 million, to ¥16,549 million, as of March 31, 2018.

■ **Liabilities**

Millions of yen

March 31	2018	2017	Change
	¥66,353	¥61,955	¥4,398

As of March 31, 2018, total liabilities amounted to ¥66,353 million, an increase of ¥4,398 million from the previous fiscal year. The main factors contributing to the change were as follows:

Current Liabilities

Millions of yen

March 31	2018	2017	Change
	¥58,842	¥55,445	¥3,397

Total current liabilities increased ¥3,397 million, to ¥58,842 million, as of March 31, 2018. This was mainly due to a decrease in provision for sales returns of ¥2,212 million and an increase in accrued income taxes of ¥7,497 million.

Non-Current Liabilities

Millions of yen

March 31	2018	2017	Change
	¥7,510	¥6,510	¥1,000

Total non-current liabilities increased ¥1,000 million, to ¥7,510 million, as of March 31, 2018.

■ **Shareholders' Equity/Net Assets**

Millions of yen

March 31	2018	2017	Change
Common stock	¥23,868	¥23,828	¥40
Capital surplus	53,107	53,067	40
Retained earnings	129,513	109,764	19,749
Treasury stock	(10,159)	(897)	(9,262)
Total shareholders' equity	196,330	185,763	10,567
Valuation difference on available-for-sale securities	89	364	(275)
Foreign currency translation adjustments	(3,674)	(4,640)	966
Remeasurements of defined benefit plans	(132)	(165)	33
Total accumulated other comprehensive income (loss)	(3,718)	(4,440)	722
Stock acquisition rights	603	453	150
Non-controlling interests	144	128	16
Total net assets	¥193,359	¥181,904	¥11,455

As of March 31, 2018, total net assets amounted to ¥193,359 million, up ¥11,455 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, purchase of treasury stock and a decrease in foreign currency translation adjustments.

■ **Consolidated Statement of Income**
Net Sales and Operating Income

Millions of yen

Years ended March 31	2018	Composition	2017	Composition	Amount change	Percent change
Net sales	¥250,394	100.0%	¥256,824	100.0%	¥(6,430)	(2.5)%
Gross profit	120,874	48.3%	115,701	45.1%	5,173	4.5%
Reversal of provision for sales returns	6,118	2.4%	3,227	1.3%	2,891	89.6%
Provision for sales returns	4,139	1.7%	6,014	2.3%	(1,875)	(31.2)%
Net gross profit	122,854	49.1%	112,914	44.0%	9,940	8.8%
Selling, general and administrative expenses	84,677	33.8%	81,618	31.8%	3,059	3.7%
Operating income	¥38,176	15.2%	¥31,295	12.2%	¥6,881	22.0%

Comparisons by segment with the previous fiscal year are provided on pages 31-33.

Non-Operating Income and Expenses

Millions of yen

Years ended March 31	2018	2017	Change
Non-operating income	¥757	¥293	¥464
Non-operating expenses	2,809	459	2,350

Extraordinary Gain and Loss

Millions of yen

Years ended March 31	2018	2017	Change
Extraordinary gain	¥368	¥302	¥66
Extraordinary loss	565	5,584	(5,019)

Total extraordinary gain was ¥368 million, mainly due to gain on sale of investment securities of ¥351 million. Total extraordinary loss was ¥565 million, reflecting the absence of loss on liquidation of subsidiaries and associates in the current fiscal year, which was recorded in the previous fiscal year.

■ Capital Expenditures and Depreciation and Amortization

Millions of yen

Years ended March 31	2018	2017	Change
Capital expenditures	¥7,967	¥6,962	¥1,005
Depreciation and amortization	5,859	6,270	(411)

Capital expenditures for the fiscal year ended March 31, 2018 amounted to ¥7,967 million, an increase of ¥1,005 million from the previous fiscal year, mainly due to the investment in arcade game machines in the Amusement segment, along with purchase of development tools and networking equipment for the data centers in the Digital Entertainment segment.

Depreciation and amortization totaled ¥5,859 million, a decrease of ¥411 million from the previous fiscal year, primarily due to a decrease in depreciation and amortization in the Digital Entertainment segment and Amusement segment.

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, 2019 is as follows (as of June 30, 2018).

Millions of yen

Years ended/ending March 31	2009 actual	2010 actual	2011 actual	2012 actual	2013 actual	2014 actual	2015 actual	2016 actual	2017 actual	2018 actual	2019 forecast
Net sales	¥135,693	¥192,257	¥125,271	¥127,896	¥147,981	¥155,023	¥167,891	¥214,101	¥256,824	¥250,394	¥270,000
Operating income (loss)	12,277	28,235	7,325	10,713	(6,081)	10,543	16,426	26,018	31,295	38,176	30,000
Ordinary income (loss)	11,261	27,822	5,390	10,297	(4,378)	12,534	16,984	25,322	31,128	36,124	30,000
Profit (loss) attributable to owners of parent	6,333	9,509	(12,043)	6,060	(13,714)	6,598	9,831	19,884	20,039	25,821	21,000

5. Basic Policy for Profit Distribution and Dividends

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

It is the Company's basic policy for profit distribution to pay dividends from retained earnings twice a year (interim dividends and year-end dividends), and for the fiscal year ended March 31, 2018, the Company paid an interim dividend of ¥10 per share and a year-end dividend of ¥55 per share for an annual dividend of ¥65 per share.

The distribution of surplus for the fiscal year ended March 31, 2018 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, 2018 are as follows:

Date of resolution	Total dividends (Millions of yen)	Dividends per share (Yen)
November 8, 2017 Resolution by the Board of Directors	¥1,190	¥10
May 17, 2018 Resolution by the Board of Directors	¥6,549	¥55

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, 2018.

(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 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 Act, along with the General Data Protection Regulation in the EU, 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

	2018	2017
Assets		
Current assets		
Cash and deposits	¥136,785	¥129,364
Notes and accounts receivable	24,383	26,053
Merchandise and finished goods	3,233	2,820
Work in progress	3	11
Raw materials and supplies	253	302
Content production account	44,167	34,548
Deferred tax assets	6,443	7,029
Other	7,486	9,222
Allowance for doubtful accounts	(212)	(314)
Total current assets	222,544	209,038
Non-current assets		
Property and equipment		
Buildings and structures	15,657	14,777
Accumulated depreciation	(9,993)	(9,365)
Buildings and structures (net)	5,663	5,412
Tools and fixtures	14,021	13,694
Accumulated depreciation	(9,855)	(10,626)
Tools and fixtures (net)	4,165	3,067
Amusement equipment	16,910	16,247
Accumulated depreciation	(14,588)	(14,455)
Amusement equipment (net)	2,322	1,792
Other	177	181
Accumulated depreciation	(115)	(79)
Other (net)	62	101
Land	3,795	3,798
Construction in progress	50	62
Total property and equipment	16,060	14,234
Intangible assets		
Other	4,559	4,735
Total intangible assets	4,559	4,735
Investments and other assets		
Investment securities	154	780
Guarantee deposits	9,879	9,204
Net defined benefit asset	155	120
Deferred tax assets	2,458	2,572
Other	*1 3,965	*1 3,394
Allowance for doubtful accounts	(63)	(222)
Total investments and other assets	16,549	15,850
Total non-current assets	37,169	34,820
Total assets	¥259,713	¥243,859

The accompanying notes are an integral part of these statements.

Millions of yen

	2018	2017
Liabilities		
Current liabilities		
Notes and accounts payable	¥14,848	¥14,220
Short-term loans	8,931	8,437
Accrued income taxes	9,162	1,665
Provision for bonuses	3,246	2,358
Provision for sales returns	3,985	6,197
Provision for game arcade closings	58	64
Asset retirement obligations	—	17
Other	18,610	22,482
Total current liabilities	58,842	55,445
Non-current liabilities		
Provision for directors' retirement benefits	88	88
Provision for game arcade closings	41	83
Net defined benefit liabilities	2,676	2,546
Deferred tax liabilities	896	573
Asset retirement obligations	2,812	2,450
Other	994	767
Total non-current liabilities	7,510	6,510
Total liabilities	66,353	61,955
Net Assets		
Shareholders' equity		
Common stock	23,868	23,828
Capital surplus	53,107	53,067
Retained earnings	129,513	109,764
Treasury stock	(10,159)	(897)
Total shareholders' equity	196,330	185,763
Accumulated other comprehensive income (loss)		
Valuation difference on available-for-sale securities	89	364
Foreign currency translation adjustments	(3,674)	(4,640)
Remeasurements of defined benefit plans	(132)	(165)
Total accumulated other comprehensive income (loss)	(3,718)	(4,440)
Stock acquisition rights	603	453
Non-controlling interests	144	128
Total net assets	193,359	181,904
Total liabilities and net assets	¥259,713	¥243,859

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

	2018	2017
Net sales	¥250,394	¥256,824
Cost of sales	*1 129,519	*1 141,123
Gross profit	120,874	115,701
Reversal of provision for sales returns	6,118	3,227
Provision for sales returns	4,139	6,014
Net gross profit	122,854	112,914
Selling, general and administrative expenses		
Packaging freight charge	1,874	1,726
Advertising expense	22,585	25,541
Sales promotion expense	86	74
Allowance for doubtful accounts	—	12
Compensation for directors	773	557
Salaries	15,242	14,618
Provision for bonuses	3,740	2,492
Net periodic pension costs	534	678
Welfare expense	2,522	2,161
Rental expense	2,306	2,100
Commission fee	23,539	21,554
Depreciation and amortization	2,495	2,272
Other	8,976	7,825
Total selling, general and administrative expenses	*2 84,677	*2 81,618
Operating income	38,176	31,295
Non-operating income		
Interest income	107	75
Dividends received	14	9
Rental income	35	16
Reversal of allowance for doubtful accounts	161	2
Subsidy income	126	33
Gain on forgiveness of payable for group tax	31	62
Miscellaneous income	281	93
Total non-operating income	757	293
Non-operating expenses		
Interest expenses	84	52
Commission fee	10	6
Office transfer-related expenses	152	31
Foreign exchange loss	2,477	358
Miscellaneous loss	83	11
Total non-operating expenses	2,809	459
Ordinary income	36,124	31,128
Extraordinary gain		
Gain on sale of property and equipment	*3 9	*3 4
Gain on sale of investment securities	351	—
Gain on reversal of stock acquisition rights	2	20
Gain on reversal of foreign currency translation adjustment	—	105
Gain on reversal of debts	—	82
Other	5	90
Total extraordinary gain	368	302
Extraordinary loss		
Loss on sale of property and equipment	*4 18	—
Loss on disposal of property and equipment	*5 131	*5 210
Impairment loss	*6 40	*6 437
Loss on sales of shares of subsidiaries and associates	371	—
Loss on liquidation of subsidiaries and associates	—	*7 4,898
Other	4	37
Total extraordinary loss	565	5,584
Profit before income taxes	35,927	25,846
Income taxes–current	9,216	5,331
Income taxes–deferred	878	472
Total income taxes	10,094	5,804
Profit	25,832	20,042
Profit attributable to non-controlling interests	11	3
Profit attributable to owners of parent	¥25,821	¥20,039

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

	2018	2017
Profit	¥25,832	¥20,042
Other comprehensive income (loss)		
Valuation difference on available-for-sale securities	(275)	23
Foreign currency translation adjustments	970	(1,539)
Remeasurements of defined benefit plans	32	442
Other comprehensive income (loss)	*1 727	*1 (1,073)
Comprehensive income	26,560	18,969
(Breakdown)		
Comprehensive income attributable to owners of parent	26,544	19,072
Comprehensive income (loss) attributable to non-controlling interests	¥16	¥(103)

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

■ 2018

Millions of yen

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at the beginning of the year	¥23,828	¥53,067	¥109,764	¥ (897)	¥185,763
Changes during the year					
Issuance of new stocks	40	40			80
Dividends from retained earnings			(6,072)		(6,072)
Profit attributable to owners of parent			25,821		25,821
Purchase of treasury stock				(9,262)	(9,262)
Disposal of treasury stock		0		0	0
Net changes in items other than shareholders' equity					
Total changes during the year	40	40	19,748	(9,261)	10,566
Balance at the end of the year	¥23,868	¥53,107	¥129,513	¥ (10,159)	¥196,330

Millions of yen

	Accumulated other comprehensive income (loss)						
	Valuation difference on available-for-sale securities	Foreign currency translation adjustments	Remeasure-ments of defined benefit plans	Total accumulated other comprehensive income (loss)	Stock acquisition rights	Non-controlling interests	Total net assets
Balance at the beginning of the year	¥364	¥(4,640)	¥(165)	¥(4,440)	¥453	¥128	¥181,904
Changes during the year							
Issuance of new stocks							80
Dividends from retained earnings							(6,072)
Profit attributable to owners of parent							25,821
Purchase of treasury stock							(9,262)
Disposal of treasury stock							0
Net changes in items other than shareholders' equity	(275)	965	32	722	150	16	889
Total changes during the year	(275)	965	32	722	150	16	11,455
Balance at the end of the year	¥89	¥(3,674)	¥(132)	¥(3,718)	¥603	¥144	¥193,359

The accompanying notes are an integral part of these statements.

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

Consolidated Statement of Cash Flows (JPNGAAP)
SQUARE ENIX HOLDINGS CO., LTD. and Consolidated Subsidiaries
Years ended March 31

		Millions of yen
	2018	2017
Cash flows from operating activities		
Profit before income taxes	¥35,927	¥25,846
Depreciation and amortization	5,859	6,270
Impairment loss	40	862
Increase (decrease) in allowance for doubtful accounts	(251)	169
Increase (decrease) in provision for bonuses	1,096	(224)
Increase (decrease) in provision for sales returns	(1,979)	2,905
Increase (decrease) in provision for directors' retirement benefits	—	(63)
Increase (decrease) in provision for game arcade closing	(48)	(53)
Decrease (increase) in net defined benefit asset	(64)	7
Increase (decrease) in net defined benefit liabilities	205	291
Interest and dividends income	(121)	(84)
Interest expenses paid	84	52
Foreign exchange loss (gain)	2,940	(964)
Loss (gain) on sales of investment securities	(351)	—
Loss (gain) on sales of shares of subsidiaries and associates	371	—
Loss on disposal of property and equipment	131	210
Gain on sales of non-current assets	(9)	(4)
Loss on sales of property and equipment	18	—
Decrease (increase) in notes and accounts receivable	1,128	(4,882)
Decrease (increase) in inventories	(11,092)	4,257
Increase (decrease) in notes and accounts payable–trade	523	3,283
Decrease (increase) in other current assets	1,994	410
Decrease (increase) in other non-current assets	(531)	(187)
Increase (decrease) in other current liabilities	(3,648)	881
Other, net	874	(2,215)
Subtotal	33,098	36,769
Interest and dividends income received	121	89
Interest expenses paid	(84)	(54)
Income taxes paid	(5,213)	(11,311)
Income taxes refund	2,717	45
Net cash provided by operating activities	¥30,638	¥25,537

The accompanying notes are an integral part of these statements.

	2018	2017
	Millions of yen	
Cash flows from investing activities		
Payments into time deposits	¥ (4,539)	¥(4,461)
Proceeds from withdrawal of time deposits	4,157	4,113
Proceeds from sales of investment securities	642	—
Purchases of property and equipment	(6,378)	(5,785)
Proceeds from sales of property and equipment	9	6
Purchases of intangible assets	(858)	(851)
Purchases of investments in subsidiaries	(210)	(100)
Proceeds from liquidation of subsidiaries	5	69
Payments for guarantee deposits	(1,204)	(324)
Proceeds from collection of guarantee deposits	431	223
Other, net	(247)	(54)
Net cash used in investing activities	(8,191)	(7,164)
Cash flows from financing activities		
Proceeds from issuance of new stocks	64	124
Purchase of treasury stock	(9,262)	(8)
Cash dividends paid	(6,068)	(5,849)
Other, net	(23)	(74)
Net cash used in financing activities	(15,290)	(5,807)
Effect of exchange rate change on cash and cash equivalents	(196)	(534)
Net increase (decrease) in cash and cash equivalents	6,960	12,030
Cash and cash equivalents at the beginning of the year	127,395	115,375
Decrease in cash and cash equivalents resulting from exclusion of subsidiaries from consolidation	—	(11)
Cash and cash equivalents at end of the year	*1 ¥134,355	*1 ¥127,395

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: 22 companies
Names of principal consolidated subsidiaries
SQUARE ENIX OF AMERICA HOLDINGS, INC.
SQUARE ENIX CO., LTD.
TAITO CORPORATION
SQUARE ENIX, INC.
SQUARE ENIX LTD.
SQUARE ENIX (China) CO., LTD.
CRYSTAL DYNAMICS, INC.
EIDOS INTERACTIVE CORP.
During the fiscal year ended March 31, 2018, SMILE-LAB Co., Ltd. and IO INTERACTIVE A/S were sold, and consequently, they were excluded from the Company’s scope of consolidation.

(2) Names of principal non-consolidated subsidiaries:
Luminous Productions Co., Ltd.
Tokyo RPG Factory Co., Ltd.
STUDIO ISTOLIA 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 Luminous Productions Co., Ltd., Tokyo RPG Factory Co., Ltd., STUDIO ISTOLIA 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.

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, 2018, 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.

Accounting Standards Issued but Not Yet Applied
"Practical Solution on Transactions Granting Employees and Others Stock Acquisition Rights, which Involve Considerations, with Vesting Conditions" (Accounting Standards Board of Japan (ASBJ) PITF No. 36, January 12, 2018)
(1) Outline:
This was issued to clarify accounting treatments and disclosures deemed necessary concerning transactions that involve the granting stock acquisition rights with vesting conditions by a company to its employees and others, requiring employees and others to pay a certain amount of money to the company on the grant.

(2) Effective date:
Effective from the beginning of the fiscal year ending March 31, 2019.

(3) Impact of the application of this accounting standard
The impact of the application of this accounting standard on the consolidated financial statements is being assessed.

"Implementation Guidance on Tax Effect Accounting" (ASBJ Guidance No. 28, revised on February 16, 2018) and
"Implementation Guidance on Recoverability of Deferred Tax Assets" (ASBJ Guidance No. 26, last revised on February 16, 2018)
(1) Outline:
These implementations represent practical guidance on tax effect accounting that was transferred to the Accounting Standards Board of Japan from the Japanese Institute of Certified Public Accountants, with the basic framework unchanged and revisions deemed necessary as follows:
(Major items for which accounting treatments were revised)
・ Treatment of future taxable temporary differences related to a subsidiary's stock, etc., in non-consolidated financial statements
・ Treatment concerning recoverability of deferred tax assets in companies that qualify as "Category 1"

(2) Effective date:
Effective from the beginning of the fiscal year ending March 31, 2019.

(3) Impact of the application of such implementation guidance
The impact of the application of the implementation guidance on the consolidated financial statements is being assessed.

"Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 30, 2018) and
"Implementation Guidance on Accounting Standard for Revenue Recognition" (ASBJ Guidance No. 30, March 30, 201)
(1) Outline:
The International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB) jointly developed a comprehensive accounting standard for revenue recognition, and they issued "Revenue from Contracts with Customers" (IFRS 15 by IASB and Topic 606 by the FASB) in May 2014. Considering that the application of IFRS 15 is effective from the fiscal year beginning on or after January 1, 2018 and the application of Topic 606 is effective from fiscal years beginning after December 15, 2017, the comprehensive accounting standard for revenue recognition was developed by the ASBJ and issued together with its implementation guidance.
A basic policy in developing the accounting standard for revenue recognition by the ASBJ was to incorporate the basic principles of IFRS 15 as a starting point, from the viewpoint of comparability between financial statements, one of the benefits of consistency with IFRS 15. In addition, alternative accounting treatments are provided without impairing comparability for common business practices in Japan.

(2) Effective date:
Effective from the beginning of the fiscal year ending March 31, 2022.

(3) Impact of the application of accounting standard and implementation guidance:
The impact of the application of accounting standard and implementation guidance on the consolidated financial statements is being assessed.

Change in the Method of Presentation
(Consolidated Statement of Income)
"Gain on liquidation of subsidiaries" under extraordinary gain was presented separately for the fiscal year ended March 31, 2017, but it is included in "Other" for the fiscal year ended March 31, 2018, due to a decrease in its monetary significance. To reflect this change in the method of presentation, the consolidated financial statements for the fiscal year ended March 31, 2017 have been reclassified.
Consequently, ¥69 million in "Gain on liquidation of subsidiaries" in the consolidated statement of income for the fiscal year ended March 31, 2017 has been reclassified as "Other."

"Loss on valuation of shares of subsidiaries and associates" under extraordinary loss was presented separately for the fiscal year ended March 31, 2017, but it is included in "Other" for the fiscal year ended March 31, 2018, due to a decrease in its monetary significance. To reflect this change in the method of presentation, the consolidated financial statements for the fiscal year ended March 31, 2017 have been reclassified.

Consequently, ¥0 million in “Loss on valuation of shares of subsidiaries and associates” in the consolidated statement of income for the fiscal year ended March 31, 2017 has been reclassified as “Other.”

(Consolidated Statement of Cash Flows)

“Loss on valuation of shares of subsidiaries and associates” under “Cash flows from operating activities” was presented separately for the fiscal year ended March 31, 2017, but it is included in “Other” under “Cash flows from operating activities” from the fiscal year ended March 31, 2018, due to a decrease in its monetary significance. To reflect this change in the method of presentation, the consolidated financial statements for the fiscal year ended March 31, 2017 have been reclassified.

Consequently, ¥0 million in “Loss on valuation of shares of subsidiaries and associates” recorded under “Cash flows from operating activities” in the consolidated statement of cash flows for the fiscal year ended March 31, 2017 has been reclassified as “Other.”

Notes to Consolidated Balance Sheet

*1 Investments in non-consolidated subsidiaries and affiliates

Millions of yen

	As of March 31, 2018	As of March 31, 2017
Investments and other assets	¥ 839	¥649

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, 2018	Fiscal year ended March 31, 2017
¥ 6,245	¥6,921

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

Millions of yen

Fiscal year ended March 31, 2018	Fiscal year ended March 31, 2017
¥ 1,243	¥1,395

*3 Breakdown of gain on sale of property and equipment

Millions of yen

	Fiscal year ended March 31, 2018	Fiscal year ended March 31, 2017
Tools, furniture and fixtures	¥9	¥4

*4 Breakdown of loss on sale of property and equipment

Millions of yen

	Fiscal year ended March 31, 2018	Fiscal year ended March 31, 2017
Buildings, structures and land	¥14	¥—
Tools, furniture and fixtures	3	—
Other	0	—
Total	¥18	¥—

*5 Breakdown of loss on disposal of property and equipment

Millions of yen

	Fiscal year ended March 31, 2018	Fiscal year ended March 31, 2017
Buildings and structures	¥11	¥3
Tools, furniture and fixtures	18	37
Amusement equipment	98	169
Other	3	0
Total	¥131	¥210

*6 Impairment loss

In the fiscal year ended March 31, 2018, 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	¥32
Shinjuku-ku, Tokyo	Idle assets	Other (Intangible assets)	1
Shinjuku-ku, Tokyo	Assets planned for disposal	Amusement equipment	6
Total			¥40

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. Note that calculation of recoverable amounts is measured by net realizable value. Net realizable value is based primarily on a reasonable assumption of market price.

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.

*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, 2018	Fiscal year ended March 31, 2017
Valuation difference on available-for-sale securities:		
Gains (losses) arising during the year	¥ (86)	¥ 34
Reclassification adjustments	(248)	—
Total amount before tax-effect	(335)	34
Tax-effect	59	(10)
Valuation difference on available-for-sale securities	(275)	23
Foreign currency translation adjustments:		
Exchange differences arising during the year	970	(1,363)
Reclassification adjustments relating to foreign operations	—	(175)
Total amount before tax-effect	970	(1,539)
Tax-effect	—	—
Foreign currency translation adjustments	970	(1,539)
Remeasurements of defined benefit plans:		
Defined benefit obligations arising during the year	30	350
Reclassification adjustments relating to defined benefit plans	15	270
Total amount before tax-effect	45	620
Tax-effect	(12)	(178)
Remeasurements of defined benefit plans	32	442
Total other comprehensive income (loss)	¥727	¥(1,073)

Notes to Consolidated Statement of Changes in Net Assets

■Year ended March 31, 2018

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, 2017	Share increases during the year	Share decreases during the year	Shares as of March 31, 2018
Shares issued and outstanding				
Common stock[1]	122,373	25	—	122,398
Total	122,373	25	—	122,398
Treasury stock				
Common stock[2, 3]	316	3,008	0	3,324
Total	316	3,008	0	3,324

Notes: 1 The increase of 25 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 3,008 thousand shares of treasury stock as common stock was due to the purchase of 3,003 thousand shares of treasury stock pursuant to a resolution of the Board of Directors and the acquisition of 4 thousand shares 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, 2018 (Millions of yen)
			As of April 1, 2017	Increase during the year	Decrease during the year	As of March 31, 2018	
Supplying company (parent company)	Stock acquisition rights as stock options	—	—	—	—	—	¥603
	Total	—	—	—	—	—	¥603

3. Dividends

(1) Dividend payments

Date of approval	Type of shares	Total dividends (Millions of yen)	Dividends per share (Yen)	Record date	Effective date
May 17, 2017 (Board of Directors' Meeting)	Common stock	¥4,882	¥40	March 31, 2017	June 2, 2017
November 8, 2017 (Board of Directors' Meeting)	Common stock	1,190	10	September 30, 2017	December 5, 2017

(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, 2018 (Board of Directors' Meeting)	Common stock	¥6,549	Retained earnings	¥55	March 31, 2018	June 4, 2018

■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

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, 2018	Fiscal year ended March 31, 2017
Cash and deposits	¥136,785	¥129,364
Time deposits with maturity periods over three months	(2,429)	(1,969)
Cash and cash equivalents	¥134,355	¥127,395

Lease Transactions
1. Finance lease transactions
(1) Type of leased assets
Server facilities (tools and fixtures) in the Digital Entertainment business and 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 for 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.

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, 2018 and 2017, 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, 2018

Millions of yen

Assets:	Book value	Fair value	Difference
(1) Cash and deposits	¥136,785	¥136,785	¥ —
(2) Notes and accounts receivable	24,383		
Allowance for doubtful accounts	(212)		
Notes and accounts receivable, net	24,171	24,171	—
(3) Investment securities	139	139	—
(4) Guarantee deposits	9,879	9,595	(283)
Total assets	170,975	170,691	(283)
Liabilities:			
(1) Notes and accounts payable	14,848	14,848	—
(2) Short-term loans	8,931	8,931	—
(3) Accrued income taxes	9,162	9,162	—
Total liabilities	¥32,942	¥32,942	¥ —

■**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	¥ —

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, 2018	As of March 31, 2017
Unlisted shares	¥14	¥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, 2018				As of March 31, 2017			
	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	¥134,883	¥—	¥—	¥—	¥127,640	¥—	¥—	¥—
Notes and accounts receivable	24,383	—	—	—	26,053	—	—	—
Guarantee deposits	5,191	2,716	1,969	2	5,208	2,629	1,366	—
Total	¥164,458	¥2,716	¥1,969	¥2	¥158,902	¥2,629	¥1,366	¥—

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

Millions of yen

	As of March 31, 2018						As of March 31, 2017					
	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	¥8,931	¥—	¥—	¥—	¥—	¥—	¥8,437	¥—	¥—	¥—	¥—	¥—
Total	¥8,931	¥—	¥—	¥—	¥—	¥—	¥8,437	¥—	¥—	¥—	¥—	¥—

Securities

1. Held-for-sale securities

Not applicable

2. Held-to-maturity securities with market value

Not applicable

3. Other investment securities with market value

Millions of yen

		As of March 31, 2018			As of March 31, 2017		
	Type	Book value	Acquisition cost	Difference	Book value	Acquisition cost	Difference
Securities with book value exceeding acquisition cost	(1) Stocks	¥139	¥31	¥108	¥678	¥229	¥448
	(2) Bonds						
	a. Government bonds and municipal bonds	—	—	—	—	—	—
	b. Corporate bonds	—	—	—	—	—	—
	c. Other	—	—	—	—	—	—
	(3) Other	—	—	—	—	—	—
	Subtotal	139	31	108	678	229	448
Securities with acquisition cost exceeding book value	(1) Stocks	—	—	—	70	75	(5)
	(2) Bonds						
	a. Government bonds and municipal bonds	—	—	—	—	—	—
	b. Corporate bonds	—	—	—	—	—	—
	c. Other	—	—	—	—	—	—
	(3) Other	—	—	—	—	—	—
	Subtotal	—	—	—	70	75	(5)
Total		¥139	¥31	¥108	¥748	¥305	¥443

4. Securities sold during the year

Millions of yen

	Fiscal year ended March 31, 2018			Fiscal year ended March 31, 2017		
Item	Proceeds	Aggregate gain on sale	Aggregate loss on sale	Proceeds	Aggregate gain on sale	Aggregate loss on sale
(1) Stock	¥642	¥351	¥—	¥—	¥—	¥—
(2) Bonds						
a. Government bonds and municipal bonds	—	—	—	—	—	—
b. Corporate bonds	—	—	—	—	—	—
c. Other	—	—	—	—	—	—
(3) Other	—	—	—	—	—	—
Total	¥642	¥351	¥—	¥—	¥—	¥—

Derivative Transactions

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

Currency derivatives

■**Year ended March 31, 2018**

Not applicable

■**Year ended March 31, 2017**

Not applicable

2. Derivative transactions for which hedge accounting has been applied

■**Year ended March 31, 2018**

Not applicable

■**Year ended March 31, 2017**

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, 2018	Fiscal year ended March 31, 2017
Balance of retirement benefit obligations at the beginning of the year	¥12,038	¥12,143
Service cost	549	525
Interest cost	41	28
Actuarial (gains) losses arising during the year	16	(201)
Retirement benefits paid	(425)	(457)
Balance of retirement benefit obligations at the end of the year	¥12,221	¥12,038

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

Millions of yen

	Fiscal year ended March 31, 2018	Fiscal year ended March 31, 2017
Balance of plan assets at the beginning of the year	¥9,613	¥9,396
Expected return on plan assets	139	135
Actuarial gains (losses) arising during the year	46	148
Employer contribution	242	295
Retirement benefits paid	(341)	(362)
Balance of plan assets at the end of the year	¥9,700	¥9,613

(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, 2018	Fiscal year ended March 31, 2017
Retirement benefit obligation for funded plans	¥9,544	¥ 9,492
Plan assets	(9,700)	(9,613)
	(155)	(120)
Retirement benefit obligation for unfunded plans	2,676	2,546
Net defined benefit liabilities and assets recorded in the consolidated balance sheet	2,520	2,425
Net defined benefit liabilities	2,676	2,546
Net defined benefit assets	155	120
Net defined benefit liabilities and assets recorded in the consolidated balance sheet	¥2,520	¥2,425

(4) Components of net periodic pension costs

Millions of yen

	Fiscal year ended March 31, 2018	Fiscal year ended March 31, 2017
Service cost	¥ 549	¥ 525
Interest cost	41	28
Expected return on plan assets	(139)	(135)
Amortization of net actuarial (gains) losses	15	270
Net periodic pension costs relating to defined benefit plan	¥466	¥ 688

(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, 2018	Fiscal year ended March 31, 2017
Actuarial gains (losses)	¥45	¥620
Total	¥45	620

(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, 2018	As of March 31, 2017
Unrecognized actuarial gains (losses)	¥209	¥254
Total	¥209	¥254

(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, 2018	As of March 31, 2017
Bonds	44	46
Stocks	11	9
General accounts	31	31
Cash and deposits	5	5
Others	9	9
Total	100	100

Note: Total plan assets include 3 and 4% of the retirement benefit trust plan, which has been established for the corporate pension plan, for the years ended March 31, 2018 and 2017, respectively.

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, 2018	As of March 31, 2017
Discount rate	0.142 to 0.481	0.155 to 0.533
Long-term expected rate of return on plan assets	1.500	1.500

3. Defined contribution plan:

The required contributions for the defined contribution plan by consolidated subsidiaries were ¥336 million and ¥342 million for the years ended March 31, 2018 and 2017, respectively.

Stock Options

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

Millions of yen

	Fiscal year ended March 31, 2018	Fiscal year ended March 31, 2017
Selling, general and administrative expenses	¥168	¥128

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

Millions of yen

	Fiscal year ended March 31, 2018	Fiscal year ended March 31, 2017
Reversal of stock acquisition rights	¥2	¥20

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	2012 stock options	2012 stock options	2014 stock options
Category of grantees	Company directors	Company directors	Company directors	Company directors	Company directors	Company employees	Company directors
Number of grantees	5	5	5	5	5	8	6
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	67,000 shares of common stock	110,000 shares of common stock	16,000 shares of common stock
Date granted	August 21, 2008	October 21, 2009	August 23, 2010	July 21, 2011	July 26, 2012	August 29, 2012	September 25, 2014
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 interest	No conditions have been set for vesting interests	No conditions have been set for vesting interests
Service period	No service period established	No service period established	No service period established	No service period established	No service period established	No service period established	No service period established
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	July 27, 2012 to July 26, 2032	July 31, 2014 to July 30, 2017	September 26, 2014 to September 25, 2034

	2015 stock options	2015 stock options	2016 stock options	2016 stock options	2017 stock options	2017 stock options
Category of grantees	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	Company directors	Company employees, and directors and employees of the Company's subsidiaries
Number of grantees	6	18	6	21	6	23
Number of stock options	21,000 shares of common stock	122,000 shares of common stock	21,000 shares of common stock	116,000 shares of common stock	21,000 shares of common stock	179,000 shares of common stock
Date granted	July 16, 2015	July 16, 2015	July 20, 2016	July 20, 2016	July 19, 2017	August 30, 2017
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 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	July 20, 2017 to July 19, 2037	August 5, 2019 to August 4, 2022

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	2012 stock options	2012 stock options	2014 stock options	2015 stock options	2015 stock options	2016 stock options	2016 stock options	2017 stock options	2017 stock options
Before vesting (shares)													
March 31, 2017	—	—	—	—	—	—	—	—	82,000	—	106,000	—	—
Granted	—	—	—	—	—	—	—	—	—	—	—	21,000	179,000
Forfeited	—	—	—	—	—	—	—	—	—	—	—	—	—
Vested	—	—	—	—	—	—	—	—	82,000	—	—	21,000	—
Unvested balance	—	—	—	—	—	—	—	—	—	—	106,000	—	179,000
After vesting (shares)													
March 31, 2017	9,900	26,000	31,000	31,000	26,000	22,000	16,000	21,000	—	21,000	—	—	—
Vested	—	—	—	—	—	—	—	—	82,000	—	—	21,000	—
Exercised	—	—	—	—	—	9,900	—	—	15,600	—	—	—	—
Forfeited	—	—	—	—	—	12,100	—	—	—	—	—	—	—
Balance unexercised	9,900	26,000	31,000	31,000	26,000	—	16,000	21,000	66,400	21,000	—	21,000	—

2) Price information

Yen

	2008 stock options	2009 stock options	2010 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	2017 stock options	2017 stock options
Exercise price	¥1	¥1	¥1	¥1	¥1	¥1,515	¥1	¥1	¥3,150	¥1	¥3,290	¥1	¥3,820
Average share price at exercise	—	—	—	—	—	3,530	—	—	4,759	—	—	—	—
Fair market value on grant date	3,171	2,107	1,464	1,312	948	214	2,041	2,864	885	2,843	896	3,187	761

4. Method of estimating the fair value of stock options:
The fair value of the 2017 stock options granted during the fiscal year ended March 31, 2018 was estimated using the following method.
(1) Method of valuation: Black-Scholes option pricing model
(2) Main assumptions:

	2017 stock options	2017 stock options
Expected share price volatility[1]	37.2 %	31.3 %
Expected life[2]	10 years	3.4 years
Expected dividend yield[3]	1.37 %	1.31 %
Risk-free interest rate[4]	0.06 %	(0.15) %

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 2017 stock options, this was calculated based on the actual dividend applicable to the fiscal year ended March 31, 2017.
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, 2018	As of March 31, 2017
Deferred tax assets		
1) Current assets		
Enterprise tax payable	¥ 565	¥166
Business office tax payable	40	38
Provision for bonuses	623	597
Accrued expenses	384	557
Provision for sales returns	657	1,693
Non-deductible portion of allowance for doubtful accounts	16	11
Tax credits	4	446
Loss on write-offs of content production account	3,015	3,057
Loss on inventory revaluation	423	557
Provision for game arcade closings	20	22
Loss carried forward	726	121
Other	68	47
Valuation allowance	—	(10)
Offset to deferred tax liabilities (current)	(102)	(277)
Total	6,443	7,029
2) Non-current assets		
Net defined benefit liabilities	928	887
Provision for directors' retirement benefits	37	37
Expense for stock-based compensation	183	137
Non-deductible depreciation expense of property and equipment	203	210
Asset retirement obligations	885	773
Impairment loss	299	331
Loss on evaluation of investments in securities	219	587
Non-deductible portion of allowance for doubtful accounts	22	27
Non-deductible portion of excess expenses on lump-sum depreciable assets	102	62
Loss carried forward, and others, at overseas subsidiaries	283	702
Provision for game arcade closings	14	28
Tax credits	4	11
Loss carried forward	1,017	1,242
Other	271	351
Valuation allowance	(1,071)	(1,303)
Offset to deferred tax liabilities (non-current)	(945)	(1,514)
Total	2,458	2,572
Total deferred tax assets	8,902	9,602
Deferred tax liabilities		
1) Current liabilities		
Accrued expenses and other cost calculation details	102	135
Other	—	141
Offset to deferred tax assets (current)	(102)	(277)
Total	—	—
2) Non-current liabilities		
Non-current assets	1,278	1,342
Tax effects from intangible non-current assets relating to business combinations	544	657
Other	18	88
Offset to deferred tax assets (non-current)	(945)	(1,514)
Total	896	573
Total deferred tax liabilities	896	573
Balance: Net deferred tax assets	¥8,005	¥9,028

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

	As of March 31, 2018	As of March 31, 2017
Statutory tax rate	30.86 %	30.86%
(Adjustments)		
Permanent differences relating to entertainment expense and others excluded from non-taxable expenses	0.15	0.17
Permanent differences relating to dividends received and others excluded from non-taxable expenses	(0.18)	(0.22)
Valuation allowance	3.89	(7.39)
Taxation on a per capita basis for inhabitants' tax	0.23	0.32
Special deduction for income growth	(0.90)	—
Tax credit for R&D expenses	(8.85)	(1.27)
Reduction of deferred tax assets and liabilities at fiscal year-end due to changes in corporate tax rate	3.01	0.06
Differences in tax rate from the parent company's statutory tax rate	0.21	0.11
Other	(0.32)	(0.18)
Effective tax rate	28.10	22.46

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

On December 22, 2017, the Tax Cuts and Jobs Act was enacted in the United States, effectively lowering the federal corporate income tax rate effective for the periods beginning on or after January 1, 2018. Consequently, the federal corporate income tax rate applicable to the Company's consolidated subsidiaries in the U.S. was reduced from 35% to 21%.
As a result, as of and for the year ended March 31, 2018, net deferred tax assets have decreased by ¥1,097 million and income taxes-deferred increased ¥1,136 million.

Business Combinations
■ **Year ended March 31, 2018**
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 (0.171)% and 1.355%.
c) Changes to aggregate asset retirement obligations

Millions of yen

	Fiscal year ended March 31, 2018	Fiscal year ended March 31, 2017
Beginning balance	¥2,468	¥2,361
Increase due to procurement of property and equipment	359	107
Accretion expense	7	7
Decrease due to fulfillment of asset retirement obligations	(17)	(7)
Other changes	(5)	—
Ending balance	¥2,812	¥2,468

Matters Relating to Real Estate Leases, Etc.
■ **Year ended March 31, 2018**
Not applicable

■ **Year ended March 31, 2017**
Not applicable

Segment Information
[Segment Information]
■ **Year ended March 31, 2018**
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	¥191,454	¥41,716	¥11,001	¥6,221	¥250,394	¥—	¥250,394
(2) Intersegment sales	14	33	47	1,346	1,442	(1,442)	—
Total	191,469	41,750	11,049	7,567	251,837	(1,442)	250,394
Segment operating income	¥43,421	¥2,402	¥2,470	¥1,888	¥50,183	¥(12,006)	¥38,176
Segment assets	¥79,178	¥23,011	¥4,389	¥1,610	¥108,190	¥151,523	¥259,713
Other items							
Depreciation and amortization	2,657	2,423	36	31	5,149	709	5,859
Increases in property and equipment and intangible assets	2,890	3,783	11	9	6,694	1,273	7,967

Notes: 1 (1) Segment adjustments (¥12,006 million) include unallocated corporate operating expenses (¥12,048 million).
(2) Unallocated assets amounting to ¥151,759 million are included in the ¥151,523 million adjustment to segment assets. Most of this amount comprises funds for management of surplus funds (cash and deposits).
(3) The ¥709 million adjustment to depreciation and amortization is associated with unallocated assets that do not belong to any reporting segment.
(4) The ¥1,273 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, 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.

[Related Information]

■Year ended March 31, 2018

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
¥175,786	¥44,632	¥21,802	¥8,172	¥250,394

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
¥14,116	¥1,414	¥438	¥90	¥16,060

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, 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.

[Information related to impairment losses on property and equipment in each reporting segment]
■Year ended March 31, 2018

Millions of yen

	Digital Entertainment	Amusement	Publication	Merchandising	Eliminations or unallocated (Note)	Total
Impairment losses	¥—	¥38	¥—	¥—	¥1	¥40

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

■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.

[Information related to amortization of goodwill and the unamortized balance in each reporting segment]
■Year ended March 31, 2018
Not applicable

■Year ended March 31, 2017
Not applicable

[Information related to gain on negative goodwill in each reporting segment]
■Year ended March 31, 2018
Not applicable

■Year ended March 31, 2017
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, 2018

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	Michihiro Sasaki	—	—	Audit & supervisory board member of subsidiary	(Held) Direct 0.00 Indirect —	—	Exercising of stock options (Note 1)	¥11	—	¥—
Company, etc., in which principal shareholders (individuals) and close relatives hold a majority of voting rights	Fukushima Planning Co., Ltd.	Shibuya-ku, Tokyo	10	Real estate management services, etc.	(Held) Direct 5.68 Indirect —	principal shareholder	Purchase of treasury stock (Note 2)	¥9,231	—	¥—

Terms and conditions of transactions and/or decision-making policy, etc.
Note: 1 The exercise of stock acquisition rights as stock options during the year ended March 31, 2018 was pursuant to the resolutions of the Board of Directors on 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, 2018.
2 Pursuant to a resolution of the Board of Directors on May 24, 2017, an own-share repurchase was implemented by means of a public tender offer with a repurchase price of ¥3,077 per share of common stock.

■**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 Indirect	 0.00 —	—	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.

Per Share Information

Yen

	Fiscal year ended March 31, 2018	Fiscal year ended March 31, 2017
Net assets per share	¥1,617.58	¥1,485.56
Earnings per share	215.33	164.20
Diluted earnings per share	214.89	163.92

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

Millions of yen

	Fiscal year ended March 31, 2018	Fiscal year ended March 31, 2017
Earnings per share:		
Profit attributable to owners of parent	¥25,821	¥ 20,039
Profit not available to common shareholders	—	—
Profit attributable to common shareholders of parent	25,821	20,039
Average number of shares of common stock outstanding during the fiscal year (thousands of shares)	119,912	122,040
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)	247	214
(Number of shares reserved for the purpose of new share issuances for exercise of share subscription rights)	(247)	(214)
Summary of residual securities that do not dilute the Company's earnings per share	Issuance of August 2017 stock acquisition rights, pursuant to a resolution of the Board of Directors on August 4, 2017: 179,000 shares	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

Significant Subsequent Events

Not applicable

Supplementary Schedule
[Borrowings]

Category	Balance as of April 1, 2017 (Millions of yen)	Balance as of March 31, 2018 (Millions of yen)	Average interest rate (%)	Repayment date
Short-term loans	¥ 8,437	¥ 8,931	0.6	—
Long-term borrowings due for repayment within one year	—	—	—	—
Lease obligations due for repayment within one year	21	99	—	—
Long-term borrowings (excluding the amount due for repayment within one year)	—	—	—	—
Lease obligations (excluding the amount due for repayment within one year)	46	319	—	October 2019 to September 2022
Other interest-bearing liabilities	—	—	—	—
Total	¥ 8,504	¥ 9,350	—	—

Notes: 1 The average interest rate shown is the weighted average interest rate on the balance of borrowings as of March 31, 2018.
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, 2018 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	¥103	¥107	¥105	¥1

[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, 2017 to June 30, 2017	2Q April 1, 2017 to September 30, 2017	3Q April 1, 2017 to December 31, 2017	4Q April 1, 2017 to March 31, 2018
Net sales	¥57,000	¥132,043	¥188,090	¥250,394
Profit before income taxes	12,898	26,196	34,334	35,927
Profit attributable to owners of parent	8,368	17,515	22,327	25,821
Earnings per share (yen)	68.56	145.06	185.77	215.33

Quarterly	1Q April 1, 2017 to June 30, 2017	2Q July 1, 2017 to September 30, 2017	3Q October 1, 2017 to December 31, 2017	4Q January 1, 2018 to March 31, 2018
Earnings per share (yen)	¥68.56	¥76.58	¥40.41	¥29.34